
RISK FACTORS

You should carefully consider all of the information in this Prospectus, including the risks and uncertainties described below, prior to investing in our Shares. You should pay particular attention to the fact that we conduct our operations in Japan and are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Any of the below risks, as well as other risks and uncertainties that have not yet been identified or that we currently think are immaterial, may materially and adversely affect our business, financial condition or results of operations, or otherwise cause the trading price of our Shares to decrease and cause you to lose all or part of your investment.

RISKS RELATING TO G-PRIZE WHOLESALERS AND G-PRIZE BUYERS

Our business depends significantly on the services provided by our G-prize wholesalers and their G-prize buyers

We rely upon the continued services of our G-prize wholesalers (from whom we source G-prizes) and their G-prize buyers (from whom they in turn source G-prizes), who are independent of us. G-prizes make up the vast majority of prizes redeemed by our customers. For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, the value of G-prizes exchanged by our customers at our halls constituted approximately 99.0%, 99.1%, 99.1% and 98.3% of all prizes (namely, all G-prizes and general prizes), respectively.

We enter into various agreements with our G-prize wholesalers, such as purchase agreements for G-prizes (or even general prizes) and lease agreements for a parcel of land on which the relevant pachinko hall is located. To the best of our Directors' knowledge and belief, our G-prize wholesalers will enter into similar agreements with their G-prize buyers. We currently have non-exclusive relationships with 12 G-prize wholesalers, who in turn have arrangements with various G-prize buyers. The termination of any of our arrangements with our G-prize wholesalers, or of the arrangements between any of our G-prize wholesalers and their G-prize buyers, would cause a disruption in our business. We would have to engage other G-prize wholesalers, who would then need to engage their own G-prize buyers. The arrangements and dealings between the G-prize wholesalers and the prize buyers are beyond our control. We or they may not be able to establish new arrangements on terms acceptable to us or them or at all, which would have a material adverse effect on our business, financial condition, results of operations or prospects. In any case, we have no ownership or managerial control over any of our G-prize wholesalers or their G-prize buyers. We cannot assure you that they will at all times strictly adhere to the terms of the relevant agreements.

We may be adversely affected by any breach of the independence requirements under the Three Party System.

Gambling is a criminal offence under the Penal Code. Further, the Amusement Business Law and its ancillary prefectural local regulations prohibit pachinko hall operators from being involved in the exchange of prizes by customers, whether directly or indirectly, for cash or securities. In order to ensure compliance with such laws and regulations, the pachinko industry has developed the "Three Party System", which is an industry practice for the sale and purchase of G-prizes exchanged by a customer playing at a hall. The parties under the Three Party System include: (1)

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pachinko hall operators (such as ourselves); (2) G-prize buyers; and (3) G-prize wholesalers. See “Applicable Laws and Regulations – C. Legality of Pachinko Businesses and the Three Party System” for details. Under the Three Party System, pachinko hall operators (such as ourselves) must be independent of each of: (1) the G-prize wholesalers engaged by them; and (2) G-prize buyers engaged by their G-prize wholesalers. This ensures that, from the pachinko hall operators’ perspective, G-prize wholesalers and G-prize buyers are unrelated third parties.

If there is a breach of either of the independence requirements, this may expose us to a potential breach of the Penal Code, the Amusement Business Law and other local regulations. Such breaches could disrupt our business operations at the affected business halls, as we will need to immediately rectify the situation by ceasing transactions with the G-prize wholesaler, or if relevant, requesting the G-prize wholesaler to cease transactions with the G-prize buyer. In particular, if we had to cease transactions with a G-prize wholesaler, all of its G-prize buyers will also need to be replaced and we will need to enter into new agreements with another independent G-prize wholesaler.

RISKS RELATING TO KEY JAPAN LEGAL AND REGULATORY MATTERS

Rights of shareholders under Japan law may be different from rights of shareholders in other jurisdictions, including Hong Kong

We are primarily governed by Japan law, including the Japan Companies Act. Our Articles and the Japan Companies Act govern our corporate affairs. Legal principles relating to matters such as the validity of corporate procedures, directors’ fiduciary duties and liabilities and shareholders’ rights under Japan law may be different from those that would apply to a company incorporated in any other jurisdictions that you (as potential investors) may be more familiar with, including Hong Kong. You may have more difficulty in asserting your rights as a Shareholder than you would as a shareholder of a corporation organised in other jurisdictions. Key differences between the shareholders protection regimes in Japan and Hong Kong are set out in “Key Japan Legal and Regulatory Matters – G. Shareholders Protection”.

In addition, we have applied for, and have been granted, waivers from the Stock Exchange from strict compliance with certain requirements under the Listing Rules. These waivers include (i) requiring our Controlling Shareholders or other Shareholders having an interest in a transaction to abstain from voting in a general meeting; and (ii) issuing a supplemental circular for persons nominated as Directors, amongst others. Shareholders will not have the benefit of those Listing Rules for which we have applied, and have been granted waivers from the Stock Exchange. Additionally, if any of these waivers were to be revoked for any reason, including our compliance with the applicable undertakings, additional legal and compliance obligations might be costly and time consuming, and might result in issues of inter-jurisdictional compliance, which could adversely affect us and our Shareholders.

The SFC does not have extra-territorial jurisdiction on any of its powers of investigation and enforcement of any corporate governance breaches committed by us in Japan. Investors should be aware that it could be difficult to enforce any judgment against us or any of our subsidiaries.

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Our Shares are “bearer shares” in nature and there are significant risks associated with physical possession of share certificates

Under Japan law, our Shares are “bearer shares” in nature. A bearer, or a physical holder, of a share certificate issued by our Company is recognised as the owner of the Shares represented by it. Ownership of our Shares can be transferred simply by the delivery of our share certificates, with or without the transferor and the transferee having signed any document evidencing such transfer. This creates inherent risks for Shareholders and potential investors who choose to hold our Shares by physical possession of our share certificates. For example, Shareholders and potential investors might lose the ownership and value of our Shares represented by a share certificate if it is lost or destroyed. In addition, an unauthorised third party might come into possession of a lost share certificate and seek to be recognised as a Shareholder.

We have procedures in place for Shareholders and other eligible persons to report a lost or destroyed share certificate. See “Key Japan Legal and Regulatory Matters — A. Bearer Shares — Lost / destroyed Share Certificates” for details. Investors should note that we are required by law to impose a one-year waiting period before a replacement share certificate can be re-issued. During the mandatory one-year waiting period, you may not register a transfer of the Shares represented by the lost or destroyed share certificate or otherwise deposit such Shares into CCASS for trading on the Stock Exchange. You may also lose some of your rights as a Shareholder, such as voting rights, under certain limited circumstances.

Notwithstanding the “bearer” nature of our Shares, it is provided under our Articles and the Japan Companies Act that title to our Shares shall not be perfected against our Company until and unless a person’s name and address are recorded in our Share Register. Under article 130 of the Japan Companies Act, a company is not obliged to treat anyone as a shareholder unless and until he/she is registered as a shareholder on its share register. As an enhanced measure of Shareholder’s protection, our Articles provide that our Company shall not associate any Shareholders’ right (such as voting rights and rights to receive dividends) with any person unless his/her name appears on our Share Register in reliance on the above provision under the Japan Companies Act. As such, failure to register interests in our Shares in our Share Register could result in the misappropriation or loss of a Shareholder’s rights. In addition, under Japan law, our Company does not have the right to take action against a Shareholder’s failure to disclose his/her interests to our Company. Hence, potential investors are strongly cautioned to register your interests in our Shares in our Share Register after you have properly acquired title in our Shares, following the procedures set out in “Key Japan Legal and Regulatory Matters — A. Bearer Shares — Transfer of Shares”.

CCASS Beneficial Owners who do not physically possess our share certificates are not subject to the risks associated with the “bearer” nature of our Shares and are not required register their interests in our Share Register. Despite certain disadvantages associated with CCASS Beneficial Owners, details of which are set out in “Key Japan Legal and Regulatory Matters — A. Bearer Shares — Recommended measures for our Shareholders and potential investors”, it is our Board’s strong recommendation that potential investors should hold your investments in our Company through CCASS.

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CCASS Beneficial Owners are subject to certain disadvantages under Japan law and regulations

Due to certain Japan legal and regulatory provisions, CCASS Beneficial Owners are subject to certain disadvantages as set out in detail in “Key Japan Legal and Regulatory Matters — A. Bearer Shares — Recommended measures for our Shareholders and potential investors”. For example, CCASS Beneficial Owners are subject to a higher withholding tax rate, and they may not inspect our Share Register unless allowed to do so under the Personal Information Protection Act.

Despite these disadvantages, given the risks associated with our “*bearer*” Shares (which are very significant in the opinion of our Directors), it is our Board’s strong recommendation that potential investors should hold your investments in our Company through CCASS.

Our Articles provisions on the registration of share transfers are not judicially precedented in Japan and may be challenged in court

To minimise our Shareholders’ exposure to the risks associated with the “*bearer*” nature of our Shares, we have put in place a number of voluntary measures in relation to the registration of ownership and transfers of our Shares in our Share Register. For example, our Articles require that any person seeking to have his name and address recorded as a Shareholder in our Share Register must present an acceptable transfer document that conforms to the requirements under the Stamp Duty Ordinance and duly stamped and executed by the transferee and the record Shareholder as the transferor.

There is no clear Japan case law that supports our Articles provisions in relation to the registration of share transfers. It is possible for a bearer of our share certificates to initiate legal proceedings against us in this regard. If we fail to defend ourselves in these legal proceedings, we may need to implement additional compliance procedures which might be costly, such as the appointment of an additional Japan share registrar to handle registration of share transfer free from any documentary requirements, and significantly inflate our Shareholders’ exposure to risks associated with physical possession of our share certificates.

Surrendered share certificates can only be re-issued after a waiting period of up to six business days, which could result in settlement failures

Shareholders and potential investors who choose to invest outside CCASS are encouraged to surrender their share certificates to us, in which case the relevant share certificates will be cancelled and the risks associated with our “*bearer shares*” will no longer apply. However, you should note that our Hong Kong Share Registrar may take up to six business days to re-issue a new share certificate in lieu of a surrendered share certificate. During the waiting period of up to six business days, the relevant Shares may not be transferred or otherwise deposited into CCASS for trading on the Stock Exchange. This will ‘in particular’ affect Shareholders and potential

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investors who seek to trade the Shares on a “T+2” basis, whereby dealings in Shares on the Stock Exchange customarily take place two business days prior to settlement. The waiting period of up to six business days may lead to settlement failure and investors are strongly advised to formulate your investment schedule in accordance with this waiting period.

Investors that are non-resident individuals of Japan or non-Japanese corporations without a permanent establishment in Japan are subject to Japan withholding tax on dividend distribution

Our Tax Adviser has advised us that Shareholders interested in less than 3% of our total number of issued Shares that are non-residents individuals of Japan or non-Japanese corporations without a permanent establishment in Japan are subject to Japan withholding tax of 15.315% for any dividend distributions due and paid on or before 31 December 2037. Shareholders holding 3% or more of our total number of issued Shares are subject to a withholding tax in Japan of 20.420% for any dividend distributions due and paid on or before 31 December 2037. Shareholders that 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 not exceeding 10% (or not exceeding 5% for corporate Shareholders who are interested in 10% or more of our total number of issued Shares for the six consecutive months ending on the record date for dividend distribution) under the Hong Kong-Japan Tax Treaty. See “Key Japan Legal and Regulatory Matters — E. Taxation — 1. Withholding Tax on Dividend Payment” for details.

Potential investors should note that, due to the inherent characteristics of CCASS, our Company is unable to ascertain the identity, and consequently the tax residence, of the CCASS Beneficial Owners. As such, we will initially withhold 20.420%, which is the highest possible withholding tax rate in Japan, on all dividend payments to CCASS Beneficial Owners. CCASS Beneficial Owners are not entitled to tax relief under the Hong Kong-Japan Tax Treaty. Investors who choose to invest through CCASS are subject to a higher withholding tax rate.

Minority Shareholders may incur significant time and costs in initiating court procedures in Japan against the acquisition price in a compulsory acquisition

Under the Japan Companies Act and other relevant Japan laws and regulations, an offeror of a successful takeover may, having acquired 90% of the voting rights in our Company, buy out the remaining Shares of the minority Shareholders by initiating a number of transactions with or without Shareholders’ approval.

Unlike the compulsory acquisition regime under the Companies Ordinance, there is no restriction under the relevant Japan laws and our Articles on the acquisition price of these transactions. Minority Shareholders may need to resort to a number of court procedures in Japan to (i) request the court to cease the relevant transactions; or (ii) determine a fair acquisition price. There may be significant delays and costs involved in the initiation of the aforementioned court procedures. See “Appendix V — Summary of our Articles of Incorporation and Japan Corporation Law — 8. Compulsory Acquisitions” for details of the said transactions and court procedures.

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You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management

Our Company was incorporated under the laws of Japan. All our current operations and administrative and corporate functions are conducted in Japan, and substantially all of our assets and our subsidiaries are located in Japan. In addition, all of our Directors and Executive Officers reside within Japan, and most of the assets of our Directors and Executive Officers are located within Japan. As a result, it may not be possible to effect service of process outside Japan upon any of these persons or our Company, or to enforce any judgments obtained in courts outside of Japan against them or us. Further, judgments of a court in a foreign jurisdiction related to any matter may not be recognised or enforced in Japan. In addition, it is uncertain whether courts in Japan would have the legal authority to hear the original actions brought against us or such persons predicated upon the laws of other jurisdictions.

Investors may under certain circumstances be required to file a foreign exchange report or notification to The Bank of Japan, failure of which could lead to monetary fines and/or imprisonment

The Foreign Exchange and Foreign Trade Act of Japan* (外国為替及び外国貿易法) of Japan (Act No. 228 of 1949) and the cabinet orders and ministerial ordinances thereunder govern certain matters relating to the issue of equity-related securities by us and the acquisition, holding and disposal of Shares by foreign investors of our Company. Under certain prescribed circumstances, Shareholders and CCASS Beneficial Owners may be required to file a foreign exchange report or notification to The Bank of Japan.

The filing obligations are generally exempted if: (i) a Shareholder or CCASS Beneficial Owner is a resident of, or a corporation organised under the laws of, certain exempted jurisdictions (which include Hong Kong, the U.S., the United Kingdom, Canada, Australia, the PRC, among others); and (ii) their shareholding interests in our Company is less than 10%.

Failure to notify The Bank of Japan when required may result in imprisonment of up to three years and/or a fine of up to ¥1 million. See “Appendix V — Summary of our Articles of Incorporation and Japan Corporation Law — 10. Foreign Exchange Control” for the list of exempted jurisdictions and the details of the relevant filing requirements.

RISKS RELATING TO OUR BUSINESS

We experienced decreased gross pay-ins for the six months ended 30 September 2014 compared to the corresponding period of the previous year, and we cannot guarantee that our results will improve

Our gross pay-ins decreased by ¥29,685 million, or 24.6%, from ¥120,674 million for the six months ended 30 September 2013 to ¥90,989 million for the six months ended 30 September 2014. The decrease in gross pay-ins in our halls was mainly due to decreases in player traffic, as a result of our new policy of imposing mark-ups ranging from 4% to 20% (with an average of around 10%) on G-prize redemption, effective from 1 April 2014. Such initiative was imposed with

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a view to enhance the performance of our halls and to cover the increase in consumption tax from 5% to 8%. Subsequently, a portion of players who focus on the payout aspect of the game were discouraged from playing at our halls. A significant decrease in the utilisation rate of our machines was also recorded during this period. See “Financial Information — Period to Period Comparison of Results of Operations — Gross Pay-ins” for details.

Our business, financial condition and results of operations are affected by many factors as discussed in this Prospectus, many of which are beyond our control. We cannot guarantee that our results of operations will improve in the future. If our results of operations deteriorate, the price of our Shares may drop. See “Business — Strategies” and “Future Plans and Use of Proceeds” for details on how we intend to improve our business.

Our financial results for the year ending 31 March 2015 are expected to be affected by certain one-off expenses

We currently expect certain one-off expenses to have a negative impact on our financial results for the year ending 31 March 2015. These include listing expenses in relation to the Global Offering and a retirement payment to a retired Director.

Regarding listing expenses, the total expenses in relation to the Global Offering (comprising principally professional fees and underwriting commission) are estimated to be approximately ¥1,149 million (approximately HK\$76 million) (assuming an Offer Price of HK\$1.19 per Share (being the mid-point of the proposed Offer Price range)) of which approximately ¥340 million (approximately HK\$22 million) is directly attributable to the issue of new shares to the public and to be accounted for as a deduction from equity, and approximately ¥809 million (approximately HK\$54 million) is to be recognised as expenses in our consolidated statements of comprehensive income for the year ending 31 March 2015. During the six months ended 30 September 2014, we already incurred ¥226 million (approximately HK\$15 million) which were accounted for as our administrative and other operating expenses. Therefore, by the completion of the Global Offering, we expect to incur an additional approximately ¥583 million, to be accounted for as our administrative and other operating expenses for the six months ending 31 March 2015. The amount of additional listing expenses expected to be incurred for the completion of the Global Offering is an estimate only and the final amount to be recognised as expenses in our consolidated statement of comprehensive income for the year ending 31 March 2015 is subject to adjustments based on audit and changes in circumstances.

Regarding the retirement payment, we paid ¥600 million to Mr. Tatsuo TANIGUCHI (谷口龍雄) during the six months ended 30 September 2014 as special benefit for his retirement as a Director of our Company in June 2014 and a director of Niraku Corporation in September 2014.

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Our business may be adversely affected by natural disasters, such as earthquakes like the Great East Japan Earthquake, or disease outbreaks

Fukushima Prefecture (福島県) is our most important strategic location, in which our headquarters, hotel and 20 of our halls (as at the Latest Practicable Date) are located. In particular, it is the prefecture with the most number of our halls and machines. Our halls in Fukushima Prefecture (福島県) accounted for 40.1%, 40.7%, 40.5% and 42.7% of our total revenue for the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, respectively.

In March 2011, the Great East Japan Earthquake struck the Tōhoku Region (東北地方), northeast of Japan. This earthquake triggered tsunami waves that struck the north-eastern coast of Japan, and caused (among others) the nuclear power plant incident in Fukushima Prefecture (福島県), causing the lingering public concern over radiation levels.

As a result of the Great East Japan Earthquake, we recorded earthquake losses (namely, property damage) of ¥653 million for the year ended 31 March 2011. It caused us to temporarily close a majority of our halls, namely 32 halls, of which 11 halls were reopened within two weeks, 17 halls were reopened within four weeks, one hall was reopened within six weeks, two halls were reopened within eight weeks and one hall was reopened within 13 weeks. We also had to permanently close one hall (that was located within the exclusion zone in Fukushima Prefecture (福島県) implemented by the Japanese government). For this one permanently closed hall, we entered into alternative dispute resolution (namely, mediation of settlement before the Nuclear Damage Compensation Dispute Resolution Center* (原子力損害賠償紛争解決センター), an administrative alternative dispute resolution institution established by the Japanese government specifically to deal with nuclear damage compensation claims arising from this nuclear power plant incident) with the operator of the affected nuclear plants, Tokyo Electric Power Company, Incorporated* (東京電力株式会社), which compensated us ¥590 million (recorded as other income for the six months ended 30 September 2014), mainly for our loss of profits incurred during the one-year period after the Great East Japan Earthquake and also related property damages (including loss of all movables such as machines and islands). Our Directors are considering the most appropriate method to obtain compensation for loss of profits for subsequent years which we may not get. Aside from this permanently closed hall, none of our halls is within the exclusion zones implemented by the Japanese government. See “Business — Pachinko and Pachislot Hall Operations — Fukushima Prefecture (福島県) and the Great East Japan Earthquake” for details, including information regarding the exclusions zones and the earthquake’s positive effect on the working population and financial results of our halls in Fukushima Prefecture (福島県).

Japan is one of the most seismically active countries in the world and it also regularly experiences typhoons and other natural disasters. Any large earthquake, other natural disaster or outbreak of an epidemic can adversely impact our employees or our ability to continue operating our pachinko facilities, our suppliers’ ability to continue their manufacturing or other operational activities, or our customers (thus, causing a decrease in discretionary spending and demand in our offerings). Ultimately, these events can cause significant disruption to our business operation.

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We do not maintain any earthquake insurance or business interruption insurance. Damage to any of our offices or pachinko halls due to fire, earthquake, typhoon, flood, terrorism, outbreaks such as the H1N1 pandemic, avian flu or other man-made or natural disasters or casualty events may materially and adversely affect our business, financial condition and results of operations.

We face the risk of fraud or cheating

Players at our halls may attempt to commit fraud or otherwise cheat in order to increase the number of pachinko balls and pachislot tokens they collect. Acts of fraud or cheating could involve, among others, the use of altered or counterfeit pachinko balls or pachislot tokens, tampering with our machines and systems, or other tactics, possibly in collusion with our employees. For example, customers may attempt to use magnets or sheer physical force to influence the movement of pachinko balls. Instances of illegal or fraudulent activity of a minor or insignificant nature by customers in our pachinko halls are detected approximately once per hall per month.

To prevent fraud or cheating, we have anti-cheating and anti-counterfeiting surveillance systems. We cannot assure you that our efforts to prevent cheating will be effective, and any failure to discover such acts or schemes in a timely manner could result in losses in our pachinko operations. In addition, negative publicity related to such acts or schemes could have an adverse effect on our reputation, thereby materially and adversely affecting our business, results of operations, financial condition and prospects. Further, an allegation or a finding of improper conduct on our part, or on the part of our current or future employees, or an actual or alleged system security defect or failure attributable to us, could be deemed to be a regulatory breach for which we could be subject to revocation or suspension of our operating licence for the relevant pachinko hall.

Anti-social forces might have an influence in the pachinko industry

Historically, the pachinko industry was associated to anti-social forces. We cannot assure you that we will be able to prevent anti-social forces from interfering in our operations. In addition, anti-social forces may engage in criminal activities, such as theft of cash or fraud, through involvement with G-prize buyers or other third parties that we do not have control over. Any involvement by anti-social forces in our operations or the pachinko industry in general, including the ensuing negative publicity, could materially and adversely affect our reputation, business, results of operations and financial condition, and also the reputation and perception of our industry as a whole.

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We rely heavily on our information technology systems, which could be subject to unexpected interruption or security breaches

We rely heavily on our information technology systems, which store, retrieve, process and manage substantial amounts of real-time data and information, including personal information of our members (and the number of balls or tokens carried over) that is stored in our membership database servers. These systems help facilitate our business decision-making process and formulate strategies for machine replacement and procurement, marketing, prize procurement and inventory management.

Such systems are inherently susceptible to the risks of hardware, software or network failure, which would materially impact our ability to conduct our business. Our growing operations will place increasing pressure on our server and network capabilities as we seek to increase our number of halls and customer base. In addition, we rely on third-party service providers for certain key aspects of our network infrastructure and technology systems.

In addition, our systems are susceptible to security breaches caused by hackings, which involve efforts to gain unauthorised access to our information or systems, or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment, the intentional or inadvertent transmission of computer viruses and similar events or third-party actions. These could have a material and adverse effect on our reputation, business, financial condition and results of operations. It may be difficult for us to respond to security breaches in a timely manner or at all. If unauthorised persons are able to penetrate our network security, they could misappropriate personal information regarding our members, or cause interruptions in our services. See “— We may be subject to liability for failure to maintain compliance with Japan’s privacy laws in connection with our membership system and database” for details. In addition, hacking and computer viruses could expose us to a material risk of loss or litigation and possible liability under Japan’s privacy laws. See “Applicable Laws and Regulations — G. Personal Information Protection” for details.

If we lose the services of our third-party information technology systems contractor, our operations may be seriously disrupted

Our information technology network was developed in conjunction with, and is maintained by, a third party contractor. We rely on our third party contractor to maintain the network and infrastructure underlying our information technology systems, to provide technical assistance to us on an ongoing basis, and to upgrade our systems when and as necessary. Any failure by our third party contractor to maintain the satisfactory performance, reliability, security and availability of our network infrastructure may adversely affect our ability to operate our business in an efficient and effective manner.

The termination of our arrangements with our third party contractor for any reason could cause disruption in our business operations. In the event of such a termination, we would have to seek other means of maintaining our information technology systems, which may include the acquisition of equipment, the licensing of software and the development, either internally or through independent consultants or third party contractors, of new software. If we are unable to

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design, develop, implement and/or maintain, in a cost-effective manner, information systems that provide the capabilities necessary for us to compete effectively, or if we suffer any interruption or loss of our information processing capabilities for any reason, our operations could be materially disrupted.

Prices for construction and engineering services have increased rapidly

Demand for construction and engineering services has increased dramatically in Japan in recent years, due to reconstruction efforts following the Great East Japan Earthquake, and also for the infrastructure development and construction in preparation for the 2020 Olympic Games to be held in Tokyo (東京都). This has in turn caused prices for such services, including labour costs and the relevant raw materials such as steel, to increase dramatically. This has caused our hall construction costs to increase and may continue to do so in the near future.

Our pachinko halls may not necessarily be constructed on time either, as work completion can be delayed due to shortages of manpower in light of the increased demand for construction and engineering services.

Our business may be affected by downturns in the economy (such as the recent recession of the Japanese economy), economic uncertainty and other factors affecting discretionary consumer spending

An extended economic downturn or continued uncertainty in global and regional economies could negatively affect demand for the type of gaming and entertainment services we offer. Changes in discretionary consumer spending or consumer preferences could be driven by factors such as perceived or actual general economic conditions, a weakening job market, or an actual or perceived decrease in disposable consumer income and wealth. These and other factors have in the past reduced consumer demand for the gaming and entertainment services we offer and have adversely affected our gaming business, results of operations and financial condition, and if we are not successful in responding to future changes in consumer spending trends, could further affect our future prospects.

For example, the economy of Japan recently entered into a recession in late 2014. We cannot assure that the economy of Japan will improve or that government responses to these conditions will successfully address weaknesses in the economy of Japan, restore consumer confidence or increase market liquidity. Continued weakness in the economy of Japan, where we conduct all of our business operations and where the vast majority of our customers reside and/or generate their income, may result in a reduction of the number of customers, a reduction in the frequency of visits by these customers, or a reduction in the amount of money spent by these customers in our pachinko halls. Any reduction in consumer demand for the services we offer would materially and adversely affect our revenue and, as a result, our business, financial condition and results of operations.

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We may be subject to liability for failure to maintain compliance with Japan's privacy laws in connection with our membership system and database

We are subject to Japan's Personal Information Protection Act, which regulates the collection, use, handling, and transfer of personal information. See "Applicable Laws and Regulations — G. Personal Information Protection". We maintain an extensive membership database that collects, stores and analyses information on our 238,939 registered members (as at 30 September 2014), including personal information such as each member's name, address, age, gender and date of birth. The mishandling of any of our members' personal information, such as through internal leaks, misappropriation by an unauthorised third party, or other unauthorised use by us or a third party, may be required by the relevant authorities to be reported to them and is encouraged to be disclosed to the public, and could subject us to civil and/or criminal liability and significantly damage our reputation.

We may require additional financing to expand our business, which may not be available on satisfactory terms or at all

We have in the past funded our business and operational expansion primarily through cash generated from our operations and external bank borrowings. We may require additional funding in the future to further expand our business, which we may raise through external financing. Our ability to obtain any financing on acceptable terms depends on a variety of factors that are beyond our control, including market conditions, investors' and lenders' perceptions of, and demand for, debt and equity securities of pachinko companies, credit availability, and interest rates; the availability of, and likely terms for, debt financing may be adversely affected by recent developments in the global economy. As a result, we cannot assure you that we will be able to obtain sufficient funding from external sources as required on terms satisfactory to us, or at all, to finance future expansion. If we raise additional capital through the sale of equity, or securities convertible into equity, further dilution to our then-existing shareholders will result. If we raise additional capital through the incurrence of debt, our business may be affected by the amount of leverage we incur. For instance, such borrowings could subject us to covenants restricting our business activities, servicing interest would divert funds that would otherwise be available to support our operations or development activities, and holders of debt instruments would have rights and privileges senior to those of our equity investors. If we are unable to obtain adequate funding on a timely basis, we may not be able to execute parts of our growth strategy or to maintain our growth and competitiveness, which could materially and adversely affect our business, results of operations, financial condition and prospects.

The failure to fulfil conditions imposed under our loan facilities may limit our ability to conduct our operations or obtain additional financing

As at 31 January 2015, we had outstanding indebtedness of ¥21,673 million (equivalent to approximately HK\$1,431 million as calculated using the rate of ¥15.15 to HK\$1.00, which was the exchange rate prevailing on 30 January 2015, being the last business day before the date of our indebtedness statement). See "Financial Information — Indebtedness". Our loan facilities and credit agreements impose certain conditions, including financial covenants, that restrict our

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ability to engage in certain transactions. In particular, our credit facilities require, among other things, our Group companies to maintain specified financial ratios and net assets, and contain restrictions on ordinary losses, which may limit our ability to conduct our operations or obtain additional financing.

Although we have not breached any of these covenants during the Track Record Period, our ability to comply with these covenants in the future may be affected by events beyond our control, including prevailing economic, financial and industry conditions. As a result, we may not be able to comply with these covenants, including with respect to making our required payments due to insufficient cash flow. Our failure to comply with any of these covenants or to meet our payment obligations could result in an event of default which, if not cured or waived in time, could result in the acceleration of those and other outstanding debt obligations and the enforcement of security and guarantees given in respect of them. We may not have sufficient working capital or liquidity to satisfy our debt obligations in the event of an acceleration of all or a portion of our outstanding obligations.

Our pachinko halls may not perform as expected and our strategy of expanding our suburban hall network may not be successful

Our growth strategy includes the continued opening of new pachinko halls, namely seven new suburban halls in the next three years. See “Business — Strategies — Continue to leverage our strengths and expand our suburban halls network in Northeast Honshu (本州島東北) to extend our leading market position”. We have incurred and will continue to incur significant capital expenditures associated with the construction of new pachinko halls. If we are unable to expand according to our plan, or our assessment of location for opening halls fails to provide us with accurate information to choose suitable site for hall openings, our expansion may not go ahead as planned and our results of operations may be adversely affected. We cannot assure you that we will be able to maintain or improve on our overall profitability. In addition, we may not be able to obtain the necessary financing for our expansion and improvement plans on favourable terms, or at all. We also cannot assure you that an increase in the number of our pachinko halls will lead to a corresponding increase in our revenue, or that we will be able to maintain or grow our market share in the future or otherwise compete effectively. Any failure on our part to successfully implement our current plans for the improvement of pachinko halls, or to effectively manage our growth, would adversely affect our business, financial condition and results of operations.

Our success and business operations are largely dependent on certain key personnel and our ability to attract and retain talented personnel

Our future success depends heavily on the continued services of our Executive Director, senior management and other key employees. In particular, we rely on the expertise, experience and leadership of our Executive Director and our senior management team (including our Executive Officers), who play a vital role in our operations. Our Executive Officers have an average

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of over 15 years experience in the pachinko industry. If one or more of our Executive Director, senior management or other key employees are unable or unwilling to continue in their present positions, we may not be able to replace them promptly, or at all, which may severely disrupt our business and affect our results of operations and future prospects.

Moreover, we may not be able to attract or retain skilled employees or key personnel. The competition for qualified personnel in Japan may also drive up our labour costs, which would in turn increase our costs of operations and affect our profitability. In such circumstances, our business, financial condition and results of operations may be materially and adversely affected.

If we fail to maintain an effective system of internal controls, we may be unable to accurately report our financial results or detect and prevent fraud

Upon completion of the Global Offering, we will become a public company subject to the reporting obligations of the Stock Exchange. These obligations include, among others, preparing annual and interim reports of our business and results of operations, including financial statements in accordance with IFRS. Our reporting obligations as a public company and implementing necessary internal controls and risk management and policies will place substantial demands on our management and our operational and financial resources. Prior to the Global Offering, as a private company, we only have a limited number of accounting personnel and other resources allocated for addressing our internal controls over financial reporting. In this regard, effective internal controls over financial reporting is necessary for us to produce reliable financial reports and is important to help prevent fraud. We are in the process of training, managing and appropriately expanding our human resources and other components of our business and implementing and maintaining adequate management and financial controls to improve our internal controls in preparation of being a public company, which will likely require us to incur significant costs and devote substantial management time and efforts and other resources. Our failure to achieve and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements.

We must continue to improve and maintain our internal controls and risk management to manage our anticipated future growth, regulatory requirements applicable to our business and the growing demands of our business operations. In this regard, any system of controls, however well designed and operated, can only provide reasonable, and not absolute, assurance that the objectives of the system are met. As such, we may be subject to risks arising in relation to our internal controls and risk management, which could have a material adverse effect on our business, results of operations and financial condition and cash flows. We review our internal control policies and procedures on an ongoing basis. In particular, we have engaged an independent third party consultant (the “**Internal Control Consultant**”) to assist us in reviewing the design and effectiveness of certain internal controls in relation to financial reporting of our Group. Their review covered the internal controls in relation to various processes, such as revenue and receivables, purchases and payables, cash and treasury management, human resources, financial reporting, property, plant and equipment, taxation, hall management, prize exchange centre management and IT general controls. Some of the more significant deficiencies identified by the Internal Control Consultant during their initial reviews conducted in September and October 2014 were in areas including: (i) formalisation of documents related to the Board’s

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and Board committees' operations; (ii) formalisation of policies and procedures to monitor and report related party transactions and price sensitive information; and (iii) strengthening of certain information system related controls. We have developed a set of remedial action items to rectify and/or improve the identified deficiencies. All significant findings will be remediated before Listing. In December 2014, the Internal Control Consultant carried out the planned follow-up reviews on the implementation of the remedial actions for the more significant deficiencies and no further recommendation was raised.

However, we cannot assure you that we will be able to successfully address all internal control issues all the time. Further, our existing internal controls may not be sufficient for our future operations as technology and regulatory and compliance environment evolve over time, and we cannot assure you that there will not be new deficiencies in our internal control policies and procedures. Any such deficiency could adversely affect our management's ability to monitor, evaluate and manage our business and operations or risk of inaccurate financial reporting, which in turn could have a material adverse effect on our business, results of operations and financial condition.

Our AML policies may not be sufficient in preventing the occurrence of money laundering activities at our pachinko halls

There is currently no obligation imposed on pachinko hall operators under the AML laws of Japan. Nevertheless, we have voluntarily implemented AML policies, which have been designed, implemented and operating with reference to the guidance letter titled "International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation" issued by the Financial Action Task Force in 2012, as well as the Amusement Business Law. However, we cannot assure you that these policies will be effective to prevent our pachinko operations from being exploited for money laundering purposes. Any incidents of money laundering, accusations of money laundering or regulatory investigations into possible money laundering activities involving us, our employees, or our customers could have a material adverse impact on our reputation and our relationship with regulators, and could consequently materially adversely affect our business, financial condition, results of operations and prospects. Any serious incident of money laundering or regulatory investigation into money laundering activities would likely result in a revocation or suspension of our operating license. For more information regarding our controls, see "Internal Controls and Anti-Money Laundering" and "Appendix IV — Summary of the Review of Anti-Money Laundering Procedures, Systems and Controls".

We may not be able to renew leases or other contractual arrangements for the use of existing pachinko halls, or to obtain desirable sites for the expansion of our operations, on satisfactory terms or at all

We lease properties to operate some of our pachinko halls. As at the Latest Practicable Date, 49 of our pachinko halls were operated on land and/or premises leased by our Group. Accordingly, rental fees account for a significant portion of our operating expenses. For the years ended 31 March 2012, 2013 and 2014 and the six months ended 30 September 2014, the operating lease rental expenses of our Group amounted to approximately ¥2,295 million, ¥2,362 million, ¥2,483 million and ¥1,399 million, respectively, representing approximately 7.6%, 7.2%,

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7.3% and 9.0% of our total revenue for the same periods. Our Directors believe that rental costs that are suitable for operating our pachinko halls will likely increase in the future. Our operating lease obligations expose us to potentially significant risks, including increasing our vulnerability to adverse economic conditions, limiting our ability to obtain additional financing and reducing our cash available for other purposes. The term of our lease agreements typically ranges from 3 to 20 years, and generally provides that we will return the land in its original condition upon expiration or termination of the lease.

In respect of 21 of our pachinko halls, the landowners from whom we lease land hold title to the land and we only hold title to the premises we construct on the land. We are therefore required to demolish any properties that we construct on the land and return it to the lessor as a vacant site. If we are unable to renew or otherwise do not renew these agreements in a timely manner and on commercially reasonable terms or at all, we would have to demolish the pachinko halls at those locations and surrender the land upon expiration of the lease term. Our Directors currently estimate that the maximum potential demolition costs for each pachinko hall premise shall be approximately ¥127.7 million excluding other costs.

We compete with other businesses for prime locations in a highly competitive market for retail premises. There is no assurance that we will be able to enter into new lease agreements for attractive locations or renew existing lease agreements on commercially reasonable terms, if at all. Therefore, any inability to obtain leases for desirable pachinko hall locations on commercially terms could have a material adverse effect on our business and results of operations.

After identifying a potential site for establishing a new pachinko hall, we must make the relevant applications and obtain construction permits pursuant to the City Planning Act* (都市計画法) (Act No. 100 of 1968) and the Building Standard Act* (建築基準法) (Act No. 201 of 1950). We must also obtain prefectural approval for a license to operate a pachinko business at that site. If we are unable to locate desirable sites and enter into lease agreements for sites on which we intend to construct new pachinko halls, or obtain the requisite licences and/or approvals from the relevant local authorities, we may not be able to expand our business and operations as planned. Even with the requisite permits and approvals, we cannot assure you that the halls we establish on the properties we identify will be successful or attract customers.

Our current pachinko hall locations may become unattractive, and we may not be able to identify and obtain attractive new locations at reasonable terms, if at all

The success of any pachinko hall depends in substantial part on its location. There can be no assurance that our current pachinko hall locations will continue to be attractive. The economic conditions or demographic patterns of the neighbourhood where our pachinko halls are located could decline in the future, thus potentially resulting in reduced sales and customer flow in these locations.

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We may not be able to procure machines that continue to attract and retain customers as player preferences and market trends evolve over time, or at desirable costs as machine costs have increased steadily during the Track Record Period

As a pachinko hall operator, our revenue from pachinko and pachislot business is dependent on the amount of money that customers spend playing on our machines. Therefore, to remain competitive and maintain customer interest, we must constantly acquire and provide new and varied pachinko and pachislot machines. Machine costs comprise a significant portion of our operating expenses. Although we have been able to realise cost efficiencies due to our operating scale and our machine procurement strategies, machine costs remain largely out of our control, and average unit prices of pachinko machines have increased steadily during the Track Record Period. While we collect information from our membership system and IT system on the utilisation and performance of our machines in order to aid our machine procurement strategy, we cannot assure you that the machines we procure and install at our pachinko halls will be well-received by our customers. We also cannot assure you that the manufacturers from whom we source our new machines will receive the requisite regulatory approvals for private brand machines we develop and purchase. In addition, we cannot assure you that we will be able to accurately anticipate changes in player preferences, industry trends or general changes in customer behaviour or preferences, such as a redirection of leisure spending to other types of leisure and entertainment activities. These factors individually or collectively could result in the reduced utilisation of, and a corresponding decrease in revenue generated from, our machines. If our machine procurement strategy fails to attract and retain customers, our business, results of operations and financial condition may be adversely affected.

The inherent element of chance may affect payout ratios in spite of our adherence to pachinko industry regulations and practice

Although the Amusement Business Law sets certain limits on the payout ratios of pachinko and pachislot machines, pachinko and pachislot games are characterised by an inherent element of chance that is beyond our control. Further, results of play are also affected by other factors, including players' skill and experience, the mix of games played, the financial resources of players and the amount of time players spend on playing pachinko and pachislot games. These factors, alone or in combination, have the potential to adversely impact our payout ratios, which may materially and adversely affect our business, results of operations and financial condition.

The appraised values of our selected properties in Japan may be different from their actual realisable values and are subject to variation, and if the actual realisable values of such properties are substantially lower than their appraised value, there may be a material adverse effect on our business, results of operations and financial condition

Our Property Valuer, has valued selected properties in Japan in which our Group has interests as at 31 January 2015. See "Appendix III – Valuation Report on Selected Property Interests" for the full text of their letter, summary of valuation and valuation certificates with regard to such property interests.

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The appraised values of such selected properties are based on various assumptions. The key assumptions include (among others): (1) transferable land use rights of the properties for their respective terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid; (2) information and advice given by the Group regarding the title to each of the properties and the interests of the Group in the properties; and (3) the Group has an enforceable title to each of the properties and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired land use term as granted.

If any of such assumptions prove to be inaccurate, the appraised values of these properties may be materially affected. Accordingly, these appraised values may differ materially from the price we could receive in an actual sale of the property in the market, and should not be taken as their actual realisable value or a forecast of their realisable value. Unforeseeable changes to regional economic conditions, may also affect the value of our properties. If the actual realisable value of our property is substantially lower than its appraised value, it may have a material adverse effect on our business, results of operations and financial condition.

We recorded net current liabilities at times during the Track Record Period

We recorded net current liabilities of ¥1,164 million and ¥877 million as at 31 March 2012 and 2013, respectively. Such net current liabilities primarily reflected: (i) payables for the current portion of our obligations under finance leases from long terms leases of properties for our pachinko and pachislot hall operations; and (ii) our short-term borrowings and the current portion of our long-term borrowings, primarily to fund our construction and acquisition of pachinko halls, and to a lesser extent our working capital. As at 30 September 2014, we had net current assets of ¥2,416 million.

Our insurance coverage may not be adequate to cover all possible losses. In addition, our insurance costs may increase and we may not be able to obtain the same level of insurance coverage in the future

We maintain fire insurance for our pachinko halls and operating properties from fire damage. We also maintain movable property insurance, which insures our movable property (such as general prizes and G-prizes) from theft and burglary, and public liability insurance for third party physical injuries and property damage, and labour and health insurance for our full-time employees. Each policy contains certain customary exclusions. In addition, certain events such as nuclear events, labour strikes, acts of war or terrorism, and epidemic outbreaks are excluded from coverage by these insurance policies. We do not carry business interruption insurance resulting from natural disasters such as droughts, floods, earthquakes or severe weather conditions, any suspension or cessation in the supply of utilities and other calamities. Therefore, certain acts and events could expose us to substantial uninsured losses. We may suffer business disruption as a result of these events or be subject to claims by third parties who were injured or harmed. Our insurance may not continue to be available on commercially reasonable terms

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and, in any event, may not be adequate to cover all losses. If we incur losses or damages for amounts exceeding the limits of our insurance coverage, or for claims outside the scope of our insurance coverage, our business, financial condition and results of operations could be materially and adversely affected.

Moreover, we may be unable to renew or replace our existing insurance policies when they expire on commercially reasonable terms, or at all, which could result in substantially higher insurance costs, a reduction of our policy limits, certain exclusions from our coverage, an increase of our deductibles, and/or a significant increase of our risk of loss or damage due to uninsured events. In addition, any failure to renew or replace an insurance policy that may be required under our various credit and other material agreements may affect our ability to operate. Failure to satisfy these requirements could result in an event of default under these credit or other material agreements and have a material adverse effect on our business, financial condition, results of operations and prospects.

Our use of derivatives to manage and reduce financing risks may adversely affect our financial condition and results of operations

We utilise derivative instruments to reduce the risk in interest payable in financing by changing floating rates to fixed rates for our long-term loans payable. However, we may not be able to successfully manage our risk through the use of derivatives. For example, we have entered into interest rate swap contracts to manage these risks with various counterparties, but, due to reasons out of our control, our counterparties may fail to honour the terms of their derivatives contracts with us, and we may be exposed to additional risks. Alternatively, our ability to enter into derivative transactions may be adversely affected if our credit ratings are downgraded. Ineffective management of our derivatives contracts or an inability to enter into new, and maintain existing, derivatives contracts to reduce our financing risks may adversely affect our financial condition and results of operations.

Our Controlling Shareholders have the ability to exercise substantial influence or control over us, which allows them to influence or control our business in ways that might not be in the interests of other Shareholders

Upon completion of the Global Offering, the Taniguchi Consortium will own a total of approximately 69.5% of our total number of issued Shares. Members of the Taniguchi Consortium are associates of each other under the Listing Rules, and persons acting in concert with each other within the meanings under the Takeovers Code. As a result, for the foreseeable future, through their voting control, the Taniguchi Consortium will be able to exercise substantial influence over our operations and business strategy, such as matters related to the composition of our Board of Directors, selection of our senior management, our overall strategic and investment decisions, issue of securities and adjustment to our capital structure, amendments to our Articles, and other corporate actions requiring approval of our Shareholders, including a merger, consolidation or sale of our assets, or any other change of control event that may benefit our other Shareholders generally. Many of these actions are permitted to be taken without the approval of our Independent Non-executive Directors or other Shareholders. Such voting control may discourage certain types of transactions, including those involving an actual or potential

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change of control. To the extent permitted under the Listing Rules and all applicable laws and regulations the Taniguchi Consortium may exercise control over us in ways that conflict with the interests of our other Shareholders, and you as a minority Shareholder could be disadvantaged.

From time to time, we may be involved in legal disputes or proceedings

We may at times be involved in potential legal disputes or proceedings during the ordinary course of business operations relating to, among other things, employees' claim, labour disputes or contract disputes, that could have a material and adverse effect on our reputation, operation and financial condition. Regardless of the outcome, these disputes may lead to legal or other proceedings and may result in substantial costs and the diversion of resources and management's attention. We may also have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavourable decisions that result in penalties being imposed on us. In such cases, our business, results of operations and financial condition could be materially and adversely affected.

RISKS RELATING TO THE PACHINKO INDUSTRY

We face intense competition in Japan

The pachinko industry in Japan is highly competitive. As at 31 December 2013, there were over 3,800 pachinko hall operators throughout Japan, according to EBI, and we owned 54 pachinko halls out of a total of approximately 11,893 halls in Japan. In 2013, due to the fragmented nature of the pachinko industry, our market share based on total gross pay-ins was 1.3%, while our market share based on the total number of halls in Japan was 0.5%. Some of our competitors may have been in business longer than we have and may have substantially greater financial, research and development, marketing and other resources, or even greater experience or brand recognition.

Our major competitors are large pachinko operators, who have extensive experience and an established presence in the pachinko business as well as the capital resources to implement expansion plans. They may have greater access to financial, marketing or management resources than we do, have greater brand recognition or provide a different array of pachinko and other games. We cannot assure you that our development strategies for our pachinko halls will enable us to successfully compete with those of our competitors. It is also possible that there will be consolidation in the pachinko industry among our competitors, or alliances may develop among competitors that may rapidly acquire significant market share.

We also face competition from other types of entertainment and gaming activities (especially in urban areas), such as web-based gaming, and potentially interactive gaming channels. For example, social networking websites in Japan such as Mixi, and mobile phone gaming applications such as Mobage, have introduced alternative gaming platforms which may compete with our pachinko gaming business. In particular, the Diet was previously examining a bill legalising the operations of casinos in Japan in 2014, though, as advised by our Japan Legal Adviser, this bill has since been discarded and there is no longer any formal legislative procedure to consider the legalisation of casino operations in Japan. In any case, if casino operations are

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eventually legalised, this means we may also face competition from casinos and other gaming venues. If our current or target customers choose to participate in these activities rather than our pachinko games, our operations and revenue from pachinko and pachislot hall operations would be negatively impacted.

If we cannot effectively compete with our current or potential competitors, our business, results of operations, financial condition and prospects may be materially and adversely affected.

There could be a change in regulatory or governmental policies (or their interpretations) that affect the pachinko industry

The pachinko industry is subject to multiple Japan laws, regulations and prefectural ordinances. For example, under the Amusement Business Law, pachinko hall operators must, prior to establishing each pachinko hall, obtain an operating licence from the Public Safety Commission of the relevant prefecture. The Public Safety Commission has the authority to impose conditions on the license, or even cancel the license or suspend operations, for example if the pachinko hall operator violates the Amusement Business Law or other applicable laws and regulations. The Amusement Business Law and its enforcement regulations also regulate many other aspects of pachinko hall operations, such as the maximum value of balls or tokens that may be put into play per minute, payout ratios of machines and advertising.

There is limited precedent interpreting and applying the Amusement Business Law and its enforcement regulations for pachinko operations. An administrative body may issue new or modified regulations, or a court or administrative or regulatory body may render a new interpretation of current laws and regulations, which may require us to significantly change the ways in which we operate or impose additional obligations on us as a pachinko hall operator. For example, a regulation was adopted in 2004 with the aim of de-emphasising the gambling nature of pachislot games, setting a cap on the potential payout value of bonus rounds that could be accumulated during the course of play. This regulation resulted in a sharp drop in the popularity of pachislot, which adversely impacted the operating results of pachinko operators across the industry, including us. See “Financial Information — Significant Factors Affecting Our Results of Operations and Financial Conditions — Factors Affecting Results of Operations — Policies and Regulations Relating to the Pachinko Industry”. In addition, according to EBI, there have been discussions about the introduction of a pachinko tax, although no legislative process has taken places yet. If such additional tax is indeed imposed, the pachinko industry as a whole may be negatively impacted. Further, our business, result of operations, financial condition and prospects may be adversely affected.

Any future regulatory changes could be difficult to comply with, limit our ability to expand our business, or increase the time, cost and other resources required to maintain compliance, any of which could materially and adversely affect our business, result of operations, financial condition and prospects.

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There are legal uncertainties with respect to the operation of our business under the Three Party System

Gambling is a criminal offence under the Penal Code. Further, the Amusement Business Law and other local regulations prohibit pachinko hall operators from being involved in the exchange of prizes by customers, whether directly or indirectly, for cash or securities. In order to ensure compliance with such laws and regulations, the pachinko industry has developed the “Three Party System”, which is an industry practice for the sale and purchase of G-prizes exchanged by a customer playing at a hall. The parties under the Three Party System include: (1) pachinko hall operators (such as ourselves); (2) G-prize buyers; and (3) G-prize wholesalers. See “Business – Pachinko and Pachislot Hall Operations – Three Party System” and “Applicable Laws and Regulations” for more details.

Various courts of Japan (including the Supreme Court (最高裁判所)) and the National Police Agency have made rulings or interpretations in relation to the legality of the Three Party System. Our Japan Legal Adviser has also advised us in this regard. See “Applicable Laws and Regulations – C. Legality of Pachinko Businesses and the Three Party System” for details. That being said, there is still currently no law that explicitly or directly confirms the legality of the Three Party System. We cannot assure you that the Three Party System will not, in the future, be deemed to violate the Amusement Business Law or that pachinko and pachislot games will not be deemed to constitute a “gambling” offence under the Penal Code. Any such determination would materially and adversely affect our business, results of operations, financial condition and prospects.

The pachinko industry has been experiencing a downward trend in market size and, compounded by an ageing customer base, may have an adverse effect on our business and results of operations

According to EBI, the pachinko industry has been experiencing a downward trend in market size. This was since the early 2000’s, due in part to the introduction of legislation de-emphasising the gaming nature of pachislot machines by reducing the size of jackpots and in part to the competition from other forms of entertainment such as video games and the internet which are readily available on their mobile phones. Players that are attracted to the chance element of the game (to win a larger amount of prizes) may seek other forms of gaming while players that are more attracted to the entertainment aspect of the game remain. As a result, the pachinko industry is expected to continue to experience a downward trend from 2014 to 2018 with total gross pay-ins declining from approximately ¥17.3 trillion in 2014 to approximately ¥16.1 trillion in 2018.

The downward trend in market size is also compounded by the ageing population in Japan. The age demographic in Japan is such that the younger spectrum of the population is gradually decreasing while the older spectrum of the population is gradually increasing. According to EBI, it is not likely for players to begin playing pachinko and pachislot in their 30’s or above and approximately 90% of players begin playing pachinko and pachislot in their 20’s. If the pachinko

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industry is unable to attract players in their 20's, the customer base of the pachinko industry may be reduced over time and the industry may lose competitiveness to other entertainment industries. In 2013, the majority of players were from the age group of 30's and above 60's, representing 22.5% and 29.6% of the entire pachinko and pachislot player population, respectively. The ageing population in Japan may hinder the growth of our business in the long run, as a slower growth in the population of the ten prefectures where we operate our pachinko halls means that there will be less potential customers. As such, failure to attract the younger generation to play pachinko and pachislot together with an ageing customer base may result in a decline in the demand of pachinko and pachislot. See "Industry Overview — The Pachinko Industry in Japan — Key Trends of the Pachinko Industry in Japan" for details. An overall reduction in the size of the pachinko industry and the ageing population in Japan may have an adverse effect on our business, results of operations and financial condition.

RISKS RELATING TO THE GLOBAL OFFERING

If we fail to comply with the applicable laws of Japan or the Gambling Ordinance (Chapter 148 of the Laws of Hong Kong), the Stock Exchange may suspend the dealings in our Shares or cancel our Listing

The Stock Exchange issued a Guidance Letter HKEx-GL71-14 titled "Gambling Activities Undertaken by Listing Applicants and/or Listed Issuers" in January 2014, which applies to the operation of gambling activities by listed companies. Our Japan Legal Adviser has confirmed that our pachinko operations do not constitute "gambling" under, and do not violate, the Penal Code. See "Applicable Laws and Regulations". Nevertheless, if the Stock Exchange still deems our operations to be gambling activities, pursuant to Guidance Letter HKEx-GL71-14, if our pachinko operations (i) fail to comply with the applicable laws in the areas where such activities operate (namely, Japan), and/or (ii) contravene the Gambling Ordinance (Chapter 148 of the Laws of Hong Kong), we or our business may be considered unsuitable for listing under Rule 8.04 of the Listing Rules. Depending on the circumstances of the case, the Stock Exchange may require us to take remedial actions, and/or may suspend the dealings in, or may cancel the listing of, our Shares pursuant to Rule 6.01 of the Listing Rules.

There has been no prior public market for our Shares and an active trading market for our Shares may not develop or be sustained

Prior to the Global Offering, there was no public market for our Shares. Following the completion of the Global Offering, the Stock Exchange will be the only market on which the Shares are publicly traded. While we have applied to list and deal in our Shares on the Stock Exchange, we cannot predict the extent to which investor interest in our Company will lead to the development of a trading market on the Stock Exchange or otherwise or how active and liquid that market may become. If an active and liquid trading market does not materialise, you may have difficulty selling any of our Shares that you purchase. The Offer Price of the Offer Shares was the result of negotiations between us and the Sole Global Coordinator (on behalf of the

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Underwriters), and it may not necessarily be indicative of the market price of our Shares after the Global Offering is complete. An investor who purchases Shares in the Global Offering may not be able to resell such Shares at or above the Offer Price and, as a result, may lose all or part of the investment in such Shares.

The market price and trading volume for our Shares may be volatile

The price and trading volume of our Shares may be highly volatile. Factors such as global and local economic conditions, the foreign currency exchange rate between the Japanese Yen and the Hong Kong dollar, variations in our operating results, earnings and cash flows and announcements of new investments, strategic alliances and/or acquisitions, could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade. We cannot assure you that these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange have experienced substantial price volatility in the past, and it is possible that our Shares will be subject to changes in price that may not be directly related to our financial or business performance. As a result, investors in our Shares may experience volatility in the market price of our Shares and a decrease in the value of our Shares regardless of our operating performance or prospects.

Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall when the trading of our Offer Shares begins

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be about five business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price or value of our Shares could fall when trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

Your interest may be diluted as a result of additional equity fund-raising

We may need to raise additional funds in the future to finance further expansion of, or new developments relating to, our existing operations. If additional funds are raised through the issue of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced, thereby resulting in dilution. Furthermore, such newly issued securities may confer rights, preferences or privileges superior to those of the existing Shares.

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Substantial future sales or speculated sales of our Shares in the public market could cause the price of our Shares to decline

Sales of our Shares in the public market after the Global Offering, or speculation that these sales could occur, could cause the market price of our Shares to decline. Upon completion of this Global Offering, we will have 1,195,850,460 Shares outstanding, or 1,240,850,460 Shares outstanding if the Underwriters exercise their Over-allotment Option. Certain holders of our Shares will be able to sell their Shares upon the expiration of certain lock-up periods. See “Underwriting” for details. We cannot predict what effect, if any, market sales of securities held by our significant Shareholders or any other Shareholders or the availability of these securities for future sale will have on the market price of our Shares.

The final Offer Price of our Shares may be higher than our net tangible asset value per Share, and if so purchasers of our Shares in the Global Offering will experience immediate dilution

If you purchase our Shares in the Global Offering, depending on the final Offer Price, you may pay more for your Shares than our net asset value on a per Share basis. As a result, investors of our Shares in the Global Offering may experience an immediate dilution in the net tangible asset value and our existing Shareholders may receive an increase in the pro forma adjusted combined net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience a further dilution of their interest if we issued additional Shares in the future, including pursuant to an exercise of the Over-allotment Option.

We may need to raise additional funds in the future to finance further expansion or new developments relating to our existing operations. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

Dividends paid in the past should not be treated as indicative of future dividend payments or our future dividend policy

During the Track Record Period we declared and paid dividends in the amount of ¥110 million, ¥110 million, ¥183 million and ¥183 million for the years ended 31 March 2012, 2013 and 2014 and for the six months ended 30 September 2014, respectively. Purchasers of the Offer Shares in the Global Offering will not be entitled to these dividends. These dividends were financed by our internal resources. Future dividends on our Shares will be declared by, and are subject to the sole and absolute discretion of, our Board of Directors in accordance with our Articles of Incorporation (subject to financial covenants and other restrictions that may exist with respect to financing arrangements or other agreements we may enter into). The payment and the amount of any dividends will depend on our earnings, financial condition, results of operations, cash flows, statutory and regulatory restrictions on the payment of dividends by us, future

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prospects and other factors that our Directors may consider relevant. We cannot assure you that future dividends will be declared or paid in an amount equivalent to or exceeding historical dividends. Therefore, you should be aware that historical dividends are not indicative of the amount or frequency of future dividends or our future dividend policy.

For a discussion of our dividend policy, see “Financial Information — Dividend Policy”.

We are a holding company and our ability to pay dividends is dependent upon the earnings of, and distributions by, our subsidiaries

We are a holding company incorporated under the laws of Japan. All of our business operations are conducted through our subsidiaries, and we are dependent upon our subsidiaries for all of our cash flow. Our ability to pay dividends is dependent upon the earnings of our subsidiaries and their distributions of funds to us, primarily in the form of dividends. The ability of our subsidiaries to make distributions to us depends upon, among other things, their distributable earnings and their ability to service their debt obligations. Under Japan law and our Articles, payment of dividends is permitted by our Board’s resolution within the Distributable Amount calculated under the Japan Companies Act. Subject to any applicable tax treaties, dividends payable to our Shareholders are subject to a withholding tax of up to 20.420%. Dividends paid by our subsidiaries are subject to a withholding tax in Japan of 20.420%, which can be offset against the corporate tax payable by our Company. In case the amount of corporate tax payable by our Company is lower than such withholding tax, the shortfall will be refundable. We have been advised that as at the Latest Practicable Date, there was no withholding tax for dividends in Hong Kong. Other factors such as cash flow conditions, restrictions on distributions contained in our subsidiaries’ articles of incorporation, restrictions contained in their debt instruments, withholding tax and other arrangements will also affect our subsidiaries’ ability to make distributions to us. These restrictions could reduce the amount of distributions that we receive from our subsidiaries, which in turn would restrict our ability to fund our operations and pay dividends on the Offer Shares.

Fluctuations in exchange rates could affect the actual amounts of dividends paid to our Shareholders

All Shareholders other than CCASS Beneficial Owners have the option of receiving dividends in either Japanese Yen or Hong Kong dollars. Because we currently generate all our revenue in Japan, the cash dividends on our Shares, if any, will be declared in Japanese Yen, but may be paid in Hong Kong dollars to our CCASS Beneficial Owners and our Shareholders who elect to receive dividends in Hong Kong dollars. Our CCASS Beneficial Owners may only receive dividends in Hong Kong dollars. Any significant devaluation of the Japanese Yen may materially and adversely affect the value of, and any dividends payable on, our Shares in Hong Kong dollars. For example, a depreciation of the Japanese Yen against the Hong Kong dollar may reduce the Hong Kong dollar equivalent of our dividends.

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Certain statistics, projected industry data and other information relating to the economy and the pachinko industry in Japan contained in this Prospectus are derived from third party market research reports or news sources and may not be reliable

Statistics, projected industry data and other information relating to the economy and the industry contained in this Prospectus have been derived from various publications with information provided by a Japanese third party market research company. We cannot assure you, or make any representation, as to the accuracy, completeness, quality or reliability of such information. Neither we nor any of our respective affiliates or advisors, nor the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager or any of their respective affiliates or advisors, have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from the third party market research report. Due to possible flawed collection methods, discrepancies between published information, different market practices or other problems, the statistics, projected industry data and other information relating to the economy and the industry derived from the third party market research report may be inaccurate or may not be comparable to or consistent with information available from other sources and should not be unduly relied upon. In all cases, you should give careful consideration as to how much weight or importance you should attach or place on such statistics, projected industry data and other information relating to the economy and the industry.

Forward-looking statements contained in this Prospectus are subject to risks and uncertainties

This prospectus contains certain statements that are “forward-looking” and uses forward looking terminology such as “anticipate”, “estimate”, “believe”, “expect”, “may”, “plan”, “consider”, “ought to”, “should”, “would”, and “will”. Those statements include, among other things, the discussion of our growth strategy and the expectations of our future operation, liquidity and capital resources.

Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this Prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information. See “Forward-looking Statements”.

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You should read the entire Prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media, including, in particular, any financial projections, valuations or other forward looking information

There has been media coverage in certain news publications regarding us and the Global Offering which includes certain projections, valuations and other forward looking information that are not directly attributable to statements made by us. We wish to emphasise to potential investors that we do not accept any responsibility for the accuracy or completeness of any press articles or other media and that such press articles or other media were not prepared or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward looking information, or of any assumptions underlying such projections, valuations or other forward looking information, included in or referred to by the media. To the extent that any such statements are inconsistent, or conflict, with the information contained in this Prospectus, we disclaim them. Accordingly, prospective investors should not rely on any such information contained in press articles or other media. Potential investors making a decision as to whether to apply for Shares should rely solely on the information contained in this Prospectus and the Application Forms and not place any reliance on any other information.