FISCO

Company Research and Analysis Report
FISCO Ltd.
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Dynam Japan Holdings
06889 Hong Kong Stock Exchange

8-Jul.-15

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FISCO Ltd. Analyst
Hiroyuki Asakawa

Low-cost operations based on the theory of chain-store operations is the company's strength

Dynam Japan Holdings Co., Ltd. (HK06889) is a holding company and its subsidiaries include DYNAM Co., Ltd., one of Japan's largest operators of pachinko and pachinko slot halls with the largest number of halls operated and the second largest in terms of ball rental fee income. The Dynam Group's strength and characteristics lie in its low-cost operations worked out based on the theory of chain-store operations, which are thoroughly applied to newly opened halls as well as daily hall operations. In addition, the Company is the first in its industry to be listed on a stock market, which is a result of its management having won recognition for its full enforcement of customer-first creed, information disclosure, and compliance management, and others.

In FY3/15, the Company reported decreases in both sales and profit. Just looking at the reported figures may make you take it that the Company I did not survive gusty adverse winds. However, it was totally different. The pachinko industry has fallen into a negative spiral and it is going into a shakeout stage in which surviving players can dominate the market. The Company's decline in profit this time is a result of its bold policy to establish a position as a survivor in the future.

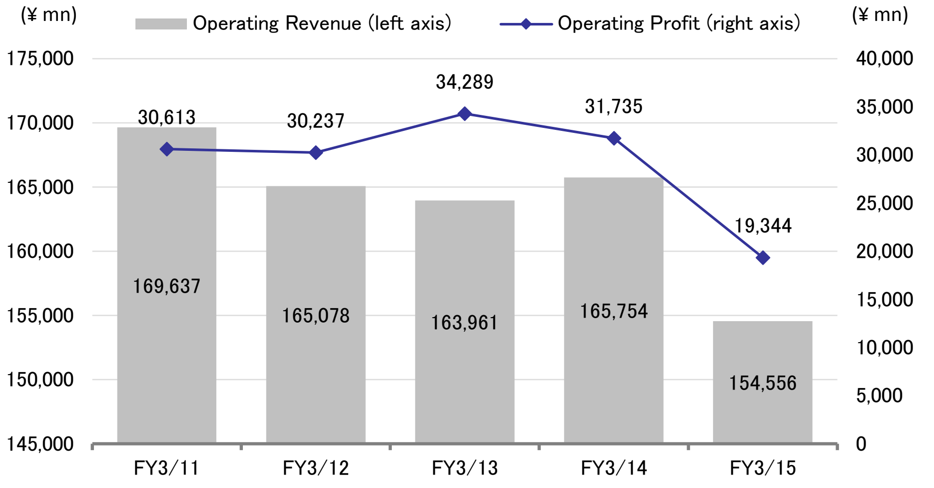
The contents of the policy that the Company has taken are renewing halls and increasing customer return. As for policies, they are common, but they are not something anyone can do under the present industry circumstances. The Company has financial strength as one of Japan's largest operators of halls as well as knowhow of low-cost operations based on the theory of chain-store operations, and, therefore, we are of the opinion that because of the advantages' the Company has, being as described above, it could take such policies.

It is important to note that the policies taken during FY3/15 brought clear results. With such results, in FY3/16, the Company intends to substantially increase the number of halls to renew, aiming to return to a growth path unswayed by the overall trend in the industry. For FY3/15, the Company maintained the same level of dividend payment as the previous fiscal year despite a large decline in profit. We believe that the Company did so because it had confidence in operating results recovery for FY3/16, and if it succeeds in business recovery for this fiscal year, confidence will increase for the Company to continue a profit increase over the medium- to long-term. We would like to watch closely as FY3/16 will highly likely be a crucial year to test potential.

Check Point

- While maintaining the customer-first creed, improve the gross profit margin by increasing the ratio of low playing cost machines
- A large-scale renewal of halls and increasing customer return.
- Policy of transforming pachinko to "time-consumptive leisure."

Trend in Operating Results



Source: Data compiled by FISCO based on data from the White Paper on Leisure by the Japan Productivity Center, Japan Association of Recreational Businesses and the National Police Agency

■ Industry circumstances for FY3/14

While maintaining the customer-first creed, improve the gross profit margin by increasing the ratio of low playing cost machines

(1) Long-term trend

The pachinko market has been seeing continuous contraction. In the peak year of 1995, sales in the pachinko industry were ¥30.9 trillion but decreased to ¥18.8 trillion in 2013. Namely, over the period of 18 years from 1995 to 2013, it decreased by a yearly average of 2.2%. Naturally, in accordance with the decrease in sales, the number of pachinko halls also decreased from 17,631 to 10,873 by a yearly average of 2.1% during the same period. More serious is a decrease in game players, which decreased from 29 million to 9.7 million or about one third. This is a yearly average of 3.7% that largely surpassed the decreasing pace of sales and the number of halls.

Factors for decreases in game players probably differ depending on the time. However, we think that the decreases in the past several years are attributable to the popularization of smartphones. A group of people who used to play pachinko in their leisure time must have moved to smartphones. Although this trend must apply to all generations, from a medium- to long-term perspective we are most concerned about fewer young people being attracted to pachinko.

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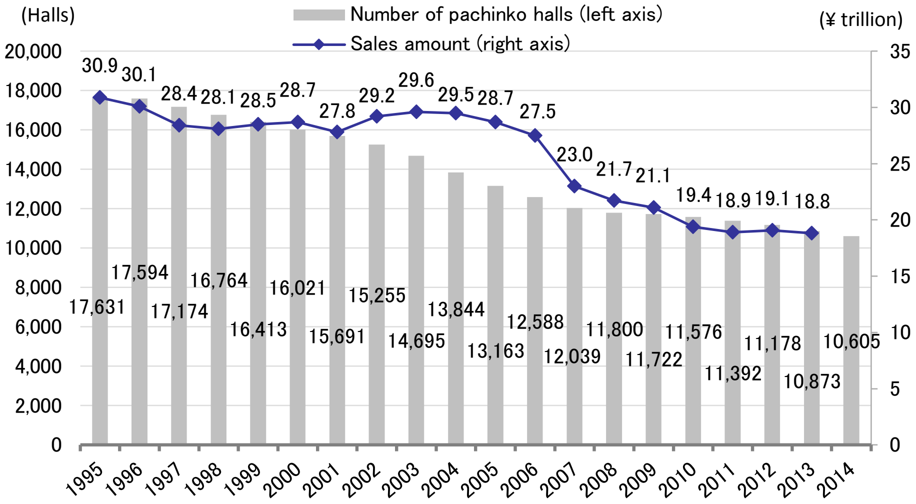
■ Industry circumstances for FY3/14

Trend in market scales and number of halls for the pachinko market



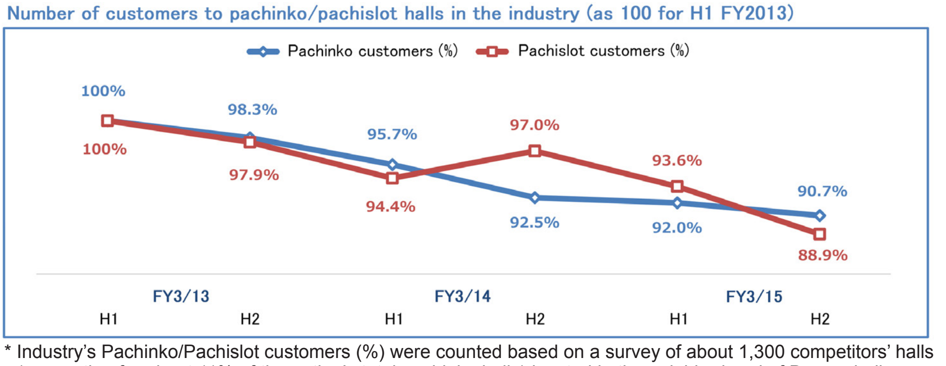
(2) FY3/15 overview

On top of the above-mentioned long-term trend, another negative factor of the consumption tax rate increase was added in FY3/15. Since no particular influence was seen until around May 2014, the entire industry including the Company ended up misled in terms of the influence of the consumption tax rate increase.

The tax increase started to affect the industry in summer or later, especially in the third quarter (October – December) when there was a sizable drop in customer visits. The amount spent per visitor was assumed to be lower, and pachinko machine utilization rate (number of balls shot per day per machine) decreased by 5% - 10% from the first quarter to the third quarter.

The Company has made a survey on the numbers of customers with competitors' 1,300 pachinko and pachislot halls located in the neighborhood of its halls over the country. Using H1 FY 3/13 as a base of 100, the number of customers decreased to 90.7 for pachinko and 88.9 for pachislot by H2 FY3/15FY.

Number of customers to pachinko/pachislot halls in the industry (as 100 for H1 FY2013)

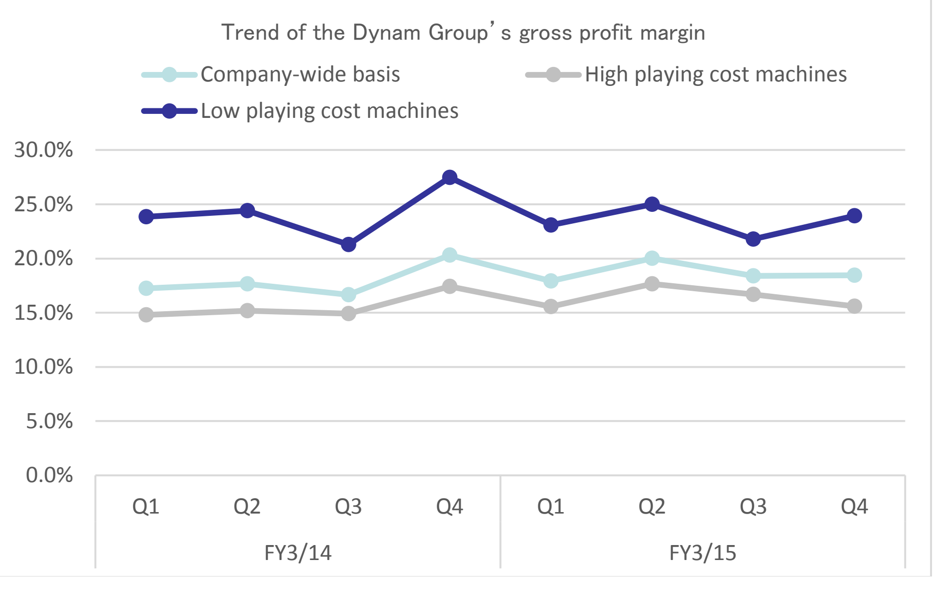


* Industry's Pachinko/Pachislot customers (%) were counted based on a survey of about 1,300 competitors' halls (accounting for about 11% of the nation's total pachinko halls) located in the neighborhood of Dynam halls over the country.
Source: Company briefing materials

■ Industry circumstances for FY3/14

In the pachinko industry, another phenomenon made customers leave pachinko. It was the increase in gross profit margin. In the accounting for a pachinko hall, ball rental fee income as rental fee sales of pachinko balls will become gross sales. If you deduct cost of prizes from gross sales, it is operating revenue. The cost of prizes is a total amount of all prizes (cost) given out in exchange of balls or medals customers have won. Thus, the ratio of cost of prizes to ball rental fee income can give an indication of customer return. Gross profit margin is the ratio of operational profit to ball rental fee income, which is the reverse side of the ball discharge rate viewed from the customer side. That is to say, an increase in gross profit margin would mean a decrease in the ball discharge rate from the customers' side, which has added momentum to keeping customers away from pachinko. On the pachinko hall management side, gross profit margin would have to be raised if a certain amount of profit needs to be secured while customers are decreased.

Even the Company that adopts the customer-first creed had a gross profit margin with an upward trend. The Company is taking a strategy of raising the ratio of low playing cost machines, which would bring higher gross profit margins compared with high playing cost machines. We consider that such a machine lineup has boosted its company-wide gross profit margin. Since the situation is as described above even with the Company, other companies or the entire industry should never be better in this regard.



To summarize the situation, at a time when there was a decline in customers due to the dissemination of smartphones and the consumption tax rate increase, the halls chose to ensure profit by squeezing the ball discharge rate, which further decreased customers, resulting in a negative spiral. That was FY3/15.

We are concerned that this negative spiral is not something temporary but rather structural. Whereas a larger background for this is Japan's population decrease and the progress of an aged society (namely, a decline in the younger generations), the immediate factor is the emergence of smartphones in the midst of customer needs changing from winning prizes as the main reason to time-consumptive leisure enjoying the time engaged in playing. Our thought would be that if this is really a structural issue, the pachinko industry may have come all the way to a stage seeking a survivor's advantage.

Large-scale renewal of halls and increase in customer return

Initiatives of the Dynam Group

The Company group implemented extreme measures in Q4 FY3/15 to cut off the above-mentioned negative spiral. They are large-scale hall renewal work and customer return increase. Starting from the conclusion, the effects of these measures were explicit. We will elaborate on the Dynam Group's measures below.

(1) Hall renewal work

The Company refurbished halls to recover customers. It conducted renewal work on 40 halls with high playing cost machines in a short and intensive way.

There seem to be two reasons for choosing halls with high playing cost machines for renewal. One reason is that halls with high playing cost machines are comparatively old since halls of low playing cost machines have continued to be opened in the past several years. The other is that halls with high playing cost machines would enjoy a larger effect at the time of customer traffic recovery because they have higher operational profit compared to halls with low playing cost machines.

Items for renewal were all of major interior and exterior locations such as floor, wall cloth, toilet, exterior wall, outer circumference, advertisement tower, parking lot (paving/line drawing), and seats. Depending on each hall's recent maintenance situation, renewal contents varied for each hall, but wall cloth was changed at all 40 halls, toilets were completely renewed at more than 20 halls, and the floor was changed at nearly 10 halls. In addition, at almost all of the 40 halls, the exterior walls, outer circumference and advertisement towers were renewed, and at 80 to 90% of the 40 halls, seats, the modesty panel and end plate were renewed. These large-scale renewals made the halls look like new ones.

Total expenses for renewal would be ¥2,000mn if the average per hall were ¥50mn, although expenses varied for each hall. A part of the total amount was posted as expenses during FY3/15 and the balance was posted as assets for which depreciation cost was posted as expenses at the same time. Further, the opportunity loss due to non-operation during the renewal period became another factor for the Company's decreased profit.

The Company also implemented a variety of measures for hall investments, besides the above-mentioned special hall renewal, such as introduction of a personal system used to reduce personnel expenses in hall operations, introduction of popular machines and sales promotions. By our calculation, the total influence in terms of reduction of profits due to the abovementioned hall renewals and investments amounted to about ¥1,500mn.

(2) Increase in customer return

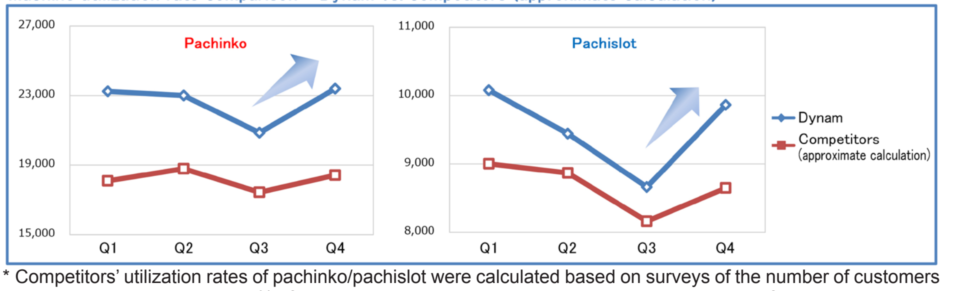
The other measure was an increase in customer return. While it is quite natural for a decrease in customers at halls with comparatively low ball discharge rates, hall management still needs to secure profits by raising gross profit margins. The entire industry has fallen into a negative spiral that lowered ball discharge rates (=increased gross profit margins) → customer traffic slow down → raising gross profit margins → customer traffic slowing down further, and cannot get out of it.

To deal with that situation, the Company changed machines to try to get customers to return. In specifics, it raised ball discharge rates by 1.3% for pachinko and 0.7% for pachislot to increase customer return. We estimate the impact that the customer return increase will have on the Company's operational profit is about ¥3,000mn.

(3) Effect

The effect of the drastic efforts the Company made to cope with a decline in customer traffic was noticeable. Pachinko machine utilization rate (number of balls shot per day per machine) as an index of a hall's operational situation, which had been lagging with around 21,000 shots in Q3 FY3/15, returned to the highest quarterly level beyond 23,000 shots in Q4 FY3/15. It is considered to be largely due to the raised ball discharge rates, but it seems that clear recovery of customer traffic was recognized at almost all individual halls out of the 40 renewed halls.

Machine utilization rate comparison – Dynam vs. competitors (approximate calculation)



* Competitors' utilization rates of pachinko/pachislot were calculated based on surveys of the number of customers at about 1,300 halls (about 11% of nation-wide pachinko halls) located in the neighborhood of Dynam halls across the country.
Source: Company briefing materials

The Company intends to continue the same types of measures in FY3/16 with the recognition of the effect of customer traffic recovery by hall renewal and customer return increase. Specifically, it renewed about 50 halls in April to May 2015 and intends to continue renewal work in June onward.

(4) Competitive advantage over other companies

Measures the Company implemented have been verified to have had a positive effect. However, these measures have not had an impact strong enough to increase the number of pachinko players, so in the event of competitors following the Company and implementing the same measures, the point will be whether the Company has a competitive advantage over its competitors.

Starting from the conclusion, FISCO is of the opinion that although there may be a less competitive advantage over some financially stable competitors' halls, the Company will maintain its competitive advantage over middle and small competitors that account for the majority of the industry.

The reason for such a conclusion lies in the difference in corporate financial strength. The Company's increase in customer return had a large adverse impact on its operational profit. The Company had room to conduct such a measure, but it is estimated that there's no such room for most of small and middle-sized halls.

In addition, it is thought that the Company group's renewal expenses per hall are largely reduced compared with its competitors. The reason for that is the Company had promoted hall standardization while it pursued management based on the theory of chain-store operations. Since the Company had standardized the design and specifications for its halls, it could order renewal works for a number of halls in bulk and enjoy a scale merit accordingly. Whereas the Company could plan and carry out its hall renewal based on renewal expenses reduced by economy of scale, it is thought that in many cases some of the small and middle-sized halls have to give up the idea of conducting renewals in view of the cost-benefit performance. Furthermore, we believe there are only limited companies that could simultaneously implement the two measures of a customer return increase and hall renewal.

Policy to change pachinko to “time-consumptive leisure”

Challenges for the Dynam Group

At a time when the entire industry is in a predicament, the Company is seeking to outdistance its rivals at a stretch by utilizing its size as having the industry’s largest hall count and financial strength, as well as knowhow regarding low-cost operations based on chain-store operation theory. However, in FISCO’s opinion, there remain issues for the Company group to solve. One is the issue of new hall openings and another is the issue of its low playing cost machine strategy. We do not have answers to those problems. However, having those problems will affect the Company’s medium- and long-term growth strategies, and we believe that if the Company group can solve those problems, it will have a greater chance of achieving sustainable growth.

(1) Challenges for a new strategy for hall opening are expected

Declines in the pachinko playing population and visitors to pachinko halls are affecting the Company’s new hall openings. Regarding new hall openings, the Company has appropriately managed opening expenses and investment recovery by using its standard model. This has been carried out as a part of the chain-store management and the standard model has functioned well. However, starting around FY3/14, the Company started to often see newly opened halls end up falling short of the first year income level planned under the standard model, and in FY3/15 such a tendency seems to have further intensified.

The Dynam Group’s low cost operations

Purpose	Main actions	Details	Effects
Revenue increase	Opening new halls, mainly halls with lower-priced balls	Opening halls with Yuttari Kan model	Sales volume increase
	Shifts in hall layouts in line with changes in customer needs		Steady buildup of ball rental fee income/sales income
Profit increase	Management of costs for opening halls with a standardized model	Initial investment costs ¥505 mn (except expenses for machines)	Minimization of initial investment
	Wooden, standardized halls 20-year fixed term leasehold contract Standardized installation of 480 to 560 gaming machines	Targeted zone population 50,000 ROI (10-year-average) 25.4% Machine expenses about ¥150 mn Machine expenses shall be booked as expenses for the first year.	
	Management of operational costs	Costs for machines and labor make up 60% of hall operational expenses.	Reduction of hall operation expenses
	Deploying second-hand machines	Out of the machines bought in FY3/14, 20.3% was second-hand machines.	Reduction of expenses for machines
	Deploying PB machines	Private brand machines have been planned to be installed since February, 2014 up to 2,000 units.	
	Intensive use of distribution centers for handling machines	A total of 14 distribution centers throughout Japan, aimed at reducing operational expenses.	
	Introduction of a personal system	Introduced in 217 halls (58% of total halls). The introduction ratio is 90.1% if “Yuttari Kan” and “Shinrai no Mori” are looked at (182 halls out of 202).	Improvement in gross profit per man-hour Reduction of personnel expenses in hall operations Improvement in operational efficiency
	Centralized control by use of Information systems	6 systems of hall management, sales management, gaming machine management, prize management, personnel management and accounting are operated as a network.	

The Company group's standard model for hall openings is well developed and thus enables hall openings at lower costs compared to competitors. This competitive advantage remains unchanged. However, the issue is customer traffic after the opening has fallen below the forecast in the Company's investment recovery model. For such halls, a renewal strategy cannot be applied. The measure of increasing customer return has a certain limitation in applying because newly opened halls are halls with low playing cost machines that have low operational profit ratios.

In our opinion, if the situation of market share grabbing continues in the total market whose size will not increase, the Company needs to either change its hall opening and investment recovery model based on that situation, or review its hall opening strategy to include a decision on whether to discontinue new hall openings. We think that the Company has financial strength and knowhow to address such fundamental issues and we expect the Company will take appropriate actions down the road.

(2) Reviewing the composition of halls with high playing cost machines and halls with low playing cost machines

The Company operates two types of halls, namely, halls with high playing cost machines and halls with low playing cost machines, but from 2006 onward, it has been focusing on developing halls with low playing cost machines. Its newly opened halls have basically been with low playing cost machines. The Company has proactively promoted a shift from high playing cost machine halls to low playing cost machine halls. As of the end of March 2015, of the total 393 halls, 172 were high playing cost machine halls and 221 were low playing cost machine halls.

Details of Dynam group's halls by hall type

Hall type	Main hall names	Type of main pachinko machines	Smoking in the hall	Number of halls as of the end of Mar. 2015
Halls with high playing cost machines	Dynam	Mainly with high-cost balls (¥4 per ball)	Permitted	172
Halls with low playing cost machines	Dynam Yuttari Kan	Mainly with low-cost balls (¥1 or ¥2 per ball)	Permitted	221
	Dynam Shinrai no Mori	Mainly with low-cost balls (¥1 or ¥2 per ball)	Prohibited	
Total number of halls				393

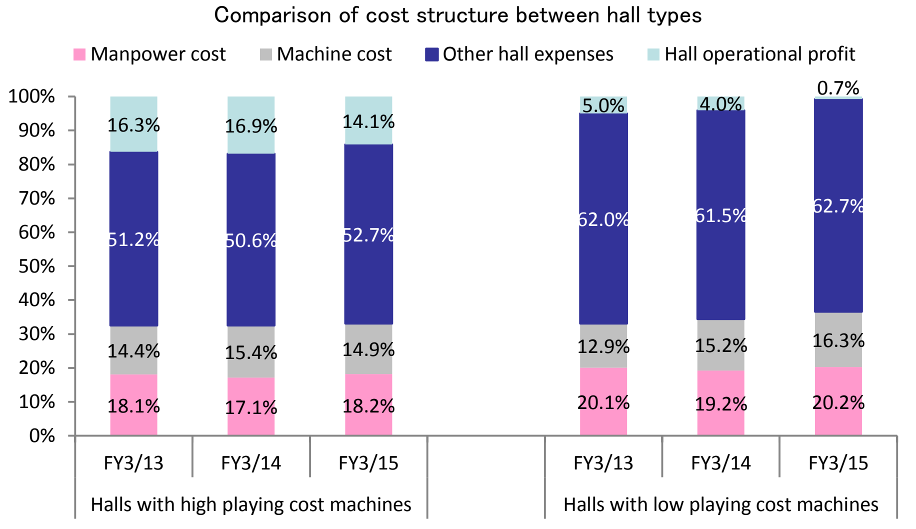
Remarks: The above numbers of halls include halls owned by Cabin Plaza (two halls of Dynam type and seven halls of Yuttari Kan type)

The background of the intensified shift to low playing cost machine halls includes the Company's future direction matching the governmental future direction of the industry in terms of transforming pachinko to becoming a "time-consumptive leisure." Another factor for the shift to low playing cost machine halls was the Company's strategy to grab customers from competitors' high playing cost machine halls in competing territories. Low playing cost machine halls have lower hall operating profit, but the Company is confident about its low-cost operations.

Low-playing cost machine ratios for Dynam group and the entire industry

As of the end of Dec. 2014	Dynam group	Industry ratio
Ratio of halls with low-playing cost machine(s)	100.0%	-
Ratio of low-playing cost machines	67.9%	42.3%
Ratio of low-playing cost slot machines	53.4%	22.7%

However, if we compare the two types of halls in terms of cost structure, halls with low playing cost machines have lower profitability structurally than halls with high playing cost machines. Although the Company has adopted a strategy to increase customers and secure profit by a low margin, high turnover strategy riding on the strength of the group's low-cost operations, our concern is that the recent decline in pachinko customers may be at a level about to press for reconsideration of the Company group's strategy. We would think that it is hard for the Company to shift to halls with high playing cost machines all at once, but the Company group has introduced low playing cost machines at all of its 393 halls. Namely, the difference between a high playing cost machine hall and a low playing cost machine hall lies in the difference in the balance between both types of machines. If such understanding is correct, FISCO considers that there is much room for improving profit margins for each hall by way of flexibly changing the composition of types of machines.



(3) Development of new pachinko fans

Creating new pachinko fans is important for the fundamental solution. Pachinko operating companies including the Company group are making efforts to create pachinko fans more or less, but actually, there is no sign of the pachinko population decline having touched the bottom. Popularization of smartphones is considered as the reason for the pachinko population decline. While customer needs are shifting from prize winning as the main purpose to time-consumptive leisure to enjoy playing time itself, placing smartphones and pachinko as opposed to each other. However, we wonder how much of an attempt has been made to use smartphones to attract people to pachinko.

For example, 020 marketing is attracting attention. When someone approaches a pachinko hall, their smartphone could receive information from the hall, such as a promotion ball discharge, campaign or discount coupon information, which we imagine would be effective to a certain degree in acquiring customers. Although the Company group may be attempting similar ideas, we encourage further efforts including fresh methods toward the creation of new pachinko fans that will be the most fundamental measure.

Business results trends

Drastic measures were forced through to end a negative spiral

(1) Details of FY3/15 results

FY3/15 closed with decreases in both sales and profit as operating revenue was ¥154,556mn (down 6.8% YoY), operating profit ¥19,344mn (down 39.0% YoY), profit before income taxes ¥19,518mn (down 43.6% YoY) and net profit ¥11,259mn (down 47.0% YoY).

Looking at the transition of operating profit margin (ratio of operating profit to operating revenue) for every six months, you will see the ratios were at the same levels as for the previous years until H1 FY3/15. However, in the background, the number of customers had been decreasing and halls' gross profit margins (ratio of operating revenue to ball rental fee income) rising, which caused greater customer defection. To cut off the negative spiral, the Company implemented drastic measures in Q4 FY3/15. The effect showed up in the form of a sharp decline in operating profit ratio in H2 FY3/15.

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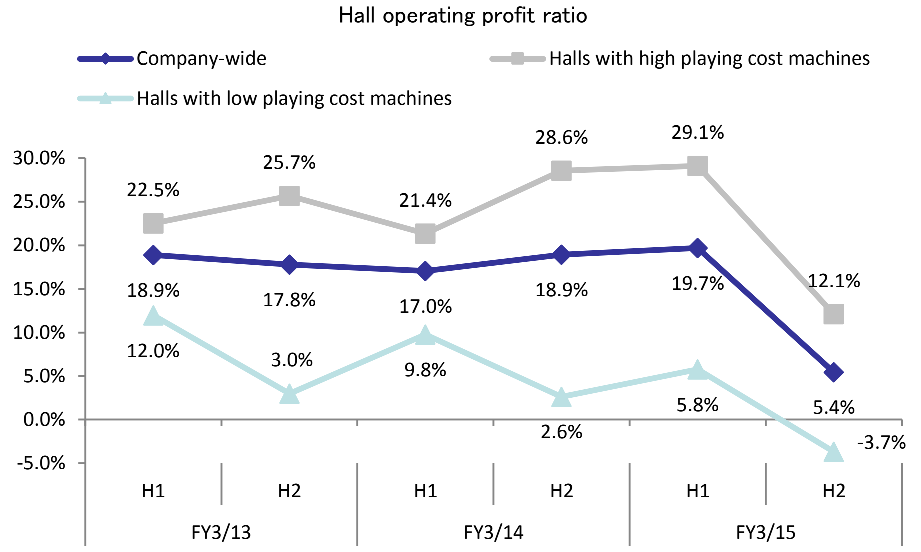

As mentioned above, in the background of the decreases in both sales and profit lies the fact that the Company took measures to renew halls and increase customer return. Besides these factors, the consumption tax rate increase and newly opened halls had additional impacts on profits, and operating profit decreased by ¥12,391mn YoY.

Analysis of factors that reduced profit
(Amounts were FISCO's estimate based on hearings and others)

Factors	Specific contents	Profit loss affected
Renewal of existing halls	Repair cost Amortization expense for capitalized portions Expense for personal systems introduced Loss of profit due to non-operation for renewal	¥1.5bn
Amount affected by moderation in commodity price (customer return increase)	Total amount affected by a decline in profit per pachinko ball	¥3.0bn
Amount affected by consumption tax increase	Balance in operational profit calculated based on consumption tax rate of 5%	¥4.0bn
Others	Impairment loss for halls and others	¥3.5bn
Total		¥12.0bn

Since profit before income taxes in FY3/15 was ¥19,518mn (¥34,614mn in previous FY), net cash flow provided by operations was ¥13,416mn (compared with net cash of ¥27,385mn provided by operations in the previous FY). On the other hand, capital investment of ¥16,008mn was made for 19 newly opened halls and 40 halls renewed, whereas the cost for acquiring a subsidiary posted in the previous FY reduced to zero (¥2,372mn in the previous FY) and spending decreased for acquiring available-for-sale financial assets (¥8,858mn in the previous FY decreased to ¥818mn in the FY under review). Thus, cash flow from investments was minus ¥17,013mn (minus ¥22,390mn in previous FY). Cash flow used in financial activities was ¥2,898mn (compared with cash flow used in financial activities of ¥13,102mn in the previous FY) with net revenue of ¥8,382mn as a bank loan and spending of ¥10,400mn for dividends. As a result, net cash flow decreased by ¥5,597mn and cash and cash equivalents at the end of FY was ¥29,239mn down by ¥5,597mn YoY.

Cash flow Statement

(Unit: ¥ mn)

	FY3/12	FY3/13	FY3/14	FY3/15
Cash flow from operations	31,906	28,330	27,385	13,416
Cash flow from investments	10,998	-10,899	-22,390	-17,013
Cash flow from financial activities	-31,840	-8,028	-13,102	-2,898
Effect of exchange rate changes on cash and cash equivalents	-	3,539	1,477	898
Cash and cash equivalents at the beginning of FY	17,460	28,524	41,466	34,836
Cash and cash equivalents at the end of FY	28,524	41,466	34,836	29,239

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(2) Analysis of business forecasts in FY3/16

The Company has not announced its business forecasts. FISCO thinks that the following estimates can be made with regard to the company's financial performance in FY3/16.

With regard to operating revenue, with the Company's renewal investment and customer return increase in FY3/15, customers have been on the recovery track and the pachinko machine utilization rate is at a higher level than it was in Q1 and Q2 FY3/15. The impact of the customer return increase in Q4 FY3/15 on the Company's profit was estimated to be about ¥3,000mn, and such impact will be effective through the year. On the other hand, an increase in operating revenue can be expected by an income increase through customers returning, a customer increase at high playing cost machine halls and improving the mix of types of machines. The Company is implementing renewal on about 50 halls in Q1 FY3/16 (80 halls are planned within the FY) and we believe the reproducibility of the effect is high. All these matters being considered, it can be estimated that operating revenue will not reach the level of FY3/14 but it will exceed the level of FY3/15 settling in the range of ¥160,000mn to ¥165,000mn.

Therefore, compared with FY3/15, operating revenue will increase by ¥9,000mn to ¥10,000mn while operational expenses will increase by ¥5,000mn to ¥6,000mn due to renewals and other factors. Thus, we estimate that operating profit will increase by ¥3,000mn to ¥5,000mn YoY.

Supposing that operating profit is ¥24,000mn, net profit for the current period will be ¥15,600mn on the basis of profit before income taxes being the same as operating profit and effective corporate tax rate of 35%. Depreciation cost will be about ¥11,000mn as it is estimated to increase by about ¥600mn YoY. Thus, cash inflow will be estimated to be ¥26,600mn. On the other hand, capital investments will be estimated to be ¥17,000mn up by about ¥1,000mn YoY on the basis of 80 halls for renewal (40 halls in the previous FY) and 20 newly opened halls (19 halls in the previous FY). Dividends to be paid will be ¥10,400mn (the yearly dividend is estimated at ¥14 per share, the same as for the previous FY). Thus, cash outflow will be ¥27,400mn (capital investments + dividends) and net cash flow can be estimated to be minus ¥800mn.

Profit & Loss Statement (IFRS)

(Unit: ¥ mn)

		FY3/14	FY3/15
Ball rental fee income		922,172	826,072
	YOY	-0.8%	-10.4%
Cost of prizes		756,418	671,516
	YOY	-1.1%	-11.2%
Operating revenue		165,754	154,556
	YOY	1.1%	-6.8%
Other incomes		7,139	6,850
	YOY	-	-4.0%
Hall operational expenses		135,940	134,659
	YOY	1.5%	-0.9%
SGA costs		4,086	5,456
	YOY	31.3%	33.5%
Other operating costs		1,132	1,947
Total expenses		134,019	135,212
	YOY	-	0.9%
Operating profit		31,735	19,344
	YOY	-	-39.0%
Financial income		3,660	2,151
Financial expense		781	1,977
Profit before income taxes		34,614	19,518
	YOY	3.5%	-43.6%
Tax expenses		13,377	8,259
Net profit for current period		21,237	11,259
	YOY	1.5%	-47.0%
Attributable to owners of the company		21,255	11,303
	YOY	-	-46.8%
EBITDA		42,702	30,626
	YOY	-	-28.3%
EPS (¥)		28.6	15.2
Dividend per share (¥)		14.00	14.00

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Balance Sheet (IFRS)

(Unit: ¥ mn)

	FY3/10	FY3/11	FY3/12	FY3/13
Current assets	32,971	34,766	36,871	50,568
Cash & deposits	22,087	17,460	28,524	41,466
Accounts receivable	374	352	381	359
Fixed assets	133,987	132,161	119,590	117,309
Tangible fixed assets	101,191	98,004	95,033	93,853
Intangible fixed assets	1,775	1,678	1,489	1,411
Total assets	166,958	166,927	156,461	167,877
Current liabilities	55,747	45,020	33,384	30,694
Accounts payable	1,459	1,232	1,148	905
Short-term borrowings, etc.	26,335	15,439	1,654	1,258
Fixed liabilities	39,282	36,537	29,603	11,356
Long-term borrowings	27,934	22,578	21,583	4,325
Shareholders' equity	71,929	85,370	93,474	125,827
Share capital	5,540	6,100	5,000	15,000
Capital surplus	0	0	0	0
Retained earnings	66,389	79,270	88,474	110,827
Treasury stock	0	0	0	0
Valuation, translation adjustments and others	0	0	0	0
Net worth	71,929	85,370	93,474	125,827
Liabilities & net worth	166,958	166,927	156,461	167,877

(Unit: ¥ mn)

	FY3/14	FY3/15
Current assets	50,946	48,723
Cash & deposits	34,836	29,239
Accounts receivable	563	486
Fixed assets	135,223	132,213
Tangible fixed assets	94,605	99,961
Intangible fixed assets	1,408	1,029
Total assets	186,169	180,936
Current liabilities	34,910	31,380
Accounts payable	19,049	20,468
Short-term borrowings, etc.	1,265	3,160
Fixed liabilities	9,249	14,503
Long-term borrowings	3,059	9,160
Equity attributable to owners of the company	141,990	135,077
Share capital	15,000	15,000
Capital surplus	10,129	10,129
Retained earnings	110,136	111,037
Others	6,725	-1,089
Non-controlling interests	20	-24
Total equity	142,010	135,053
Liabilities & net worth	186,169	180,936

Remarks; FY3/14 figures have been retroactively changed due to changes in IFRS.

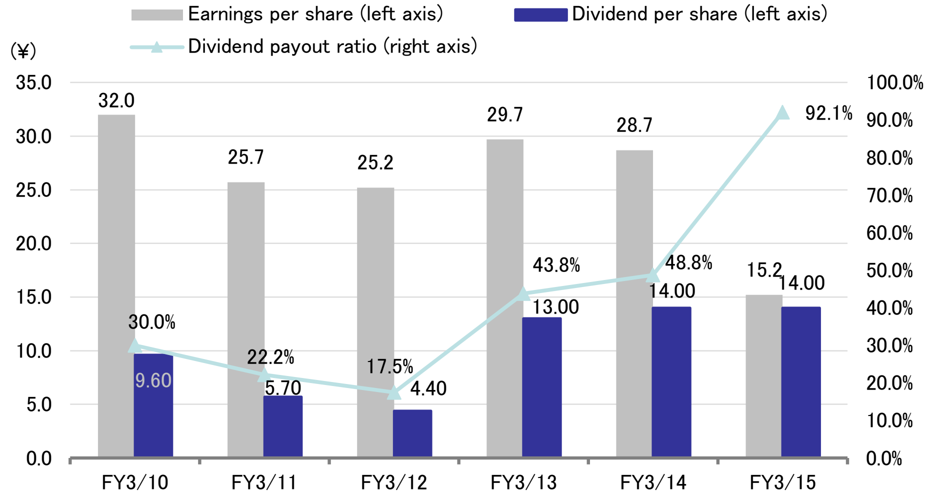
Return to Shareholders

Highly conscious of the importance of return to shareholders

The Company is highly conscious of the importance of returns to shareholders and it has a basic policy to make its dividend at 35% or more as a target rate. The Company has already announced ¥7 per share as its year-end dividend for FY3/15. As a result, its yearly dividend will be ¥14 per share, the same as for FY3/14, which will make a dividend payout ratio of 92.1%.

As mentioned already in this report, the Company's net cash flow used was ¥5,597mn as a result of decreased profit and maintenance of the dividend level. The Company holds a growth strategy with aggressive new hall openings and doing so makes it the most important principle in terms of finance to cover cash out-flow for opening halls with cash in-flow by the total of net profit for the current period and depreciation cost. This time, the Company has maintained the dividend level departing from the above principle, which can be understood to mean the Company's stance of giving much weight to return to shareholders for one thing, and, for another important point of view, we consider that it means that the Company is confident of its business recovery in FY3/16.

Trends in Earnings per Share,
Dividend per Share and Dividend Payout Ratio



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The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.