Dynam Japan Holdings
06889 Hong Kong Stock Exchange

20-Jan.-15

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Accelerating selection of candidate land for new hall sites from the second half of FY3/15

Dynam Japan Holdings Co., Ltd is 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 company'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. Also, the theory of chain-store operations has penetrated deeply into the foundation of the company as a corporation such as customer creed, information disclosure, and compliance management.

While it has long been said that the environment surrounding the pachinko industry is severe, the middle term (first 6 months) of the financial period ending March, 2015 faced exceptionally severe circumstances due to influences from the consumption tax increase in April, 2014. Even the company who is more competitive than other companies in the industry recorded a decrease of 1.8% year-on-year (y-o-y) in "operating revenue" corresponding to sales amount. On the other hand, the company recorded an operating profit increase of 0.5% y-o-y as a result of its cost reduction measures in various expenditures such as for machines.

In spite of being in the midst of the shrinking market, the company is very firm in its belief in the realization of growth and in its share-expanding policies. Despite increasing expenses for opening new halls due to the increase in material prices and labor costs, the company continues to maintain adequately high levels of investment returns. From this second half of the fiscal year, the company plans to accelerate selection of candidate land for new hall sites in an aim to double the number of its newly opened halls to 40 halls or more for FY3/16 y-o-y.

The idea of casinos that had been expected to assume the "next" generation after pachinko fell apart as "Integrated Resort Promotion bill (a bill concerning the Law on Promotion of the Development of Specified Integrated Resort Areas)" was dead upon the Lower House dissolution. But the bill is estimated to be submitted to the Diet again at the time when the political situation is stabilized through the general election this time and the nation-wide local elections in April, 2015 since expectations have been kept for IR Promotion bill as a local economy promotion measure. The company intends to continue preparations for casino business.

Check Point

- Growth scenario by way of share expansion and in 10 years-10% share-1,000 halls.
- High motivation for entering casino business, severe risk control.
- High-quality ROE, balance between dividend and capital investment is a point.

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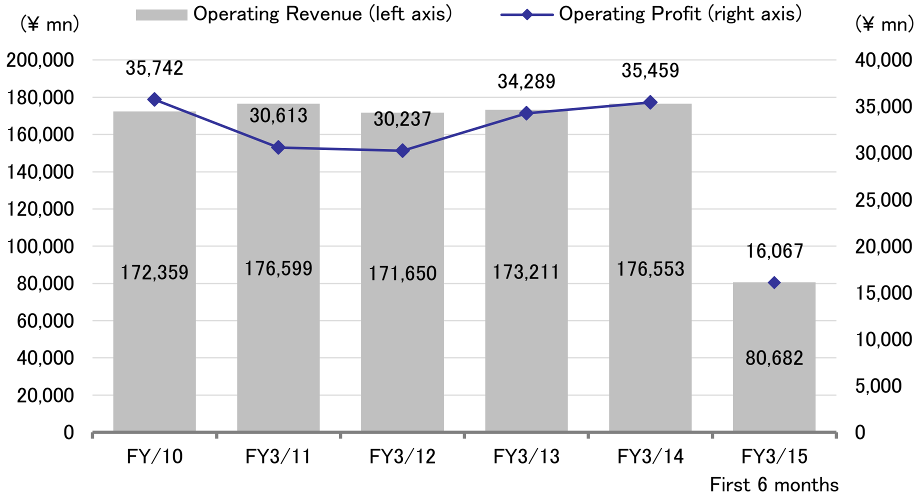
Trend in Operating Results



Remarks: Operating Revenue for the first 6 months of FY3/15 is revenue from hall operations, not including financial income while revenue for FY3/14 and earlier is a total of revenue from hall operations and financial income.

Backbone: The theory of chain-store operations

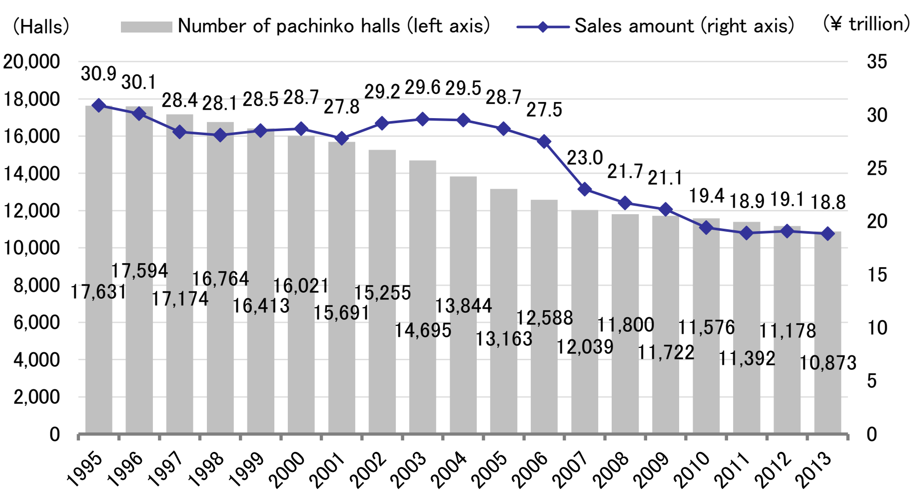
Steady growth even under adverse circumstances, opening highly efficient halls cautiously but aggressively

~Company history and business outline~

Dynam Japan Holdings is one of the largest operators of pachinko halls in Japan having 380 halls as of September, 2014, the largest in Japan.

The domestic pachinko market in Japan is on the decline and the number of pachinko halls is also on a decreasing trend. If the peak year of 1995 and the most recent year are compared, drastic decreases are seen from ¥30.9 trillion to ¥18.8 trillion (for 2013) for sales, from ¥29 mn to ¥9.7 mn (for 2103) for game players and from 17,631 halls to 11,178 halls (for 2012).

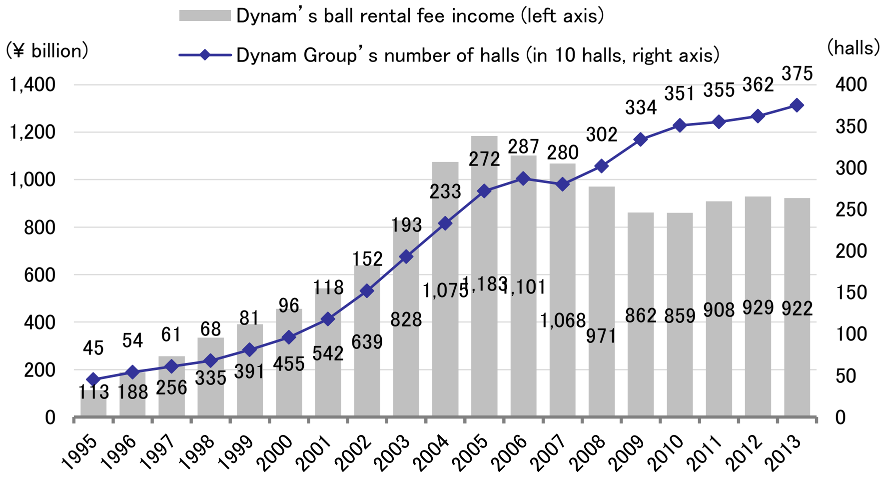
Trend in market scales and number of halls for the pachinko market



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

Under these adverse circumstances the company has achieved stable growth. If compared with FY1995, pachinko ball rental fee income significantly increased from ¥113,094 mn for FY1995 to ¥922,172 mn for FY2013 and pachinko halls also significantly increased from 45 for FY1995 to 375 as of the end of March, 2014. The first contributing factor for the above is that while seriously accepting the shrinkage of the pachinko market as a structural problem, the company has been convinced of the existence of large room for its growth through expanding its share in the market still as big as close to ¥20 trillion. As for its specific strategies for increasing its market share, the company has positively introduced "low playing cost machines" and fully enforced "low-cost operations" to ensure profits as well, which should be the second contributing factor. The thought of low-cost operations has been thoroughly enforced not only for operating existing halls but also for opening new halls. Thus, the company has established a hall-opening model contributing to profitability and efficiency and has continued to open new halls cautiously but aggressively. This should be considered as the third contributing factor.

Trend of Dynam Japan Group business



In order to understand the company's strategy for growth it is indispensable to understand the history of the company and the management Mr. Yoji Sato, current Chairman of the Board of Directors, has promoted based on the theory of chain-store operations. Mr. Sato entered Daiei after graduation from a university. He did so because he was impressed by "the theory of chain-store operations" which had just come into Japan. Later, he succeeded his late father to have engaged in the management of Dynam. He has boosted Dynam Group to one of the leading companies in the industry by adopting the theory of chain-store operations into the management of pachinko halls. Also, the company incorporated such elements as customer creed, information disclosure, and compliance management at a much earlier stage even compared with companies in other industries, not to mention those in the pachinko industry to reduce management risks. This can be said as the effect brought by his having adopted the theory of chain-store operations.

Company history

July,	1967	Sawa Shoji Co., Ltd. was established with pachinko halls located in Kameari and Kanamachi, Tokyo.
November,	1987	Company name changed to Dynam Co.
April,	1989	Hired employees who had just graduated from universities for the first time.
October,	1989	Opened the company's first suburban pachinko hall in Shibata, Niigata Prefecture.
October,	1993	Became a corporate member of the Pegasus Club, an organization that analyzes chain-store operations.
August,	1994	Opened the company's first low playing cost pachinko hall made of wood in Ebetsu, Hokkaido.
July,	1997	Held the company's first business results briefing with securities analysts.
December,	1997	Received an investment rating of investment grade ever awarded to a pachinko hall operator in Japan.
April,	1998	A labor union called Dynam Union was established, the first labor union in the pachinko hall industry.
December,	2006	Started to offer low playing cost games (¥2 per pachinko ball and ¥10 per pachislot token) for the first time at its pachinko hall in Ebetsu, Hokkaido.
December,	2006	Dynam Holdings Co., Ltd. was established.
May,	2007	Began full-scale development of Dynam Yuttari Kan pachinko halls, where pachinko balls are rented at a price of ¥1 each
March,	2009	Announced the concept of Shinrai no Mori pachinko halls and opened the first such hall in Takanosu, Akita Prefecture.
September,	2011	Dynam Japan Holdings Co., Ltd. was established by breaking up Dynam Holdings Co., Ltd.
August,	2012	Dynam Japan Holdings Co., Ltd. was listed on Hong Kong Exchanges and Clearing Limited.
January,	2013	A Hong Kong subsidiary, Dynam Hong Kong Co., Ltd. was established.
May,	2013	Investment was announced in the Erin Town Project, a real estate development in Mongolia.
June,	2013	Investment of US$35 mn announced in Macau Legend Development Ltd.
October,	2013	Investment was announced of US$15 mn in IGG Inc. of Singapore.

■ Strength: Low-cost operations

Developed from the chain store management theory, Applied to both opening new halls and operating existing halls.

The company's important concept as a core of management is a low-cost operation which was developed from the theory of chain-store operations. This is applied to both operating existing halls and opening new halls.

○ Low-cost operations for opening new halls

The company established a standardized model for opening a new hall a few years ago and since then has been opening new halls based on that model. Specifically, the basic idea is a roadside-type hall in an area of a targeted population of 50,000. The company aims to limit the total hall opening costs to about ¥450 mn (expenses for machines excepted) with the land of 3,500 "tsubo" (about 11,550 m2) as a benchmark to be leased for a term of 20 years and a wooden, one-story building. The company books expenses for pachinko machines, which would be ¥150 mn, as expenses in a lump sum for the first year instead of recording them as assets. In this way, the first year will be in red but the second year and onward will be in black. The company' targets 28.9% for the average yearly ROI for 10 years. This standardized model for opening a hall progressed smoothly through FY3/14. During the last two years through FY3/14, 20 new halls were opened and the company realized these 20 hall openings in line with the above model as the average of the 20 halls and business results after opening.

■Strength: Low-cost operations

In the middle term (first 6 months) of FY3/15, the company revised its standardized model for opening a hall based on increased costs for labor and materials. The target for initial expenses except machines was set at ¥505 mn, higher by ¥50 mn than the previous target. There were no changes in operating profit and other standards, which, therefore, made the targeted ROI reduced with the increased expenses for hall opening to 25.4%. An important point is that this standardized model has been set at such a level that is sustainable, reproducible or realistic, which can be applied not only to the 5 halls already opened during the first half of this fiscal year but also to 16 halls expected to be opened during the latter half of this fiscal year and halls planned for the next fiscal year. Meanwhile, as for the sites for opening halls, conversion of roadside agricultural land has been increasing, so it seems that land for new halls has become easier to be obtained than before.

Conceptual diagram of Dynam Japan HD's low-cost operations and revenue increase

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 Wooden, standardized halls 20-year fixed term leasehold contract Standardized installation of 480 to 560 gaming machines	Initial investment costs ¥505 mn (except expenses for 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.	Minimization of initial investment
	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.	

○ Low-cost operations in hall management

Minimization of costs for personnel and machine expenses is the key for low-cost operations since the two make up approximately 60% of hall operational expenses.

In terms of hall personnel expenses, introduction of a personal system is a specific countermeasure. This is a system of managing balls rolled out (balls each customer has won) by recording in cards. While normally a hall is operated by 10 regular employees and about 10 part-timers on three shifts, introduction of a personal system would make it possible to reduce 6 to 7 part-timers. As of the end of March, 2014, it is introduced at 217 halls out of 375 halls, and it is planned to be introduced further at 40 to 50 halls within FY3/15.

In terms of machine expenses introduction of second-hand and PB (private brand) machines are considered. In case of PB machines FISCO figures a cost-cutting effect of roughly about ¥100,000 per unit. At pachinko halls, gaming machines are frequently changed, so it will become an important point to reduce installation costs by aggregating functions to distribution centers. The company succeeded in reducing expenses for machines by ¥2,040 mn for the middle term (first 6 months) of FY3/15.

Growth: Middle term (first 6 months) plan for opening halls

Growth scenario, in 10 years, share 10% and 1,000 halls

The company holds a growth scenario by expanding its market share as described above.
It has been promoted steadily in the form of implementing hall-opening plans based on its low-cost hall-opening model without being affected by adverse environments of the shrinking pachinko market.

During the middle term (first half) of FY3/15 there were 5 newly opened halls which made a total of 380 halls as of the end of September, 2014. With 5 halls added during the two months of October and November in the latter half, newly opened halls during FY3/15 are planned to be at least 20.

According to the company's model for opening a hall, total expenses (except machines) used to be set at ¥452 mn but they were revised to ¥505 mn due to increased costs of labor and materials. As a result the targeted average ROI for 10 years was also decreased from 28.9% to 25.4% as we have already discussed.

The company holds three types of halls. "Conventional type" halls are halls with the brand of "Dynam" equipped with machines mainly for a ball renting fee is set at ¥4 per ball as it used to be, namely, halls mainly with "high-cost rental balls." "Yuttari Kan" brand halls have characteristics of machines equipped mainly with "low-cost rental balls" of ¥1 to ¥2 per ball and wider spaces between gaming machines with wider aisles as well. "Shinrai no Mori" brand halls have the same basic concept as "Yuttari Kan" but they are designed to attract women customers with the arrangement of smoking prohibited.

The present standardized model for opening a hall is based on "Yuttari Kan" and as a matter of fact, all of the new halls are "Yuttari Kan" halls. Also, conversion of "Dynam" or "Shinrai no Mori" to "Yuttari Kan" has been promoted. As a result "Yuttari Kan" has progressed to be the main type surpassing the traditional "Dynam" type.

Hall details by hall type

Hall type	type of main pachinko	Smoking in the hall	Number of halls as of machines the end of Sept., 2014
Traditional "Dynam"	Mainly with high-cost balls (¥4 per ball)	Permitted	171
Yuttari Kan	Mainly with low-cost balls (¥1 or ¥2 per ball)	Permitted	184
Shinrai no Mori	Mainly with low-cost balls (¥1 or ¥2 per ball)	Prohibited	25
		Total number of halls	380

Remarks: The above numbers of halls include halls owned by Cabin Plaza.

■Growth: Middle term (first 6 months) plan for opening halls

The company makes it a basic policy to cover capital investment amounts on opening halls with its cash flow (total of net profit of current period and depreciation cost). The company's current standard level of annual cash flow is ¥30,000 mn (¥20,000 mn for net profit for current period plus ¥10,000 mn for depreciation cost). On the other hand there is an out-flow of cash of about ¥10,000 mn for dividends, so the amount that can be used for capital investments is ¥20,000 mn. Since the cost per hall for opening is ¥505 mn, it would become possible to cover the expenses for about 40 halls per year within its cash flow.

Trend in cash flow and capital investment

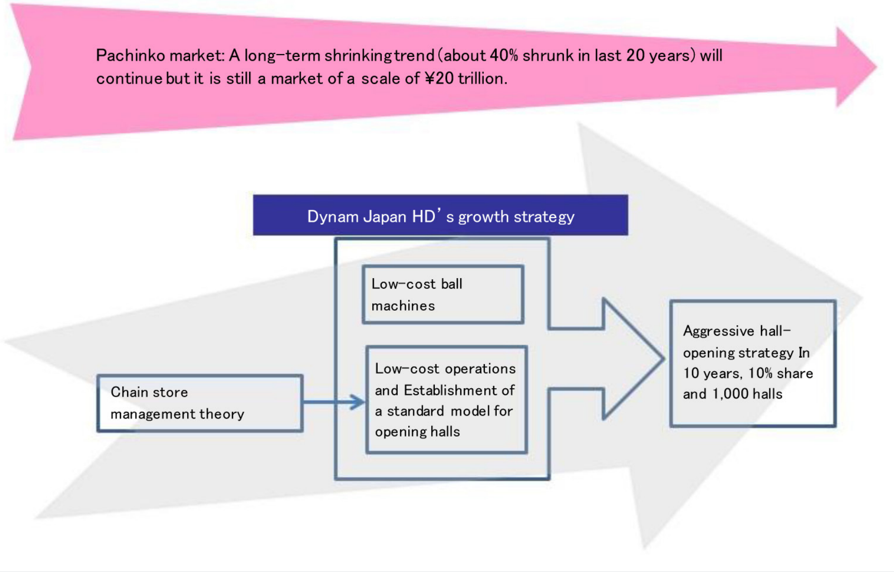
(Unit: ¥ mn)

	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15 (first 6 months)
Net profit for current period (A)	20,214	16,191	15,898	20,925	21,310	9,036
Depreciation (B)	11,402	11,462	10,804	10,507	10,234	4,858
Cash inflow - (A) + (B)	31,616	27,653	26,702	31,432	31,544	13,894
Total dividend (D)	7,242	4,295	4,885	4,271	10,586	5,200
Capital investment (Opening halls) (E)	11,133	6,152	7,471	10,723	9,292	7,444
Cash outflow - (D) + (E)	18,375	10,447	12,356	14,994	19,878	12,644

The company's long-term plan for hall-opening is "10-10-1000." This means that in 10 years (as of the end of FY3/23) the company will have achieved 10 % for market share and 1,000 halls for halls operated). For that target, the company holds a plan of opening new halls at the pace of 40 halls per year and of making up for any shortfall with M&A's. However, the company has been opening much fewer halls compared with its plan for the last few years. Nevertheless, FISCO considers that this should be evaluated favorably. The reason is that this is a result caused by its compliance of the standardized model for opening halls. Pachinko halls are not places that will sell daily necessities unlike supermarkets but places for amusement, so the most important matter is to ensure profits with individual halls. Therefore, FISCO considers that expansion of halls should come after that.

The company, however, plans to open a large number of halls over 40 during FY3/16. The reason is that offers of attractive land are increasing lately although securing good sites has been a bottleneck till recently. At this moment the company seems to have secured land for nearly 20 halls, so there is a good possibility that more than 40 halls will be opened. In that case, however, it is noteworthy to see if the company may continue to stick to capital investment within its cash flow. It is FISCO's opinion that it can be well justified in view of its strong balance sheet if the company should choose to borrow funds.

Image illustration of growth strategy with aggressive hall opening



Competition: Low-playing cost machine operation

High ratio of low-playing cost machine is made possible by low-cost operations

The existence of low-playing cost machines is a main driving force of its expansion of market share. It is a pachinko machine for which a ball rental fee has been reduced from the traditional ¥4 per ball to ¥1 to ¥2 per ball. With ¥1,000 spent, a customer will get either 250 balls or 500 - 1,000 balls and he can spend a same length of time with a lower cost and can play for a longer time with a same amount of money. That is to say, it will have the ability to pull in or keep more customers in the hall.

However, in terms of management the low-playing cost machine is considered as a factor for pressing management. The reason is that even if a same number of balls is rented, the income from such renting would become 1/4 to 1/2. The company has aggressively promoted the low-playing cost operation with a weapon of "low-cost operations" as earlier mentioned because it is convinced of ensuring a profit under such low-playing cost machine operation. As a result the company's ratio of low-playing cost machine largely exceeds the average of the industry.

Low-playing cost machine ratios

As of the end of June/2014	Dynam group	Industry ratio
Ratio of halls with low-playing cost machine(s)	98.9%	-
Ratio of low-playing cost machines	66.4%	41.4%
Ratio of low-playing cost slot machines	51.5%	21.6%

Comparison among the company's three hall types tells us that the traditional "Dynam" type has the highest ratio of operating profit vs. operating revenue (corresponding to operating profit on sales) largely exceeding those ratios for the other two types. Although operating profit on sales is important to the company, other factors such as actual profit amounts, ability of attracting customers, competitive advantage over competitors should also be important. Therefore, it is considered that the company will not change its hall strategy of placing "Yuttari Kan" at the core. However, "Yuttari Kan" has high-playing cost machines also, so their ratio may be increased while the ratio of low-playing cost machines at traditional halls may be raised to increase the ability to attract customers.

Future: Casino

High motivation for entering casino business, severe risk control

The company has a strong desire to enter casino business as the second business following the present pachinko hall management business. However, "IR bill (a bill concerning the Law on Promotion of the Development of Specified Integrated Resort Areas)" was dead upon the Lower House dissolution in November. As there was a high expectation at first for the passage of the bill, disappointment grew among investors at one point.

However, FISCO considers we should not be too much disappointed because the ruling Liberal Democratic Party is positive about passing IR bill and there is good room for New Komeito forming the ruling coalition to come down in favor of the passage of the bill subject to certain conditions. As the name, IR bill, symbolizes, casino is considered as a facility in an integrated resort area and the cause of the law lies in the vitalization of local economies and promotion of international tourism. Therefore, it is thought that the ruling LDP will resubmit the bill upon the political stability which is more likely to be passed.

Regarding the company's positive stance toward casino, it is assumed that some might be concerned about business risks as a large sum of investment is estimated while it will enlarge the opportunity of revenue growth. In this connection the company makes it its basic stance not to be too much into excessive investments and to make an entry by choosing a local area where the company is thought to have less competition and where it has locational advantage and connections. Thus, it is perceived that the company is taking a fairly cautious stance. In any case, the casino issue has returned to the starting point, so FISCO understands it can be positioned as a neutral factor to the company.

The discussion on "Pachinko tax" can be said to have also returned to the starting point under circumstances similar to those for the casino issue. Pachinko tax and casino legalization are inextricably linked together, so judgement is very difficult as to the evaluation or pros and cons of influences that the legalization of both issues would give since nothing has been decided at this moment. The company is confident of converting it to a plus factor if Pachiko tax is introduced. But we would think that this issue can be positioned as neutral in the same manner as the casino issue because the discussion has returned to the starting point.

■ Finance: Analysis of ROE

High-quality ROE, Balance between dividend and capital investment is important.

The company's ROE (Return on Equity) as of the end of FY3/14 was 15.9%. This is enough to be highly valued as it is over the international standard of 15%. Further, its ROA (Return on Asset) is 20.1% exceeding ROE. Thus, we may evaluate the ROE is a high-quality ROE.

If we look at the company's ROE's, we see they are on a deceasing trend. The factor is, simply put, the growth of equity capital exceeds that of net profit of current period. As an effective means of curbing equity capital growth, a dividend increase can be considered. But on the other hand the company has a self-imposed restraint on capital investments within its cash flow, so it is difficult to raise dividends excessively.

If that is the case, the company needs to boost up the increasing ratio of net profit for current period, but it is also difficult to pull it up rapidly in the midst of the shrinking trend of the entire industry. There would necessarily be a time-lag until profits out of an expanded network of halls by capital investments will boost up the growth ratio of profit for current period.

FISCO has calculated the company's ROE as of the end of FY3/15 with the assumption that its business results for FY3/15 will be the same as those for FY3/14 and got the result of 14.5%.

FISCO's views of the company's present status are that, positively speaking, factors such as net profit for current period, dividends, capital investments are balanced and, negatively speaking, those factors are checking one another resulting in getting stuck in piled up equity capital making ROE's lowered. In order to break through this situation and restore profit growth and ROE increase, we would say that the present balance should dare to be broken.
And, attention should be paid to see management's judgments if what part of each element , will be broken, and for what purposes it will be broken.

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Financial analysis (International Financial Reporting Standards)

			FY3/11	FY3/12	FY3/13	FY3/14	FY3/15	Remarks
(Main results)	Revenue (Operating income)	¥ mn	176,599	171,650	173,211	176,553	176,553	Sideways from FY3/14
	SGA costs	¥ mn	934	1,754	3,112	4,075	4,075	Sideways from FY3/14
	Operating profit	¥ mn	30,613	30,237	34,289	35,459	35,459	Sideways from FY3/13
	Profit before income taxes	¥ mn	28,476	28,404	33,436	34,678	34,678	Sideways from FY3/14
	Net profit for current period	¥ mn	16,191	15,898	20,925	21,310	21,310	Sideways from FY3/14
	Total assets	¥ mn	166,927	156,461	167,877	185,732	167,374	Estimated on basis of same asset turnover rate as FY3/14
	Equity	¥ mn	85,370	93,474	125,827	141,990	152,800	Estimated on basis of only dividend flowing out
	Interest-bearing debt	¥ mn	38,017	23,237	5,583	4,324	0	Sideways from FY3/15 middle term
	Depreciation cost	¥ mn	11,462	10,804	10,507	10,234	10,234	Sideways from FY3/14
	EBITDA	¥ mn	42,075	41,041	44,796	45,693	45,693	
(Profitability & Efficiency)	Equity ratio	%	20.6%	17.8%	19.1%	15.9%	14.5%	ROE
	Net profit on sales	%	9.2%	9.3%	12.1%	12.1%	12.1%	
	Asset turnover rate(x/year)	x/year	1.06	1.06	1.07	1.00	1.00	
	Total assets/Equity	times	2.12	1.81	1.48	1.32	1.20	
	Recurring profit on assets	%	17.1%	17.6%	20.6%	19.6%	19.6%	
	Recurring profit on revenue	%	16.1%	16.5%	19.3%	19.6%	19.6%	
	Gross profit margin	%	17.9%	18.6%	21.6%	22.4%	22.4%	
	SGA cost ratio	%	0.5%	1.0%	1.8%	2.3%	2.3%	
	Operating profit margin	%	17.3%	17.6%	19.8%	20.1%	20.1%	
	EBITDA margin	%	23.8%	23.9%	25.9%	25.9%	25.9%	
(Growth)	Revenue	%	Average growth rate per year for 4 years from FY3/10 to FY3/14.			0.6%		
	Operating profit	%				-0.2%		
	Net profit for current period	%				1.3%		

Business results: Settlement of accounts and outlook

For the middle term (First 6 months) of FY3/15, influence from increased consumption tax rate was remarkable in June and later

(1) Financial results for the middle term (first 6 months ended September 30, 2014) of FY3/15

The company had financial results for the middle term (first 6 months) of FY3/15 with the following figures: operating revenue;¥ 80,682 mn (decreased by 1.8% y-o-y), operating profit; ¥16,067 mn (increased by 0.5% y-o-y), profit before income taxes; ¥14,729 mn (decreased by 8.7% y-o-y), net profit for current period; ¥9,036 mn (decreased by 12.1% y-o-y).

Income from pachinko ball rental as gross income was ¥425,297 mn (decreased by 9.6% y-o-y). In April and May, there was almost no influence from the increased consumption tax. However, in June the influence appeared remarkable and it has continued till date. Decreases in customer visits were particularly remarkable in local areas in such a way it is the epitome of the Japanese economy and affected the company holding its halls throughout Japan. To cope with that, the company promoted opening new halls and conversion of the main type of halls to halls mainly with low-playing cost machines but was not able to increase ball rental income On the other hand, corresponding to the decrease in ball rental income, prizes to be given in exchange for balls won by customer also decreased by 11.3%. Thus, the income as balance of the two ended with a decrease of 1.8%.

In terms of expenses, the company decreased its hall operation expenses by 4.1% y-o-y to ¥64,791, which absorbed increased SGA costs owing to increases in subsidiary companies, and boosted up operational profit. It is due to a decrease in the market value of short-term investment securities (equity share of IGG, Singapore) that the difference between profit before income taxes and net profit for current period was enlarged.

In terms of hall types, while at the core "Yuttari Kan" ball rental fee income increased by 12.7%, at the traditional "Dynam" and "Shinrai no Mori" large income decreases were recorded. Although that may have proved "Yuttari Kan"' s ability of attracting customers probably with low-playing cost machines as its major machines. However, it should be noted that this may be a result influenced by the increase in "Yuttari Kan" halls due to newly opened halls as well as conversion of the hall type. FISCO assumes that a certain percentages of even "Yuttari Kan" halls must have decreased such income year-on-year in terms of existing halls.

Table of Revenue (Operating income) by hall type

(Unit: ¥ mn)

			FY3/14				FY3/15		
			First half	Latter half (Second half)	Total	Ratio	First half	Ratio against previous year	Ratio
Ball rental fee income	Total	Amount	470,532	451,640	922,172	100.0%	425,297	-9.6%	100.0%
	Traditional	Amount	343,925	324,661	668,586	72.5%	289,840	-15.7%	68.2%
	Yuttari Kan	Amount	107,249	108,578	215,827	23.4%	120,866	12.7%	28.4%
	Shinrai no Mori	Amount	19,358	18,401	37,759	4.1%	14,590	-24.6%	3.4%
Hall net income	Total	Amount	82,159	83,595	165,754	100.0%	80,682	-1.8%	100.0%
		Ratio against ball rental fee income	17.5%	18.5%	18.0%		19.0%		
	Traditional	Amount	51,598	52,523	104,121	62.8%	48,096	-6.8%	59.6%
		Ratio against ball rental fee income	15.0%	16.2%	15.6%		16.6%		
	Yuttari Kan	Amount	25,889	26,489	52,378	31.6%	28,947	11.8%	35.9%
		Ratio against ball rental fee income	24.1%	24.4%	24.3%		23.9%		
	Shinrai no Mori	Amount	4,671	4,584	9,255	5.6%	3,639	-22.1%	4.5%
		Ratio against ball rental fee income	24.1%	24.9%	24.5%		24.9%		
Hall operational profit	Total	Amount	14,003	15,860	29,863	100.0%	15,890	13.5%	100.0%
		Ratio against ball rental fee income	3.0%	3.5%	3.2%		3.7%		
		Ratio against hall net income	17.0%	19.0%	18.0%		19.7%		
	Traditional	Amount	11,019	15,043	26,062	87.3%	14,012	27.2%	88.2%
		Ratio against ball rental fee income	3.2%	4.6%	3.9%		4.8%		
		Ratio against hall net income	21.4%	28.6%	25.0%		29.1%		
	Yuttari Kan	Amount	2,745	761	3,506	11.7%	1,677	-38.9%	10.6%
		Ratio against ball rental fee income	2.6%	0.7%	1.6%		1.4%		
		Ratio against hall net income	10.6%	2.9%	6.7%		5.8%		
	Shinrai no Mori	Amount	239	56	295	1.0%	201	-15.9%	1.3%
		Ratio against ball rental fee income	1.2%	0.3%	0.8%		1.4%		
		Ratio against hall net income	5.1%	1.2%	3.2%		5.5%		

Customer acceptance acquired, Prepared for recovery in the second half of FY3/15 or later

(2) How to judge business results for the second half of FY3/15 or later

In the second half of FY3/15, severe industry circumstances are continuing in the same way as the first half. In October and November as well sales were generally about 10% lower y-o-y in the industry. Even the company who is one of the industry leaders struggled in the first half to stop bleeding so to speak. It is a key point whether the company can take any effective counter-measures in the second half that would increase customer visits.

To come right to the point, it seems to be pretty difficult to go up a first-moving river stream even to the company. Therefore, it should be of utmost importance that the company will make low-key steady efforts, in the same way as in the first half, to keep attracting customers in the planned business zone. As the results of the first half show, the company has been successful in acquiring customer satisfaction by way of aggressive promotion of "low-playing cost machine operation" armed with an overwhelming company scale and low-cost operations. Therefore, it will become important to establish the positon of No. 1 in the area through further advancing such strength to be prepared for the next time of pachinko demand recovery.

Another important point is the company's aggressive policy of opening halls. During this fiscal year about 20 new halls are planned, which however are below the 30 halls FISCO had in mind, not to mention the company's yearly average pace of 40. But our company values this as positive in that the company did not lower the hurdle for hall-opening standards but practiced quality-oriented careful hall-opening work. However, in FY3/16 the company's hall-opening is likely to accelerate at a stretch. In the background there's a situation where the issue of land as sites for new halls are beginning to be solved, which has been the largest bottleneck for new openings of halls. The company's sites for new halls are land converted from agricultural land in many cases. In rural areas cases are increasing of converting agricultural land alongside roads to commercial use land due to such reasons as shortage of agricultural successors. The company is a good lessee seen from these farming households and increases in such land leasing offers seem to assist the company's new hall openings.

With the increasing pace of opening new halls, the company seems to close highly-inefficient halls. There seem to exist Halls, which are in red even before sharing headquarters expenses, at the rate of a few percentage of all halls, so the company appears to advance measures to tackle such negative aspects toward strengthening management quality.

Anxiety is minimal in terms of the company's standardized model for opening a hall or its low-cost operations after a hall is opened. The largest concern is whether the company is capable of earning planned income. We consider that the largest point for FY3/16 is what kinds of positive measures the company will implement for its topline growth (growth of revenue/operational income). The company may take measures such as those taking advantage of a large scale of halls closer to 400 or measures taking advantage of competitive superiority each individual hall has in the same commercial zone. In any event, FISCO is of the view that there is no doubt that the company holds a comparatively advantageous position because of its larger scale and strength.

FISCO

Dynam Japan Holdings
06889 Hong Kong Stock Exchange

20-Jan.-15

Profit & Loss Statement (IFRS)

(Unit: ¥ mn)

	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	FY3/14 First 6 months	FY3/15 First 6 months
Ball renting income	862,023	859,982	908,309	929,158	922,172	470,532	425,297
YOY		-0.2%	5.6%	2.3%	-0.8%	0.7%	-9.6%
Cost of prizes	696,562	690,245	743,231	765,197	756,418	388,373	344,615
YOY		-0.9%	7.7%	3.0%	-1.1%	0.8%	-11.3%
Net hall income	165,461	169,637	165,078	163,961	165,754	82,159	80,682
YOY		2.5%	-2.7%	-0.7%	1.1%	0.1%	-1.8%
Other incomes	6,898	6,962	6,572	9,250	10,799	3,046	3,549
Operational income	172,359	176,599	171,650	173,211	176,553		
YOY		2.5%	-2.8%	0.9%	1.9%		
Expenses							
Hall operational expenses	134,787	144,239	138,785	133,904	135,891	67,571	64,791
YOY		7.0%	-3.8%	-3.5%	1.5%	-	-4.1%
SGA costs	642	934	1,754	3,112	4,075	1,412	2,383
YOY		45.5%	87.8%	77.4%	30.9%	-	68.8%
Other operating costs	1,188	813	874	1,906	1,128	237	990
Total expenses	136,617	145,986	141,413	138,922	141,094	69,220	68,165
YOY		6.9%	-3.1%	-1.8%	1.6%	-	-1.5%
Operating profit	35,742	30,613	30,237	34,289	35,459	15,985	16,067
YOY		-14.4%	-1.2%	13.4%	3.4%	-	0.5%
Financial income	Included in other incomes					552	1,028
Financial expense	2,442	2,137	1,833	853	781	402	2,366
Profit before income taxes	33,300	28,476	28,404	33,436	34,678	16,135	14,729
YOY		-14.5%	-0.3%	17.7%	3.7%	-	-8.7%
Tax expenses	13,086	12,285	12,506	12,511	13,368	5,852	5,693
Net profit for current period	20,214	16,191	15,898	20,925	21,310	10,283	9,036
YOY		-19.9%	-1.8%	31.6%	1.8%	-	-12.1%
Attributable to owners of the company	20,214	16,191	15,898	20,925	21,328	10,315	9,040
YOY		-19.9%	-1.8%	31.6%	1.9%	-	-12.4%
EBITDA	-	-	-	-	-	21,237	21,522
YOY	-	-	-	-	-	-	1.3%
EPS (¥)	32.0	25.7	25.2	29.7	28.7	13.9	12.2
Dividend per share (¥)	9.60	5.70	4.40	13.00	14.00	7.00	7.00
Dividend payout ratio (%)	30.0%	22.2%	17.5%	43.8%	48.8%	50.4%	57.5%
Capital investment amount	11,133	6,152	7,471	10,723	9,292	3,384	7,444
Depreciation cost	11,402	11,462	10,804	10,507	10,234	4,922	4,858

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
Others	10,510	16,954	7,966	8,743
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
Investments & others	31,021	32,479	23,068	22,045
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
Others	27,953	28,349	30,582	28,531
Fixed liabilities	39,282	36,537	29,603	11,356
Long-term borrowings	27,934	22,578	21,583	4,325
Others	11,348	13,959	8,020	7,031
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 1H
Current assets	50,946	47,209
Cash & deposits	34,836	30,803
Accounts receivable	563	659
Others	15,547	15,747
Fixed assets	135,223	131,496
Tangible fixed assets	94,605	95,996
Intangible fixed assets	1,408	1,183
Investments & others	39,210	34,317
Total assets	186,169	178,705
Current liabilities	34,910	32,618
Accounts payable	19,049	18,439
Short-term borrowings, etc.	1,265	0
Others	14,596	14,179
Fixed liabilities	9,249	5,518
Long-term borrowings	3,059	0
Others	6,190	5,518
Equity attributable to owners of the company	141,990	140,553
Share capital	15,000	15,000
Capital surplus	10,129	10,129
Retained earnings	110,136	113,974
Others	6,725	1,450
Non-controlling interests	20	16
Total equity	142,010	140,569
Liabilities & net worth	186,169	178,705

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

Cash flow Statement (IFRS)

(Unit: ¥ mn)

	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	FY3/14	FY3/15 1H
Cash flow from operations	19,229	33,399	31,906	28,330	27,455	27,455	13,278
Profit before income taxes	33,300	28,476	28,404	33,436	34,678	34,678	14,729
Depreciation cost	11,402	11,462	10,804	10,507	10,234	10,234	4,858
Others	-5,044	436	5,058	-3,102			
Cash flow from investments	-10,053	-17,248	10,998	-10,899	-22,470	-22,470	-7,576
Fixed asset increase	-11,133	-6,152	-7,471	-10,723	-9,292	-9,292	-7,444
Others	1,080	-11,096	18,469	-176			-132
Cash flow from financial activities	-7,560	-20,778	-31,840	-8,028	-13,102	-13,102	-10,126
Balance due to translation adjustments to cash & deposits	0	0	0	3,539	1,481	1,481	391
Cash & deposits increase	1,616	-4,627	11,064	12,942	-6,636	-6,636	-4,033
Cash & deposits at start of the year	20,471	22,087	17,460	28,524	41,466	41,466	34,836
Cash & deposits at end of the year	22,087	17,460	28,524	41,466	34,830	34,830	30,803

Dividend: Return to shareholders

Dividend payout ratio 35% targeted, Highest possible return to shareholders

The company is highly conscious of returns to shareholders and sets 35% or more as its dividend ratio target. The company has already decided ¥ 7 per share as dividend for the first 6 months of FY3/15, which means the dividend payout ratio will be 57.5% as earnings per share was ¥ 12.17.

■Dividend: Return to shareholders

As mentioned already in this report, the company holds a high level of new hall opening plan and makes it the most important company creed in terms of its growth strategy and finance to cover expenses for opening halls and dividend payout to shareholders with its cash flow (total of net profit for current period and depreciation cost). We would think that we should highly value the company's stance of placing importance on shareholders by aiming for the highest possible return to its shareholders within such a framework.

Trend in Earnings per share, Dividend per share and Dividend payout ratio