

OKURA HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)
Stock Code : 1 6 5 5

SHARE OFFER

Sponsor

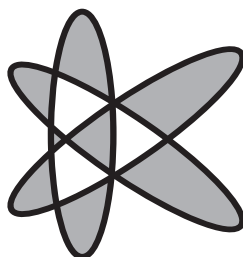
ALTUS CAPITAL LIMITED

Sole Bookrunner and Lead Manager

CROSBY

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



Okura Holdings Limited

(Incorporated in Hong Kong with limited liability)

SHARE OFFER

| | |
|--------------------------------------|---|
| Number of Offer Shares | : 125,000,000 Shares |
| Number of Public Offer Shares | : 12,500,000 Shares (subject to reallocation) |
| Number of Placing Shares | : 112,500,000 Shares (subject to reallocation) |
| Offer Price | : Not more than HK\$1.20 per Offer Share and expected to be not less than HK\$0.90 per Offer Share (payable in full on application in Hong Kong dollars, subject to refund and plus brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) |
| Stock code | : 1655 |

Sponsor

ALTUS CAPITAL LIMITED

Sole Bookrunner and Lead Manager

CROSBY

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to the accuracy or completeness of this prospectus and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, together with the documents specified under the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 38D of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" of this prospectus.

The Offer Price is expected to be fixed by agreement between the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Monday, 8 May 2017 and, in any event, by 12:00 noon on Thursday, 11 May 2017. The Offer Price will not be more than HK\$1.20 and is currently expected to be not less than HK\$0.90. Applicants for Public Offer Shares are required to pay, on application, the maximum Offer Price (HK\$1.20) for each Share together with a brokerage fee of 1.0%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is lower than the maximum Offer Price (HK\$1.20).

The Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of market interest expressed by prospective institutional, individual and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares in the Share Offer and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$0.90 to HK\$1.20 per Share) at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notices of the reduction in the number of Offer Shares in the Share Offer and/or the indicative Offer Price range will be published on our website (www.okura-holdings.com) and the Stock Exchange's website (www.hkexnews.hk), as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer. If, for any reason, the Offer Price is not agreed between the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) and our Company by 12:00 noon on Thursday, 11 May 2017, the Share Offer (including the Public Offer) will not proceed and will lapse. Further details are set out in the sections headed "Structure and Conditions of the Share Offer" and "How to Apply for the Public Offer Shares" of this prospectus.

The obligations of the Public Offer Underwriter under the Public Offer Underwriting Agreement to subscribe or procure subscribers to subscribe for the Offer Shares, are subject to termination with immediate effect by written notice from the Sole Bookrunner and Lead Manager (for itself and on behalf of the Public Offer Underwriter) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the paragraph headed "Grounds for termination" under the section headed "Underwriting" of this prospectus. It is important that prospective investors refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States except pursuant to an exemption from, or in a transaction not subject to the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. The Offer Shares are not being offered and sold outside the United States in reliance on Regulation S under the U.S. Securities Act and the applicable laws of each jurisdiction where those offers and sales occur.

28 April 2017

EXPECTED TIMETABLE

We will issue an announcement in Hong Kong to be published in *The Standard* (in English) and the *Hong Kong Economic Times* (in Chinese) and on our website (www.okura-holdings.com) and the Stock Exchange's website (www.hkexnews.hk) if there is any change in the following expected timetable of the Public Offer:⁽¹⁾

Latest time to complete electronic applications under the **HK eIPO White Form** service through the designated website (www.hkeipo.hk)⁽²⁾ 11:30 a.m. on Monday, 8 May 2017

Application lists open⁽³⁾ 11:45 a.m. on Monday, 8 May 2017

Latest time to: (i) lodge **WHITE** and **YELLOW** Application Forms; (ii) complete payment of applications by effecting internet banking transfer(s) or PPS payment transfer(s); and (iii) give **electronic application instructions** to HKSCC⁽⁴⁾ 12:00 noon on Monday, 8 May 2017

Application lists close⁽³⁾ 12:00 noon on Monday, 8 May 2017

Expected Price Determination Date⁽⁵⁾ Monday, 8 May 2017

Announcement of the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares to be published in *The Standard* (in English) and the *Hong Kong Economic Times* (in Chinese) and on our website (www.okura-holdings.com) and the Stock Exchange's website (www.hkexnews.hk) on or before Friday, 12 May 2017

Announcement of results of allocations under the Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including our website (www.okura-holdings.com) and the Stock Exchange's website (www.hkexnews.com.hk) (for further details, please refer to the paragraph headed "Publication of results" under the section headed "How to apply for the Public Offer Shares" of this prospectus) on Friday, 12 May 2017

EXPECTED TIMETABLE

Results of allocations under the Public Offer will be available at www.tricor.com.hk/ipo/result with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Friday, 12 May 2017

Despatch/Collection of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Public Offer on or before^(6, 7) Friday, 12 May 2017

Despatch of Share certificates on or before⁽⁶⁾ Friday, 12 May 2017

Dealings in the Shares on the Stock Exchange expected to commence at 9:00 a.m. on Monday, 15 May 2017

Notes:

- (1) All times and dates refer to Hong Kong local time and dates.
- (2) You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 8 May 2017, the application lists will not open on that day. For details, please refer to the paragraph headed “Effect of bad weather on the opening of the Application Lists” under the section headed “How to Apply for the Public Offer Shares” of this prospectus. If the application lists do not open or close on Monday, 8 May 2017, the dates mentioned in this section may be affected. Announcement will be made by our Company in such event.
- (4) Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed “Applying by giving electronic application instructions to HKSCC via CCASS” under the section headed “How to Apply for the Public Offer Shares” of this prospectus.
- (5) The Price Determination Date is expected to be on or around Monday, 8 May 2017. If, for any reason, the Offer Price is not agreed by 12:00 noon on Thursday, 11 May 2017 between our Company and the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters), the Share Offer (including the Public Offer) will not proceed and will lapse.
- (6) Applicants who apply for 1,000,000 Public Offer Shares or more may collect share certificates (if applicable) and refund cheques (if applicable) in person from our Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 12 May 2017 or any other dates as notified by us in newspapers as the date of despatch of share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who is eligible for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who is eligible for the personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his/her/its corporation stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable

EXPECTED TIMETABLE

to our Hong Kong Share Registrar, Tricor Investor Services Limited. Applicants who have applied on **YELLOW** Application Forms may not elect to collect their share certificates, which will be deposited into CCASS for credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected share certificates and refund cheques will be despatched by ordinary post to the addresses specified in the relevant applications at the applicants' own risk. Further information is set out in the section headed "How to Apply for the Public Offer Shares" of this prospectus.

- (7) *e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful application and also in respect of successful applications in the event that the final Offer Price is less than the initial price per Public Offer Share payable on application. Part of your Hong Kong identity card number/passport number or, if you are joint applications, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encasement of your refund cheque or may invalidate your refund cheque. Further information is set out under the section headed "How to Apply for the Public Offer Shares" of this prospectus.*

Share certificates are expected to be issued on Friday, 12 May 2017 but will only become valid certificates of title at 8:00 a.m. on Monday, 15 May 2017 provided that the Share Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

For details of the structure of the Share Offer (including its conditions) and the procedures for applications for Public Offer Shares, please refer to the sections headed "Structure and Conditions of the Share Offer" and "How to Apply for the Public Offer Shares" of this prospectus, respectively.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Share Offer and the Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

Prospective investors should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company, the Sponsor and the Sole Bookrunner, the Lead Manager and the Underwriters have not authorised anyone to provide prospective investors with information that is different from what is contained in this prospectus. Any information or representation not contained in this prospectus must not be relied on by prospective investors as having been authorised by the Company, the Sponsor, the Sole Bookrunner, the Lead Manager, the Underwriters, any of their respective directors officers, employees, agents or representatives or any other person or party involved in the Share Offer.

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SUMMARY

This summary aims to give prospective investors an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As this is a summary, it does not contain all the information that may be important to prospective investors. Prospective investors should read the entire prospectus before deciding to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks relating to investing in the Offer Shares are set out in the section headed "Risk Factors" of this prospectus. Prospective investors should read that particular section carefully before deciding to invest in the Offer Shares. Various expressions used in this summary are defined in the sections headed "Definitions" and "Glossary of technical terms" of this prospectus.

OVERVIEW

Our Group is a pachinko hall operator in Japan. Customers come to our halls to play pachinko and pachislot games, one of the most popular forms of entertainment for adults in Japan. Pachinko has a long history as a leisure activity in Japan. In spite of a continuous market contraction since 2005, pachinko remains the largest contributor of Japan's entertainment industry and accounted for approximately 46.9% of the Japanese entertainment market in 2015 in terms of gross pay-ins. A pachinko machine is similar in appearance to a pinball machine and is played by firing pachinko balls in rapid succession into a playing field, with the aim of firing them into designated pockets that release bonus pachinko balls. Currently, playing costs generally range from around ¥0.5 to ¥4 (including consumption tax) per ball. A pachislot machine is similar in appearance to a traditional slot machine and is played by inserting pachislot tokens to spin its image reels, with the aim of stopping the reels at a winning matching combination, which will release bonus pachislot tokens. Currently, playing costs generally range from around ¥2 to ¥20 (including consumption tax) per token. As at the Latest Practicable Date, pachinko machines and pachislot machines accounted for approximately 54.2% and 45.8% of total machines installed in our halls, respectively. Generally, players aim to collect the most number of balls and tokens, which can either be exchanged for prizes or saved for subsequent visits.

We opened our first pachinko hall in Nagasaki in 1968, in which our headquarters has since been located. Building on our success in the Kyushu region, we expanded into the Kanto region in 2003, the Kansai region in 2012 and the Chugoku region in 2016. We intend to further expand our geographic coverage and eventually become a nationwide pachinko hall operator in Japan. As at the Latest Practicable Date, we are a Mid-sized Pachinko Hall Operator with 18 pachinko halls, out of which, 12 are in the Kyushu region, four in the Kanto region and one each in the Kansai region and the Chugoku region, respectively.

As mentioned in the section headed "Industry Overview" of this prospectus, contraction of the pachinko industry since 2005 has resulted in challenging market conditions for pachinko hall operators, especially Small-sized Pachinko Hall Operators, leading to a general decline in the number of Small-sized Pachinko Hall Operators in the industry from 2010 to 2016. Such development, coupled with the high fragmentation of the industry, has presented consolidation opportunities for larger players. With 12 halls in the Kyushu region, we were the 7th largest pachinko hall operator based on the number of halls as at 31 December 2016 and ranked the 10th in terms of aggregate gross pay-ins in the Kyushu region as at 31 December 2015. In particular, according to Yano Research, the pachinko industry remains relatively favourable for Mid-to Large-sized Pachinko Hall Operators who are expected to absorb the market share of the Small-sized Pachinko Hall Operators with less than ten halls, to continue to grow their operations. As at 31 December 2016, there were 3,421 pachinko hall operators in Japan, of which over 95.0% were Small-sized Pachinko Hall Operators with less than ten halls. Please refer to the section headed "Industry Overview" on page 81 of this prospectus for details. In this connection, for example, our Group had capitalised on such opportunities in 2012 through the acquisition of a hall in the Kansai region. Within one year under our management, the gross pay-ins and revenue of the acquired hall for the six months ended 30 September 2013 compared with the same period in 2012 had increased by approximately 36.4% and 34.2%, respectively.

More recently, as part of the pachinko industry's effort to curb the gaming element in the pachinko and pachislot games, the Amended Voluntary Regulations were introduced in November and December 2015, mandating a reduction in jackpot size of pachinko machines and pay-out ratios of pachislot machines. Corresponding to the Amended Voluntary Regulations, the association for pachinko machine manufacturers in Japan had announced the

SUMMARY

collection of 138 types of machines in the first half of 2016. As a result, more than 700,000 machines were withdrawn from the market by the end of December 2016. Yano Research is of the view that it is unlikely for the association for pachinko machine manufacturers in Japan to issue further announcements to withdraw machines on a similar scale to the announcements and that the impact caused by the announcements would fade out. To lessen these negative impacts, our Group attempted to enhance our appeal to customers by adjusting the composition of machine mix at each of our pachinko halls in accordance with their respective competitive landscape and customer preferences. As a result, our Group maintained a higher proportion of low playing cost machines as a whole, the popularity of which increased due to the Amended Voluntary Regulations and prevailing customer preferences during the Track Record Period. The proportion of low playing cost machines' contribution to our gross pay-ins and revenue had increased over the Track Record Period. The expenses in relation to such machine replacement are nevertheless burdensome for Small-sized Pachinko Hall Operators and present more potential acquisition opportunities for our Group.

Pachinko hall operators have each adopted different commercial strategies to adapt to the changing market conditions. In respect of our Group, given our advantageous position as a Mid-sized Pachinko Hall Operator, we will continue to capitalise on the market consolidation opportunities brought about by (i) the challenging market conditions, especially for Small-sized Pachinko Hall Operators; and (ii) the highly fragmented nature of the industry, to achieve economies of scale and growth in market share. In particular, our expansion strategy involves establishing new or acquiring pachinko halls in desirable locations convenient and close to our potential customers. Our Group's successful experience in operating different types of pachinko halls, including both urban and suburban pachinko halls of various sizes, together with our established operating structure and practices, strong management team and financial resources also enable us to identify and venture into areas where other competitors do not have a strong presence and thereby able to gain a first mover advantage.

In addition, as part of our effort to sustain our long term business prospects and also to counter Japan's ageing population, we have taken additional measures to increase our appeal to the younger population which formed a majority of our members during the Track Record Period. As shown in the table headed "Age distribution of pachinko/pachislot players" under the section headed "Industry Overview" of this prospectus, pachislot machines are more popular among the younger players. In particular, our halls in the Kanto region (which has a younger population) have a higher ratio of pachislot machines. We have also shifted part of our advertising effort from traditional paper media to digital platforms, which helps us to reach out to younger players and at the same time reduces our advertising expenses.

Whilst we may not be able to pursue expansion at a scale and rate comparable to our larger competitors, our Directors believe our Group, equipped with our experience of successful operation of various types of pachinko halls, our established operating structure, practices and strong management team, is well placed to capitalise on such opportunities and an enhanced capital base following the Listing will enable us to better pursue our expansion policy (as further elaborated under the paragraph headed "Business strategies" under the section headed "Business" on page 140 for this prospectus). In this regard, we commenced the Reorganisation in 2013 in preparation of the Listing to enable our Group to raise our corporate profile and to diversify fund raising channels for facilitating such planned expansion. Having considered the liquidity, volatility, access to international investors, proximity to our operations, maturity of regulatory framework of the stock markets in Asia, and the familiarity of Hong Kong investors to pachinko hall operations after the listing of two pachinko operators, our Directors are of the view that a listing on the Stock Exchange would be most favourable for the future development of our business.

COMPETITIVE STRENGTHS

We believe that we have a number of key strengths that differentiate our business from that of our competitors, including: (i) we are able to successfully operate different types of pachinko halls; (ii) we are able to maintain and/or increase customer traffic by securing the latest machines through our well established relationship with machine suppliers; and (iii) we have an experienced and well-qualified management team with proven track record in operating pachinko halls.

SUMMARY

BUSINESS STRATEGIES

Building on our key strengths, we aim to continue to strengthen our market position and further expand our business by pursuing the following strategies: (i) strategically expand our pachinko hall operations through establishing new or acquiring pachinko halls; and (ii) to enhance our customer experience through (a) acquiring machines aiming to generate most customers' interests; and (b) providing a refreshing and spacious environment, and thereby increasing customer traffic.

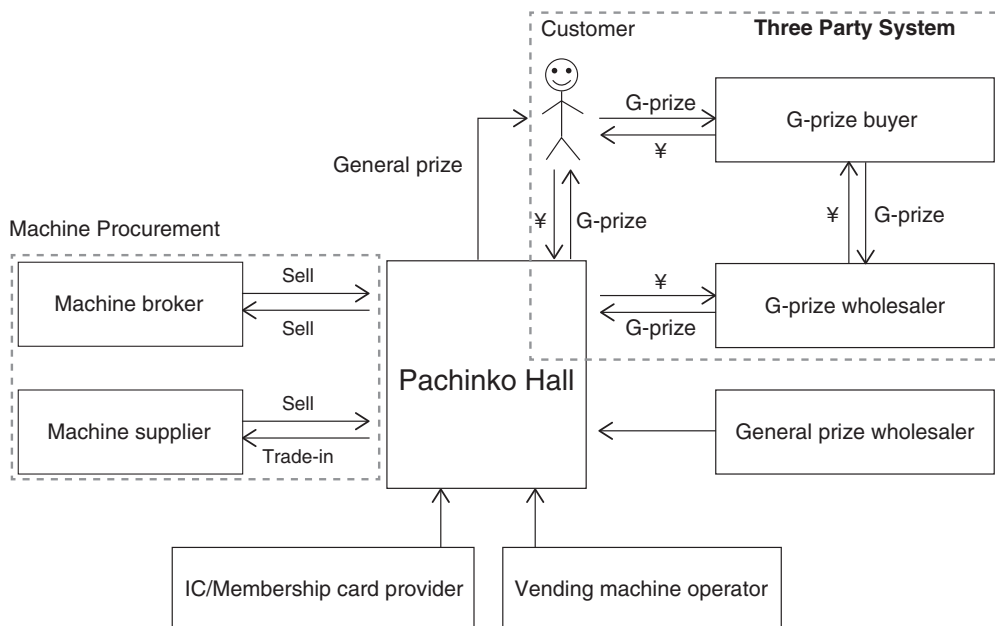
OUR PACHINKO HALL OPERATIONS

Our pachinko halls

The majority of our pachinko halls have a mix of pachinko and pachislot machines, whilst some only have pachislot machines, depending on the customers preference in the area. Some typical characteristics of our halls include (i) a mix of low and high playing cost machines or just low playing cost machines; (ii) offering both G-prizes and general prizes (with a broad selection of over 500 types of general prizes); and (iii) provision of free parking for customers. At our halls, customers can exchange two types of prizes, namely (i) G-prizes, which are decorative cards or coin-shaped pendants that can be subsequently sold by customers to independent G-prize buyers for cash; and (ii) general prizes, which include food and snacks, household goods, drinks (including liquor), cigarettes and toys. For details, please refer to the paragraphs headed "G-prize" and "General prize" under the section headed "Business" on pages 156 and 160 of this prospectus respectively. As at the Latest Practicable Date, we operated 18 pachinko halls in Japan, with a particular focus in the Kyushu region. For further details of our hall, please refer to the paragraph headed "Our pachinko halls" under the section headed "Business" on page 145 of this prospectus. During the course of our business development, we have established five brands, namely, "K's Plaza", "Monaco", "Big Apple", "Big Apple." and "Big Apple. YOUPARK", please refer to the paragraph headed "Our brands" under the section headed "Business" on page 147 of this prospectus for details. Our Company has registered trademarks "ケイズプラザ" (K's Plaza), "ビッグアップル" ^{BIGAPPLE} and "YOUPARK" in Japan and has also applied for registration for the trademarks "ユーパーク" ^{YOUPARK} and "ビッグアップル ドット ユーパーク" ^{BIGAPPLE. YOUPARK} in January 2017. Please refer to the paragraph headed "Our material intellectual property rights" in Appendix VI on page VI-8 to this prospectus for further details.

Parties involved in our business operations

The flowchart below shows the parties involved in our business operations:



SUMMARY

Customers

As a pachinko hall operator, we have a large and diversified customer base in the regions where we operated our halls. Due to the nature of our business, the vast majority of our customers are from the general public, and we do not rely on any single customer. Based on the customer survey and analysis, we believe that our customers currently cover a relatively broad range of customers in terms of age demographic. Each of our halls targets different customers according to the demographic of their respective imminent vicinity. Based on the customer data collected through our membership system, approximately 58.8% of our members were in the age group of 20s to 30s as at 30 June 2016.

Three Party System

The pachinko industry is highly regulated under Japan laws and regulations. In particular, we must not be involved in the exchange of prizes for cash or securities. Therefore, we operate our pachinko hall business in accordance with an established industry practice known as the “Three Party System”. The parties under the Three Party System consist of: (i) pachinko hall operators (such as ourselves), who operate halls where customers can obtain G-prizes; (ii) G-prize wholesalers, who are typically companies which purchase G-prizes from G-prize buyers and also sell G-prizes to pachinko hall operators (such as ourselves); and (iii) G-prize buyers, who are typically companies or sole proprietorships which purchase G-prizes from customers for cash and also sell G-prizes to G-prize wholesalers. Under the Three Party System, pachinko hall operators must be independent of each of the (i) G-prize wholesalers engaged by them; and (ii) G-prize buyers engaged by such G-prize wholesalers. Please refer to the section headed “Three Party System” starting on page 125 of this prospectus for further details of the Three Party System. Our Japan Legal Adviser advised us that the transactions and arrangements adopted by our Group in accordance with the Three Party System as detailed in the section headed “Three Party System” of this prospectus follow industry practice and do not violate any applicable laws and regulations in Japan during the Track Record Period and until the Latest Practicable Date.

Regulatory framework of the pachinko industry

We are also regulated under Japan laws and regulations with respect to various other matters, including our halls and game machines, such as pay-out ratios, value of pachinko balls or pachislot tokens that may be put into play per minute, total number of balls or tokens that may be won, and maintenance and adjustments of our game machines, operating licences and general corporate matters, such as corporate governance, taxation and labour. In addition, pachinko halls are subject to stringent guidance on pins and are required to comply with such guidance in strict manner in daily operation, for example inadequate pin adjustment may cause substantial risk for pachinko hall operation business. Please refer to the section headed “Applicable Laws and Regulations” on page 103 of this prospectus.

SUMMARY

KEY OPERATIONAL DATA

Composition of our pachinko and pachislot machines

The following table sets forth the breakdown of the number of our pachinko and pachislot machines by playing costs and regions for the dates indicated:

| | As at 30 June | | | As at 31 October | | | As at the Latest Practicable Date | | |
|---|---------------|----------------|---------------------------|------------------|----------------|---------------------------|-----------------------------------|----------------|---------------------------|
| | 2014 | | | 2015 | | | 2016 | | |
| | % | Number of hall | Average machines per hall | % | Number of hall | Average machines per hall | % | Number of hall | Average machines per hall |
| Kyushu region | | | | | | | | | |
| Pachinko machines ⁽¹⁾ | | | | | | | | | |
| High playing cost ⁽²⁾ | 722 | 4 | 181 | 802 | 5 | 160 | 629 | 4 | 157 |
| Low playing cost ⁽³⁾ | 2,274 | 8 | 284 | 2,194 | 8 | 274 | 2,367 | 9 | 263 |
| | | | | | | | | | |
| Pachislot machines ⁽¹⁾ | | | | | | | | | |
| High playing cost ⁽⁴⁾ | 1,000 | 5 | 200 | 901 | 5 | 180 | 877 | 5 | 178 |
| Low playing cost ⁽⁵⁾ | 1,228 | 8 | 154 | 1,327 | 11 | 121 | 1,351 | 11 | 122 |
| | 5,224 | 100.0 | | 5,224 | 100.0 | | 5,224 | 100.0 | |
| Regions other than Kyushu region | | | | | | | | | |
| Pachinko machines ⁽¹⁾ | | | | | | | | | |
| High playing cost ⁽²⁾ | 1,134 | 5 | 227 | 1,052 | 5 | 210 | 680 | 3 | 228 |
| Low playing cost ⁽³⁾ | 784 | 4 | 196 | 784 | 4 | 196 | 1,033 | 4 | 258 |
| | | | | | | | | | |
| Pachislot machines ⁽¹⁾ | | | | | | | | | |
| High playing cost ⁽⁴⁾ | 1,375 | 5 | 275 | 1,264 | 5 | 253 | 1,140 | 4 | 285 |
| Low playing cost ⁽⁵⁾ | 494 | 5 | 99 | 559 | 5 | 112 | 652 | 5 | 130 |
| | 3,787 | 100.0 | | 3,659 | 100.0 | | 3,515 | 100.0 | |
| | 9,011 | | 501 | 8,883 | | 523 | 8,739 | | 513 |
| | | | | | | | | | 9,366 |

Notes:

- (1) The playing costs of our pachinko machines range from ¥0.5 to ¥4.31 (including consumption tax), while the playing costs of our pachislot machines range from ¥2 to ¥21.28 (including consumption tax). Our Japan Legal Adviser has confirmed that such playing costs are in compliance with the Amusement Business Law and the Enforcement Ordinance.
- (2) Comprises pachinko machines with playing costs of ¥4 per ball (including consumption tax) or above.
- (3) Comprises pachinko machines with playing costs below ¥4 per ball (including consumption tax).
- (4) Comprises pachislot machines with playing costs of ¥20 per token (including consumption tax) or above.
- (5) Comprises pachislot machines with playing costs below ¥20 per token (including consumption tax).

SUMMARY

Utilisation rate

The following table sets forth the utilisation rate of our pachinko and pachislot machines in our halls for the periods indicated:

Pachinko machines^(Note)

| | Year ended 30 June | | | Four months ended 31 October | |
|-----------------------------|--------------------|------|------|------------------------------|------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | % | % | % | % | % |
| High playing cost | 17.2 | 14.8 | 12.5 | 14.1 | 13.5 |
| Low playing cost | 27.2 | 27.2 | 24.4 | 26.3 | 22.9 |
| Overall | 23.2 | 22.3 | 19.9 | 21.6 | 20.2 |

Pachislot machines^(Note)

| | Year ended 30 June | | | Four months ended 31 October | |
|-----------------------------|--------------------|------|------|------------------------------|------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | % | % | % | % | % |
| High playing cost | 29.5 | 26.5 | 27.2 | 28.2 | 25.6 |
| Low playing cost | 32.4 | 31.5 | 29.1 | 31.1 | 28.0 |
| Overall | 29.6 | 28.8 | 28.1 | 29.8 | 26.9 |

Note:

Represents the average number of balls or tokens played per day, divided by the maximum number of balls or tokens allowed to be played under the machine settings per day. The maximum number of balls or tokens allowed to be played under the machine settings per day is defined as the maximum number of balls or tokens allowed to be played under the machine settings per hour (i.e. 6,000 balls or 2,634 tokens) multiplied by the number of operating hours per day (i.e. 12.9 hours).

Revenue margin

The table below sets out the revenue margin of our pachinko and pachislot machines in our halls during the Track Record Period.

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|------|------|------------------------------|------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | % | % | % | % | % |
| Pachinko machines | 26.6 | 26.7 | 26.2 | 25.6 | 25.4 |
| High playing cost | 23.8 | 24.7 | 25.1 | 24.3 | 21.6 |
| Low playing cost | 30.8 | 29.1 | 27.1 | 27.2 | 28.2 |
| Pachislot machines | 17.8 | 16.9 | 19.8 | 17.5 | 21.4 |
| High playing cost | 16.8 | 16.0 | 19.0 | 16.9 | 20.0 |
| Low playing cost | 21.9 | 19.7 | 22.1 | 19.2 | 25.1 |
| Overall revenue margin for our Group | 21.6 | 21.2 | 22.5 | 21.1 | 23.1 |

SUMMARY

KEY FINANCIAL DATA

Key consolidated statements of comprehensive income

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|---------------|---------------|------------------------------|--------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million |
| | | | | (unaudited) | |
| Gross pay-ins | 57,827 | 51,001 | 42,988 | 16,465 | 12,610 |
| Less: gross pay-outs | (45,324) | (40,209) | (33,311) | (12,990) | (9,698) |
| Revenue from pachinko and pachislot hall business | 12,503 | 10,792 | 9,677 | 3,475 | 2,912 |
| Vending machine income | 170 | 156 | 147 | 52 | 48 |
| Property rental | 280 | 260 | 265 | 89 | 105 |
| Revenue from other operations | 37 | 37 | 9 | 5 | — |
| Revenue | 12,990 | 11,245 | 10,098 | 3,621 | 3,065 |
| Other income ⁽¹⁾ | 1,354 | 1,223 | 819 | 240 | 237 |
| Other (losses)/gains, net ⁽²⁾ | (13) | 182 | (131) | (132) | 71 |
| Hall operating expenses ⁽³⁾ | (11,477) | (9,486) | (8,129) | (2,982) | (2,847) |
| Administrative and other operating expenses ⁽⁴⁾ | (923) | (1,385) | (1,405) | (497) | (407) |
| Operating profit | 1,931 | 1,779 | 1,252 | 250 | 119 |
| Profit for the year/period | 1,009 | 582 | 604 | 108 | 26 |
| Revenue margin (%) ⁽⁵⁾ | 21.6 | 21.2 | 22.5 | 21.1 | 23.1 |

Notes:

- (1) Represent mainly (i) income from scrap sales of used pachinko machines to machine broker for reselling in the second-hand market; (ii) dividend income from our investments; (iii) income from expired IC card; and (iv) rental income from staff quarters.
- (2) Represent mainly (i) (losses)/gains on fair value for financial assets at fair value through profit or loss; (ii) losses on disposal of property, plant and equipment; and (iii) recovery from insurance companies for our assets.
- (3) Represent mainly pachinko and pachislot machines expenses, rental expenses, employee benefit costs for hall operations and others.
- (4) Represent mainly employee benefit costs for administrative staff and outsourcing services expenses.
- (5) Revenue margin of our revenue from pachinko and pachislot business represented our revenue from pachinko and pachislot business divided by gross pay-ins. Please refer to the paragraph headed "Revenue margin" under the section headed "Financial Information" of this prospectus for detailed calculations and fluctuation analyses.

Revenue

Our revenue from pachinko and pachislot business together with the vending machine income (which represents the concession income from sharing of the gross receipts of such vending machines) constitute revenue from pachinko hall operations and accounted for approximately 97.6%, 97.4%, 97.3%, 97.4% and 96.6% of our total revenue for the three years ended 30 June 2016 and the four months ended 31 October 2015 and 2016, respectively. The percentage of such revenue remained relatively stable during the Track Record Period. During the Track Record Period, our Group had implemented a series of measures in response to the changing market conditions and industry practices, including but not limited to (i) imposition of G-prize mark-up; (ii) rebalancing the composition of high playing cost and low playing cost

SUMMARY

pachinko and pachislot machines in our halls; and (iii) closure of certain pachinko halls in view of the local competitive landscape. Such measures have led to the fluctuations in our Group's financial performance as further elaborated in the section headed "Financial Information" of this prospectus.

Other income from scrap sales

During the Track Record Period, our other income from scrap sales were negatively affected by the introduction of the Amended Voluntary Regulations which significantly lowered the maximum jackpot size of pachinko machines and pay-out ratio of pachislot machines and their related announcements withdrawing pachinko machines of certain models. The Amended Voluntary Regulations and the related announcements resulted in a decrease in the market demand of our used machines and a need to replace our existing machines. As a result, our other income decreased by approximately 33.0% to approximately ¥819 million for the year ended 30 June 2016. As at 30 June 2016, our Group had 977 machines subject to withdrawal following the Amended Voluntary Regulations and the related announcements, out of which 708 had been withdrawn and replaced by 31 October 2016, and all had been withdrawn and replaced as at 31 December 2016, utilising our general working capital. These machines were either sold to a third party engaging in the recycling of pachinko machine materials or traded-in with machine manufacturers. After 1 July 2016, we have not purchased any disallowed or pachinko machines subject to withdrawal. Following this, we do not expect to incur further expenditure as a direct result of the Amended Voluntary Regulations and the related announcements. Our Directors believe that the negative impacts of the Amended Voluntary Regulations and the related announcements on our financial performance have been gradually easing off, as demonstrated in the stabilisation of our other income for the four months ended 31 October 2016 at approximately ¥237 million, compared to approximately ¥240 million during the same period in 2015. Our Directors expect that demand for our used machines will continue to exist as (i) procurement cost for used machines is generally lower than that of new machines; and (ii) new machines are of limited supply and generally larger hall operators who have good and established relationships with the machine manufacturers (such as our Group) are better positioned to procure such new machines. As such, certain hall operators may only be able to acquire such machines from the second-hand market. According to the Yano Report, second-hand machines consistently accounted for 30% to 40% of the total market demand for pachinko and pachislot machines among hall operators on a national level and it is projected that this percentage spread will remain largely stable in the future.

Profit for the year/period

Profit for the year decreased by approximately ¥427 million or 42.3% to approximately ¥582 million for the year ended 30 June 2015 from approximately ¥1,009 million for the year ended 30 June 2014 and our net profit margin decreased to approximately 5.2% for the year ended 30 June 2015 from approximately 7.8% for the year ended 30 June 2014. This was mainly due to (i) decrease in revenue from our pachinko and pachislot hall business as a result of closure of two halls in April and September 2014, respectively, and decrease in customer traffic; (ii) increase in expenses mainly in relation to Listing; (iii) increase in income tax expenses arising from the Reorganisation undertaken by our Group in preparation for the Listing during the year (please refer to the paragraph headed "Income tax expenses" in the section headed "Financial Information" of this prospectus for further details); and (iv) increase in employment benefit expenses.

Our profit for the year increased by approximately ¥22 million or 3.8% to ¥604 million for the year ended 30 June 2016 from approximately ¥582 million for the year ended 30 June 2015. Our net profit margin increased to approximately 6.0% for the year ended 30 June 2016 from approximately 5.2% for the year ended 30 June 2015 which was mainly due to a particularly low net profit for the year ended 30 June 2015 arising from the one-off income tax expenses arising from the Reorganisation undertaken by our Group as mentioned above. It is noted that our Group's net profit was negatively affected by (i) a reduction in revenue; (ii) our Group incurring other losses amounted to approximately ¥131 million for the year ended 30 June 2016, mainly due to the loss on fair value for financial assets at fair value through profit

SUMMARY

and loss, compared to other gains amounted to approximately ¥182 million for the year ended 30 June 2015; and (iii) an increase in Listing expenses of approximately ¥326 million from approximately ¥53 million for the year ended 30 June 2015 to approximately ¥379 million for the year ended 30 June 2016.

Our profit for the period decreased by approximately ¥82 million or 75.9% to ¥26 million for the four months ended 31 October 2016 from approximately ¥108 million for the four months ended 31 October 2015. Our net profit margin decreased to approximately 0.8% for the four months ended 31 October 2016 from approximately 3.0% for the four months ended 31 October 2015 which was mainly due to the combined effects of (i) decrease in revenue of approximately 15.4% due to decrease in customer traffic as well as a fall in number of machines as a result of subletting part of the pachinko hall premises; and (ii) hall operating expenses remaining stable despite lower revenue mainly due to the expenses incurred for the preparation of new hall, which had commenced its operation in December 2016. Thus, despite the improved revenue margin as a result of imposition of G-prize mark-up and decrease in income tax expense, our net profit margin decreased to approximately 0.8% for the four months ended 31 October 2016 from approximately 3.0% for the four months ended 31 October 2015.

Key consolidated statements of financial position

| | As at 30 June | | | As at 31 October |
|-----------------------------------|---------------|-----------|-----------|------------------|
| | 2014 | 2015 | 2016 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million |
| Non-current assets | 15,108 | 15,112 | 14,114 | 14,221 |
| Current assets | 7,454 | 7,845 | 2,740 | 2,187 |
| Non-current liabilities | 7,339 | 7,339 | 6,601 | 6,541 |
| Current liabilities | 3,554 | 3,642 | 2,423 | 2,004 |
| Net current assets | 3,900 | 4,203 | 317 | 183 |
| Total equity | 11,669 | 11,976 | 7,830 | 7,863 |

Our Group's net current assets increased from approximately ¥3,900 million as at 30 June 2014 to approximately ¥4,203 million as at 30 June 2015 primarily due to (i) increase in current portion of financial assets at fair value through profit or loss of approximately ¥773 million as a result of an increase in our unlisted debt securities of approximately ¥961 million; (ii) increase in income tax recoverable of approximately ¥845 million mainly as a result of withholding tax paid on 5.0% of distributable earnings for investment in subsidiaries; and (iii) decrease in current portion of bank borrowings of approximately ¥544 million. The amount was partially offset by the increase in current income tax liabilities of approximately ¥880 million due to increase in our withholding tax payables. Our Group's net current assets decreased to approximately ¥317 million as at 30 June 2016. The decrease was primarily due to payment of dividend of approximately ¥4,740 million, which was then partially offset by the decrease in current income tax liabilities of approximately ¥1,002 million due to decrease in our withholding tax payable and income tax paid of approximately ¥1,126 million. Our Group's net current assets then further decreased to approximately ¥183 million as at 31 October 2016. The decrease was primarily due to decrease in income tax recoverable mainly as a result of tax refund and decrease in profit before tax.

Our Group's net current assets then increased to approximately ¥253 million as at 28 February 2017. This was mainly attributable to an increase in prepayments, deposits and other receivables of approximately ¥574 million mainly due to the reclassification of non-current rental deposit to current portion since the lease term of one of our halls is expiring in January 2018. The increase in net current assets is partially offset by the increase in newly drawn down borrowings between October 2016 and February 2017 mainly relating to the acquisition of property in Nagasaki, completion of which took place in February 2017. As disclosed in the paragraph headed "Entry barriers to the pachinko industry" under the section headed "Industry

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Overview” of this prospectus and the paragraph headed “Our business may be subject to fluctuations in financial performance due to the timing of new hall openings” under the section headed “Risk Factors” of this prospectus, the pachinko hall operation business is capital intensive, particularly during the period leading up to the opening of new halls, when significant expenses such as machine expenses or acquisition costs of property (where halls are to be established in self-owned properties) would be incurred while revenue will only be generated after the hall commenced operations. In this regard, our Group closely monitors such liquidity requirements and if considered necessary, arrange for external funding.

Key consolidated statements of cash flows

| | Year ended 30 June | | | Four months ended 31 October | |
|--|---------------------|---------------------|---------------------|------------------------------|---------------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million |
| Net cash generated from operating activities..... | 2,406 | 1,737 | 828 | 285 | 490 |
| Net cash (used in)/generated from investing activities..... | (703) | (583) | 3,440 | (137) | (137) |
| Net cash used in financing activities..... | (751) | (1,693) | (5,480) | (394) | (532) |
| Net increase/(decrease) in cash and cash equivalents.. | 952 | (539) | (1,212) | (246) | (179) |
| Cash and cash equivalents at the beginning of the year/period | 2,153 | 3,105 | 2,566 | 2,566 | 1,354 |
| Cash and cash equivalents at the end of the year/period .. | <u>3,105</u> | <u>2,566</u> | <u>1,354</u> | <u>2,320</u> | <u>1,175</u> |

For the year ended 30 June 2015, our Group recorded net cash generated from operating activities of approximately ¥1,737 million, representing a decrease by approximately ¥669 million compared to the previous year which was in line with decrease in cash generated from operations due to closures of two halls. For the year ended 30 June 2016, our net cash generated from operating activities decreased by approximately ¥909 million compared to previous year which was in line with decrease in cash generated from operations due to decrease in customer traffic. Such decrease was further compounded by tax paid of approximately ¥1,126 million for our assessable profits and one-off withholding tax paid in relation to payment of dividends.

For the four months ended 31 October 2016, our Group had net cash generated from operating activities of approximately ¥490 million, mainly as a result of profit before tax of approximately ¥44 million, which was primarily adjusted for (i) non-cash depreciation of approximately ¥224 million; and (ii) interest expenses of approximately ¥76 million. The amount was partially offset by the increase in prepayments, deposit and other receivables of approximately ¥144 million, mainly due to increase in rental deposits paid for our new hall in Chugoku region which lease term commenced in October 2016. Our net cash generated from operating activities increased by approximately ¥205 million compared to previous period which was due to combined effect of (i) decrease in cash generated from operations; and (ii) income tax refund of approximately ¥308 million due to decrease in our tax provision as a result of decrease in profit before tax.

SUMMARY

Key financial ratios

| | Year ended 30 June | | | Four months ended 31 October |
|--------------------------------------|-------------------------------------|------|------|---------------------------------|
| | 2014 | 2015 | 2016 | 2016 |
| | Interest coverage (times) | 6.3 | 6.6 | 5.1 |
| Return on equity (%) | 8.6 | 4.9 | 7.7 | 1.0 |
| Return on total assets (%) | 4.5 | 2.5 | 3.6 | 0.5 |

| | As at 30 June | | | As at 31 October |
|--|---------------------------------|------|------|------------------|
| | 2014 | 2015 | 2016 | 2016 |
| | Current ratio (times) | 2.1 | 2.2 | 1.1 |
| Gearing ratio (%) | 67.3 | 53.7 | 74.2 | 67.5 |
| Net debt to equity ratio (%) | 34.9 | 28.1 | 55.6 | 51.3 |

Please refer to the paragraph headed “Key financial ratios” under the section headed “Financial Information” starting on page 288 of this prospectus for detailed calculations and fluctuation analyses.

RECENT DEVELOPMENTS AND OUTLOOK

New hall

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group had commenced operation of a new pachinko hall in Yamaguchi, Chugoku region since 23 December 2016 under the brand “Big Apple.” (the “**Chugoku Hall**”). As a result, our Group had recognised significant machine expenses after the Track Record Period, which will be reflected in our financial statements of the year ending 30 June 2017. Meanwhile, our Group is building up customer traffic for the Chugoku Hall, recording a double-digit growth in revenue generated therefrom during February 2017 compared to January 2017 despite there being fewer number of operating days.

We had also entered into a sale and purchase agreement with an Independent Third Party on 23 January 2017 pursuant to which we shall acquire shares of a company which is to be established as an individual holding company of a property in Nagasaki, completion of such acquisition had taken place around February 2017. We intend to use acquired property to establish a major hall in this strategic location, which is of importance for our Group in terms of maintaining our market position in Nagasaki. Please refer to the paragraph headed “New hall development” under the section headed “Future Plans and Proposed Use of Proceeds” on page 297 of this prospectus for the details of the acquisition.

Listing expenses

The total Listing expenses (based on the mid-point of the Offer Price range) are estimated to be approximately ¥1,080 million. For the years ended 30 June 2015 and 2016 and the four months ended 31 October 2016, we incurred Listing expenses of approximately ¥71 million, ¥501 million and ¥127 million, respectively, in connection with the Share Offer. By the completion of the Share Offer, we expect to incur further Listing expenses of approximately ¥381 million, of which an estimated amount of approximately ¥262 million is to be recognised as expenses and the remaining is expected to be charged to equity.

SUMMARY

Outlook and prospects

As discussed in the section headed “Industry Overview” of this prospectus, the pachinko industry is expected to show a continual contraction and faces intense competition from other forms of entertainment in Japan. In addition, the impacts of the Amended Voluntary Regulations and the related announcements have continued to bring about challenging market conditions for pachinko hall operators. Nevertheless, these negative market drivers impose greater challenges to Small-sized Pachinko Hall Operators and have presented consolidation opportunities for larger players. As a Mid-sized Pachinko Hall Operator with 18 pachinko halls, our Directors believe that we are well-positioned to capitalise on such opportunities and expand our business in line with the strategies set out under the paragraph headed “Business strategies” under the section headed “Business” of this prospectus. In addition, we also believe that the Listing will enable our Group to raise our corporate profile, enhance our capital base and diversify fund raising channels for facilitating such planned expansion.

Shareholders and prospective investors are specifically warned that our financial performance for the financial year ending 30 June 2017 may show a substantial decline as compared to that of the previous financial year. This is attributed to (i) the estimated non-recurring Listing expenses of our Group, of which approximately ¥262 million are expected to be charged to the consolidated statements of profit or loss of our Group for the year ending 30 June 2017; (ii) non-recurring expenses (including machine expenses) for the opening of a new hall in Chugoku region; (iii) the continual contraction of the pachinko industry and competition from other forms of entertainment in Japan, which led to the general decline in the number of pachinko players as described under the section headed “Industry Overview” of this prospectus and consequently our gross pay-ins, revenue and profits; and (iv) the introduction of the Amended Voluntary Regulations as mentioned in the section headed “Industry Overview” of this prospectus reducing the jackpot size of pachinko and pachislot machines, which correspondingly resulted in the decline of gross pay-ins generated by the market as a whole and reduction of our appeal to players who are more attracted to the gaming nature of pachinko.

According to our Group’s unaudited management accounts, our Group had recorded decreased revenue for the two months ended 28 February 2017, compared to the corresponding period in 2016. This continual downward performance was attributed to (i) sub-leasing of two storeys of an existing pachinko hall to a third party with a reduction of 135 machines; (ii) the opening of the Chugoku Hall, which is in the process of building up its customer traffic with a ramp up period of six to nine months whereby revenue generated therefrom during February 2017 recorded an increase compared to January 2017 despite there being fewer number of operating days; and (iii) the residual effects of the Amended Voluntary Regulations and its related announcements, the withdrawal of machines under which were not yet implemented in January and February 2016. Our revenue for the two months ended 28 February 2017, has shown a slowdown in rate of decline compared to the year ended 30 June 2016 and the four months ended 31 October 2016, primarily due to the opening of the Chugoku Hall and the gradual lessening of the impact arising from the Amended Voluntary Regulations and their related announcements. In particular, four of our pachinko halls have on average achieved double digit positive revenue growth for the four months ended 28 February 2017 compared to the corresponding period in the previous year, demonstrating our ability to adapt to challenging market conditions and the effectiveness of our business strategy of focusing on customer experiences, preferences and demographics. Our Directors expect to replicate our successful business strategies across our pachinko hall network, and continue to operate a sustainable pachinko operations in the future.

Please refer to the risk factor headed “Our Group’s net profit for the year ending 30 June 2017 may show a substantial decline due to Listing expenses and other factors” in the section headed “Risk Factors” of this prospectus for further elaboration. **Shareholders and prospective investors are advised to exercise caution when considering to subscribe for the Shares under the Share Offer or, upon Listing, dealing in the Shares.**

Save as disclosed above and the paragraph headed “Key consolidated statements of financial position” in this section, our Directors confirm that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 31 October 2016 (the date of the latest

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audited consolidated financial information of our Group) and up to the date of this prospectus. Also, as far as our Directors are aware, there has also been no material change in the general economic or market conditions in Japan that would have a material and adverse impact on our business operation or financial condition since 31 October 2016 to the date of this prospectus.

HISTORICAL COMPLIANCE MATTERS

Members of our Group had certain non-compliance incidents involving (i) tax filing requirements; and (ii) maintenance of accurate records of our employees' working hours and payment of adequate compensation with respect to our employees' overtime and/or late-night work under the applicable laws in Japan, details of which are set out in the paragraph headed "Historical compliance matters" under the section headed "Business" starting on page 181 of this prospectus and the paragraph headed "Our Group has records of certain non-compliance of tax filing requirements and requirements under the Labour Law in Japan" under the section headed "Risk Factors" on page 42 of this prospectus.

USE OF PROCEEDS

Assuming an Offer Price of HK\$1.05 (being the mid-point of the indicative Offer Price range), we estimate that we will receive net proceeds of approximately HK\$55.2 million (equivalent to approximately ¥783.8 million) from the Share Offer (after deducting underwriting fees and other estimated expenses in relation to the Share Offer). Please refer to the section headed "Future Plans and Proposed Use of Proceeds" on page 297 of this prospectus for further details. Our intended uses are set out below:

| Net Proceeds | | % of Total Net Proceeds | Intended Use |
|----------------|-------------|-------------------------|---|
| (HK\$ million) | (¥ million) | | |
| 27.6 | 391.9 | 50.0 | Establishing a new pachinko hall in the Kyushu region |
| 22.1 | 313.5 | 40.0 | Renovating different parts of six pachinko halls during the year ending 30 June 2018 and eight pachinko halls during the year ending 30 June 2019 (two additional pachinko halls on top of the six halls during the year ending 30 June 2018) |
| 5.5 | 78.4 | 10.0 | Working capital and other general corporate purposes of our Group |

OFFER STATISTICS

The statistics in the table below are calculated based on the assumption that there are 500,000,000 Shares in issue immediately after completion of the Share Offer.

| | Based on an Offer Price of HK\$1.20 per Share | | Based on an Offer Price of HK\$0.90 per Share | |
|--|---|-------------|---|-------------|
| | ¥ | HK\$ | ¥ | HK\$ |
| Market capitalisation of the Shares | 8,520,000,000 | 600,000,000 | 6,390,000,000 | 450,000,000 |
| Unaudited pro forma adjusted net tangible assets per Share ^(Note) | 17.05 | 1.26 | 16.08 | 1.19 |

Note:

The unaudited pro forma adjusted net tangible assets value per Share was arrived at after the adjustments referred to in Appendix II on page II-1 to this prospectus.

SUMMARY

RISK FACTORS

The key risks involved in our operations include, but not limited to (i) our business depends significantly on the services provided by our G-prize wholesalers and their G-prize buyers because the value of G-prize exchanged by our customers constituted over 98% of all prizes during the Track Record Period; (ii) we may be adversely affected by any breach of the independence requirements under the Three Party System; (iii) our business and financial performance may be adversely affected by the continuous market contraction of the pachinko industry arising from competition from other forms of entertainment; and (iv) we face intense competition in the pachinko industry in Japan.

SHAREHOLDER INFORMATION

Immediately upon completion of the Share Offer (but without taking into account any Shares which may be allotted and issued pursuant to the exercise of any option that may be granted under the Share Option Scheme), our Chairman will be interested in 75.0% of our total number of issued shares. Our Chairman will continue to control more than 30.0% of our enlarged issued share capital and will remain as our Controlling Shareholder under the Listing Rules. For further details of the background of our Controlling Shareholder, please refer to the section headed “Director, Senior Management and Employees” on page 207 of this prospectus. We operate independently of our Controlling Shareholder. Please refer to the paragraph headed “Independence from our Controlling Shareholder” under the section headed “Relationship with our Controlling Shareholder” on page 221 of this prospectus for further details.

DIVIDEND

During the Track Record Period, our Group distributed final dividends to our Shareholders/then Shareholders of approximately ¥2 million, ¥2 million, ¥4,740 million and nil for each of the three years ended 30 June 2016 and the four months ended 31 October 2016, respectively. Our Directors consider such dividend as investment return to the then Shareholders during the Track Record Period and should not be regarded as an indication of the future dividend payment to be adopted by our Group following the Listing. Currently, we do not have any dividend payment and predetermined dividend distribution ratio. Please refer to paragraph “Dividend” under the section headed “Financial Information” of this prospectus for further information of our dividend.

PROPERTY VALUATION

DTZ Cushman & Wakefield Limited, our independent Property Valuer, has valued selected properties in Japan (in which our Group has interests) as at 28 February 2017 at (in aggregate) approximately ¥3,269 million, with the entire value attributable to us. The key assumptions adopted by our Property Valuer in valuing such properties include, amongst others, (i) 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; (ii) information and advice given by our Group regarding the title to each of the properties and the interests of our Group in the properties; and (iii) our Group has an enforceable title to each of the properties.

OUR INTERNAL CONTROL AND ANTI-MONEY LAUNDERING PROCEDURES, SYSTEMS AND CONTROLS

We have implemented internal controls and procedures to: (i) ensure that our pachinko hall operations are in full compliance with applicable laws and regulations; and (ii) detect and remediate irregularities and unusual activities or trends in our halls. We believe that money laundering risks associated with our pachinko hall operations are inherently low due to stringent laws and regulations and machine limitations. Please refer to the section headed “Internal Controls and Anti-Money Laundering” starting on page 195 of this prospectus and Appendix V on page V-1 to this prospectus for further details.

DEFINITIONS

In this prospectus, the following terms have the following meanings unless the context otherwise requires.

| | |
|---|---|
| “ABL Circular” | Standard for Interpretation and Operation of ABL* (風俗営業等の規制及び業務の適正化等に関する法律等の解釈運用基準について(通達)) of Life Safety Department of National Police Agency dated 24 June 2015, as amended, supplemented or otherwise modified from time to time |
| “Act on the Protection of Personal Information” | the Act on the Protection of Personal Information* (個人情報の保護に関する法律) of Japan (Act No.57 of 2003), as amended, supplemented or otherwise modified from time to time |
| “Adward” | Adward Co., Ltd.* (アドワード株式会社), a company incorporated under the laws of Japan on 16 October 2007 and a subsidiary indirectly wholly-owned by our Company |
| “Aisen” | Aisen Co., Ltd.* (株式会社アイセン), a company incorporated under the laws of Japan on 9 March 2000 and a subsidiary indirectly wholly-owned by our Company |
| “Altus Capital” or “Sponsor” | Altus Capital Limited, a licensed corporation to conduct type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities for the purpose of the SFO, being the sponsor to the Listing application of the Company |
| “Amended Voluntary Regulations” | certain amended voluntary industry regulations which reduced jackpot size of pachinko machines and pay-out ratios of pachislot machines. Such regulations are relevant to the hall operators in general because they purchased certified and inspected machines from manufacturers which are bound by these regulations |
| “AML” | anti-money laundering |
| “AML Consultant” | PricewaterhouseCoopers Limited, our independent consultant regarding anti-money laundering |
| “Amusement Business Law” or “ABL” | the Act on Control and Improvement of Amusement Business etc.* (風俗営業等の規制及び業務の適正化等に関する法律) of Japan (Act No. 122 of 1948), as amended, supplemented or otherwise modified from time to time |

DEFINITIONS

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| “Application Form(s)” | WHITE, YELLOW and GREEN application form(s), or where the context so requires, any of them |
| “Aratoru” | Aratoru Co., Ltd.* (アラトル株式会社), a company incorporated under the laws of Japan on 22 February 2007 and a subsidiary indirectly wholly-owned by our Company |
| “Articles” or “Articles of Association” | the articles of association of our Company conditionally adopted on 10 April 2017, a summary of which is included in Appendix III to this prospectus |
| “associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “Audit Committee” | the audit committee of our Board |
| “Board” or “Board of Directors” | our board of Directors |
| “Bonus Issue” | the proposed issue of 367,000,000 Shares to Mr. Yamamoto upon completion of the Share Offer |
| “business day” | any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business |
| “CAGR” | compound annual growth rate |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “CCASS Clearing Participant(s)” | person(s) admitted to participate in CCASS as a direct clearing participant(s) or general clearing participant(s) |
| “CCASS Custodian Participant(s)” | person(s) admitted to participate in CCASS as a custodian participant(s) |
| “CCASS Investor Participant(s)” | person(s) admitted to participate in CCASS as an investor participant(s) who may be individual or joint individuals or corporation(s) |
| “CCASS Participant(s)” | CCASS Clearing Participant(s) and/or CCASS Custodian Participant(s) and/or CCASS Investor Participant(s) |
| “Chairman” or “Mr. Yamamoto” | Mr. Katsuya Yamamoto (山本勝也), an Executive Director, our chief executive officer, the Chairman of our Board, the Controlling Shareholder and a connected person of our Company |

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| “Civil Code” | the Civil Code* (民法) of Japan (Act No. 89 of 1896), as amended, supplemented or otherwise modified from time to time |
| “close associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “Companies Act” or “Japan Companies Act” | the Companies Act* (会社法) of Japan (Act No. 86 of 2005), as amended, supplemented or otherwise modified from time to time |
| “Companies Ordinance” | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Companies (Winding Up and Miscellaneous Provisions) Ordinance” | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Company” and “our Company” | Okura Holdings Limited, the holding company of our Group and the proposed listing vehicle for the Listing, which is a company incorporated in Hong Kong with limited liability on 16 June 2015 |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Controlling Shareholder” | has the meaning ascribed to it under the Listing Rules and, for the purpose of this prospectus only, refers to Mr. Yamamoto |
| “core connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Corporate Governance Code” | the Corporate Governance Code as set out in Appendix 14 to the Listing Rules |
| “Deed of Indemnity” | the deed of indemnity dated 10 April 2017 executed by our Controlling Shareholder (as indemnifier) in favour of our Company (for itself and as trustee for each of our subsidiaries), particulars of which are set out in the paragraph headed “Tax and other indemnity” in Appendix VI to this prospectus |
| “Deed of Non-Competition” | the deed of non-competition dated 10 April 2017 executed by our Controlling Shareholder (as covenantor) in favour of our Company, particulars of which are set out in the paragraph headed “Deed of Non-competition” under the section headed “Relationship with our Controlling Shareholder” of this prospectus |

DEFINITIONS

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| “Director(s)” | the director(s) of our Company |
| “electronic application instruction(s)” | instruction(s) given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Public Offer Shares |
| “Enforcement Ordinance” | the Ordinance for Enforcement of the Amusement Business Law* (風俗営業等の規制及び業務の適正化等に関する法律施行規則) of Japan (National Public Safety Commission Regulation No. 1 on 11 January 1985), as amended, supplemented or otherwise modified from time to time |
| “EQU” | EQU Co., Ltd.* (株式会社EQU), a company incorporated under the laws of Japan on 9 March 2005, which has been merged with K’s Works on 1 November 2015 |
| “Executive Director(s)” | the executive Director(s) of our Company |
| “Financial Action Task Force” | inter-governmental body established in 1989 by the ministers of its member jurisdictions, whose objectives are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial systems |
| “GDP” | gross domestic product |
| “ GREEN Application Form(s)” | the application form(s) to be completed by the HK eIPO White Form Service Provider |
| “Group”, “we”, “us” or “our” | our Company together with our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time |
| “HK\$” | Hong Kong dollars and cents, the lawful currency of Hong Kong |
| “ HK eIPO White Form ” | the application form for Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the HK eIPO White Form Service Provider at www.hkeipo.hk |

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| “HK eIPO White Form Service Provider” | the HK eIPO White Form Service Provider designated by our Company, as specified on the designed website at <u>www.hkeipo.hk</u> |
| “HKFRS” | Hong Kong Financial Reporting Standards, which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards, and their interpretations issued by the Hong Kong Institute of Certified Public Accountants |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “HKSCC Nominees” | HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC |
| “Hong Kong” | the Hong Kong Special Administrative Region of China |
| “Hong Kong Share Registrar” | Tricor Investor Services Limited, the share registrar of our Company in Hong Kong |
| “IFRS” | International Financial Reporting Standards which include standards and interpretations promulgated by the International Accounting Standards Board (IASB) |
| “Independent Non-executive Director(s)” | the independent non-executive Director(s) of our Company |
| “Independent Third Party(ies)” | entity(ies) or person(s) that are not a core connected person of our Company or any of their respective close associate(s) |
| “Issuing Mandate” | the general unconditional mandate given to our Board by our Shareholders relating to the issue of Shares, as further described under the section headed “Share Capital” of this prospectus |
| “Japan Legal Adviser” | Anderson Mori & Tomotsune, our legal advisers as to Japan laws |
| “Japanese Diet” | legislative body of Japan consisting of house of representatives and house of councillors |
| “Japanese yen”, “¥” or “yen” | Japanese yen, the lawful currency of Japan |
| “K’s Holdings” | K’s Holdings Co., Ltd.* (株式会社ケーズ・ホールディングス), a company incorporated under the laws of Japan on 27 October 2008 and a directly wholly-owned subsidiary of our Company |

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| “K’s Properties” | K’s Property Co., Ltd.* (株式会社ケイズプロパティ), a company incorporated under the laws of Japan on 30 March 2001 and a subsidiary indirectly wholly-owned by our Company |
| “K’s Works” | K’s works Co., Ltd.* (株式会社K’s works), a company incorporated under the laws of Japan on 18 November 2008 and a subsidiary indirectly wholly-owned by our Company during the Track Record Period, which has been merged with K’s Properties on 1 November 2015 |
| “K’s Value” | K’s Value Co., Ltd.* (株式会社ケーズ・バリュー), a company incorporated under the laws of Japan on 16 December 2009 and a subsidiary indirectly wholly-owned by our Company during the Track Record Period, which has been merged with K’s Properties on 1 November 2015 |
| “KPA” | KPA Co, Ltd.* (株式会社KPA), a company incorporated under the laws of Japan on 26 August 2010 and a subsidiary indirectly wholly-owned by our Company during the Track Record Period, which has been merged with K’s Properties on 1 November 2015 |
| “Land and Building Leases Act” | the Act on Land and Building Leases* (借地借家法) of Japan (Act No. 90 of 1991), as amended, supplemented or otherwise modified from time to time |
| “Latest Practicable Date” | 21 April 2017, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus |
| “Lead Manager” or “Sole Bookrunner” | Crosby Securities Limited, a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (assets management) regulated activities for the purpose of the SFO, being the sole bookrunner and lead manager to the Share Offer |
| “Listing” | the listing of the Shares on the Main Board of the Stock Exchange |
| “Listing Committee” | the listing sub-committee of the board of directors of the Stock Exchange |

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| “Listing Date” | the date, expected to be on or around 15 May 2017, on which the Shares become listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Mr. Katsumitsu Yamamoto” | Mr. Katsumitsu Yamamoto, father of Mr. Yamamoto, a member of our senior management and a connected person of our Company |
| “National Police Agency” | the National Police Agency* (警察庁) of Japan, an agency administered by the National Public Safety Commission of the Cabinet Office* (内閣府) in the Cabinet of Japan* (内閣), and the central coordinating agency of the Japanese police system |
| “National Public Safety Commission” | the National Public Safety Commission* (国家公安委員会) of Japan, an administrative commission belonging to the Cabinet Office* (内閣府) in the Cabinet of Japan* (内閣) that, amongst others, oversees the National Police Agency |
| “Nomination Committee” | the nomination committee of our Board |
| “Offer Price” | the final price per Offer Share (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$1.20 per Offer Share and is expected to be not less than HK\$0.90, which will be determined by agreement between the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) and our Company on or around the Price Determination Date |
| “Offer Share(s)” | the Public Offer Shares and the Placing Shares |
| “Okura Japan” | Okura Co., Ltd.* (王蔵株式会社), a company incorporated under the laws of Japan on 3 April 1984 and a subsidiary indirectly wholly-owned by our Company |
| “Okura Kyushu” | Okura Kyushu Co., Ltd.* (王蔵九州株式会社), a company incorporated under the laws of Japan on 17 February 2017 and a subsidiary indirectly wholly-owned by our Company |
| “Okura Nishinohon” | Okura Nishinohon Co., Ltd.* (王蔵西日本株式会社), a company incorporated under the laws of Japan on 3 December 2012 and a subsidiary indirectly wholly-owned by our Company |

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| “Patent Act” | the Patent Act* (特許法) of Japan (Act No. 121 of 1959), as amended, supplemented or otherwise modified from time to time |
| “Penal Code” | the Penal Code* (刑法) of Japan (Act No. 45 of 1907), as amended, supplemented or otherwise modified from time to time |
| “Placing Shares” | the 112,500,000 Shares initially being offered by our Company for subscription at the Offer Price under the Placing (subject to reallocation as described in the section headed “Structure and Conditions of the Share Offer” of this prospectus) |
| “Placing” | the conditional placing of the Placing Shares at the Offer Price, subject to the terms and conditions described in this prospectus and the Placing Underwriting Agreement |
| “Placing Underwriter(s)” | the underwriter(s) currently expected to be appointed by the Company in relation to the Placing who is named in the paragraph headed “Placing Underwriter(s)” under the section headed “Underwriting” of this prospectus |
| “Placing Underwriting Agreement” | the conditional Placing underwriting agreement expected to be entered into on or about the Price Determination Date, by our Company, our Controlling Shareholder, our Chairman, the Sponsor, the Sole Bookrunner and Lead Manager and the Placing Underwriter(s) |
| “PRC” | the People’s Republic of China, but for the purposes of this prospectus and unless otherwise indicated, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan |
| “Prefectural Public Safety Commission(s)” | the various Prefectural Public Safety Commissions* (都道府県公安委員会) of Japan, being administrative commissions under the jurisdiction of the respective prefectural governors that, amongst others, oversee the prefectural police agencies of Japan |
| “Price Determination Agreement” | the agreement to be entered into between our Company and the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) at or about the Price Determination Date to fix the Offer Price |
| “Price Determination Date” | the date on which the Offer Price will be determined under the Price Determination Agreement, which is expected to be on or about Monday, 8 May 2017 and in any event no later than 12:00 noon on Thursday, 11 May 2017 |

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| “Property Valuer” | DTZ Cushman & Wakefield Limited, our independent property valuer |
| “Public Offer” | the offer by our Company of the Public Offer Shares for subscription by the public in Hong Kong at the Offer Price (subject to the terms and conditions described in this prospectus and the Application Forms) |
| “Public Offer Shares” | the 12,500,000 Shares initially being offered by our Company for subscription at the Offer Price under the Public Offer (subject to reallocation as described in the section headed “Structure and Conditions of the Share Offer” of this prospectus) |
| “Public Offer Underwriter” | the underwriter of the Public Offer named in the paragraph headed “Public Offer Underwriter” under the section headed “Underwriting” of this prospectus |
| “Public Offer Underwriting Agreement” | the conditional Public Offer Underwriting Agreement dated 27 April 2017 relating to the Public Offer entered into by our Company, our Controlling Shareholder, our Chairman, the Sponsor, the Sole Bookrunner and Lead Manager and the Public Offer Underwriter, as further described in the section headed “Underwriting” of this prospectus |
| “Quam Capital” | Quam Capital Limited, a corporation licensed by the SFC to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the compliance adviser to the Company upon Listing |
| “Remuneration Committee” | the remuneration committee of our Board |
| “Reorganisation” | the restructuring of our Group in preparation for the Listing, details of which are set out in the paragraph headed “Reorganisation” under the section headed “History and Development” of this prospectus |
| “Repurchase Mandate” | the general unconditional mandate given to our Board by our Shareholders relating to the repurchase of Shares, as further described under the section headed “Share Capital” of this prospectus |
| “Risk Management Committee” | the risk management committee of our Company as a sub-committee under our Audit Committee |
| “Security Communications Associations” | association designated by National Public Safety Commission which is responsible for examining pachinko and pachislot machines |
| “SFC” | the Securities and Futures Commission of Hong Kong |

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| “SFO” | the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Share Offer” | the Public Offer and the Placing |
| “Share Option Scheme” | the share option scheme conditionally adopted by our Company on 10 April 2017, the principal terms of which are summarized in the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus |
| “Share(s)” | ordinary share(s) in the share capital of our Company |
| “Shareholder(s)” | holder(s) of Share(s) |
| “sq.m.” | square metre |
| “Stamp Duty Ordinance” | Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “SU Limited” | SU Limited Company* (有限会社エスユー), a company incorporated under the laws of Japan on 1 November 2001, which has been merged with K’s Properties on 1 November 2015 |
| “subsidiary(ies)” | has the meaning ascribed to it under the Listing Rules |
| “substantial Shareholder(s)” | has the meaning ascribed to it under the Listing Rules |
| “Supreme Court (最高裁判所)” | the Supreme Court of Japan* (最高裁判所), being the highest court in Japan |
| “Takeovers Code” | the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time |
| “Third Party Local Regulations” | local regulations established by prefectural governments which prohibit pachinko hall operators from causing third parties to repurchase G-prizes from customers as further described under the section headed “Applicable laws and Regulations” of this prospectus |
| “TIBOR” | Tokyo Inter-bank Offered Rate |
| “Tokyo” | Tokyo Metropolis (東京都), a prefecture and the capital of Japan |

DEFINITIONS

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| “Track Record Period” | the three years ended 30 June 2016 and the four months ended 31 October 2016 |
| “Underwriters” | the Public Offer Underwriter and the Placing Underwriter(s) |
| “Underwriting Agreements” | the Public Offer Underwriting Agreement and the Placing Underwriting Agreement |
| “United States” or “U.S.” | the United States of America |
| “USD” | United States dollars and cents, the lawful currency of the United States |
| “U.S. Securities Act” | the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder |
| “ WHITE Application Form(s)” | the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s/ applicants’ own name |
| “ YELLOW Application Form(s)” | the application form(s) for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS |
| “Yano Research” | Yano Research Institute Limited, a private marketing research and consulting firm and an independent industry consultant commissioned by us to prepare the industry report |
| “Yano Report” | an independent market research report commissioned by our Company on the pachinko industry in Japan prepared by Yano Research |
| “%” | per cent |

** The English titles marked with “*” are unofficial English translation of the Japanese titles of natural persons, legal persons, governmental authorities, institutions, laws, rules, regulations and other entities for which no official English translation exists. These titles are for identification purpose only.*

In this prospectus, unless expressly stated or the context requires otherwise:

- all data in this prospectus is as at the date of this prospectus; and
- certain amounts and percentage figures have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

The following is a glossary containing certain terms and definitions used in this prospectus in connection to our Group's business and operations. The terms and their meanings may not correspond to the standard industry meanings or usage of those terms.

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| “anti-social forces” | organisation(s) or individual(s) who pursues economic benefit through violence, threat or fraudulent methods as defined in the Guidelines for Enterprises to Prevent Damage caused by Antisocial Organisations* (企業が反社会的勢力による被害を防止するための指針) published on 19 June 2007 |
| “attacker” | a larger pocket in a pachinko machine's playing field which opens for limited periods of time during jackpot mode |
| “G-prize” | a prize offered by a pachinko hall, namely a decorative plastic card with a small embedded piece of precious metal (such as gold) or a small coin-shaped pendant of precious metal (such as gold), which can be sold by customers to a G-prize buyer for cash |
| “G-prize buyer” | an independent party in the business of operating G-prize buying centre outside of pachinko halls, which purchases G-prizes for cash from customers and subsequently sell G-prizes to G-prize wholesaler, and a party to the Three Party System |
| “G-prize mark-up” | difference between the cash value of the pachinko balls or pachislot tokens required to collect a G-prize and the cost for purchasing such G-prize |
| “G-prize wholesaler” | an independent party in the business of purchasing G-prizes from G-prize buyer, and subsequently selling G-prizes to pachinko hall operator(s), and a party to the Three Party System |
| “general prize” | any prize offered by a pachinko hall that is not a G-prize |
| “gross pay-ins” | cash amount received from customers for rented pachinko balls and pachislot tokens |
| “gross pay-outs” | aggregate purchase cost of G-prizes and general prizes exchanged by customers |

GLOSSARY OF TECHNICAL TERMS

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| “high playing cost machine” | pachinko machine with a playing cost of ¥4 or more per pachinko ball and pachislot machines with a playing cost of ¥20 or more per pachislot token, each of which is the maximum playing cost (exclusive of consumption tax) possible stipulated under the Enforcement Ordinance |
| “IC card” | a card used to store the balance of cash and pachinko balls or pachislot tokens remaining in the machine after a customer finishes playing |
| “island” | a long row of pachinko or pachislot machines in a pachinko hall |
| “jackpot mode” | a mode of a pachinko game triggered by certain winning combinations of images on the screen in the centre of the field of play, during which the attacker opens and releases a relatively large number of balls or tokens when the jackpot is hit |
| “jackpot probability” | probability of triggering the jackpot mode, during which a relatively large number of balls and tokens may be won |
| “jackpot size” | number of balls or tokens won during the jackpot mode |
| “jet counter” | a device that automatically counts pachinko balls or pachislot tokens collected and issues a printed ticket displaying the number of balls or tokens collected |
| “Large-sized Pachinko Hall Operator(s)” | pachinko hall operator(s) which operate(s) 20 halls or more, according to Yano Research |
| “low playing cost machine” | pachinko machine with playing costs of below ¥4 per pachinko ball, and pachislot machines with playing costs of below ¥20 per pachislot token |
| “Mid-sized Pachinko Hall Operator(s)” | pachinko hall operator(s) which operate(s) 15 to 19 halls, according to Yano Research |
| “pachinko” | in the context of a game machine, a game played on a device similar to a pinball machine which is played for entertainment and prizes; in other contexts (such as our business or the industry), includes both pachinko and pachislot |
| “pachinko ball” or “ball” | small metal ball used to play pachinko games |
| “pachinko hall” or “hall” | a facility providing pachinko and/or pachislot games |

GLOSSARY OF TECHNICAL TERMS

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| “pachinko hall operator” or “hall operator” | an entity that operates pachinko hall, such as ourselves, and a party to the Three Party System |
| “pachislot” | a game played on a device similar to a slot machine which is played for entertainment and prizes |
| “pachislot token” or “token” | small metal token used to play pachislot games |
| “pay-out ratio” | total number of balls or tokens won divided by the number of balls or tokens played, representing the average probability of winning balls or tokens when playing the machines |
| “pins” | small, cylindrical pegs affixed on the pachinko machine’s playing field |
| “Small-sized Pachinko Hall Operator(s)” | any pachinko hall operator(s) not considered as Mid-sized Pachinko Hall Operator or Large-sized Pachinko Hall Operator |
| “Three Party System” | the industry practice under which pachinko hall operators, G-prize buyers and G-prizes wholesalers participate in the sale and purchase cycle of G-prizes obtained by a customer of a pachinko hall operator by playing pachinko and pachislot machines in Japan, as described in more detail in the sections headed “Three Party System” and “Applicable Laws and Regulations” of this prospectus |
| “trap” | a pocket at the bottom of a pachinko machine’s playing through which pachinko balls are lost |

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed “Summary”, “Risk Factors”, “Industry Overview”, “Business”, “Financial Information” and “Future Plans and Proposed Use of Proceeds” of this prospectus. These forward-looking statements include, without limitation, statements relating to our business objectives, strategies and plan of operation, our capital expenditure plans, financing sources, the amount and nature of, and potential for, future development of our business, our operations and business prospects, our dividend payment, if any, new halls under construction or planning, the regulatory environment of our industry in general, future development in our industry, and general economic and political trends in Japan.

The words “aim”, “anticipate”, “believe”, “can”, “consider”, “estimate”, “expect”, “seek”, “plan”, “intend”, “project”, “may”, “ought to”, “will”, “should”, “would” and “could”, or similar expressions or the negative thereof, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including:

- general economic, market and business conditions and levels of leisure and consumer spending;
- the commercial performance of our pachinko hall operations;
- the effects of competition and the expansion, consolidation or other trends in the pachinko industry;
- various business opportunities that we may pursue;
- pending or future legal or regulatory proceedings;
- changes in tax laws or rates;
- future development, trends and conditions in the industry and markets in which we operate our business;
- changes in regulatory policies, the regulatory framework and laws and regulations in relation to the pachinko industry in Japan;
- changes in general political, economic, legal and social conditions in Japan;

FORWARD-LOOKING STATEMENTS

- our dividend payment, if any;
- changes to our expansion plans and use of capital expenditures;
- our ability to successfully implement the business plans and strategies; and
- other factors beyond our Group's control.

We believe that the sources of information and assumptions contained in such forward-looking statements are appropriate sources for such statements and have taken reasonable care in extracting and reproducing such information and assumptions. We have no reason to believe that information and assumptions contained in such forward-looking statements are fake or misleading or that any fact has been omitted, which would render such forward-looking statements fake or misleading in any material respect.

The information and assumptions contained in the forward-looking statements have not been independently verified by us, our Controlling Shareholder, the Sponsor, the Sole Bookrunner and Lead Manager, any other party involved in the Share Offer or their respective directors, officers, employees, advisers or agents and no representation is given as to the accuracy or completeness of such information or assumptions on which the forward-looking statements are made. Additional factors that could cause actual performance or achievements of our Group to differ materially include, but are not limited to, those discussed under the section headed "Risk Factors" of this prospectus and elsewhere in this prospectus.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified with reference to the cautionary statements set forth in this section.

In this prospectus, statements of or references to our intentions or that of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

Prospective investors should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, prior to investing in our Shares. Prospective investors 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 prevailing in other countries. The business, results of operations, financial conditions and prospects of our Group could be materially and adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties, and prospective investors may lose all or part of their investment.

A. RISK RELATING TO THE BUSINESS AND OPERATION OF OUR GROUP

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

We rely on the continuous services of our G-prize wholesalers and the G-prize buyers engaged by them, as G-prizes make up the vast majority of prizes redeemed by our customers. For the three years ended 30 June 2016 and the four months ended 31 October 2016, the value of G-prizes exchanged by our customers at our halls constituted approximately 99.1%, 99.0%, 98.9% and 98.6% of the value of all prizes, respectively.

We enter into various non-exclusive agreements with our G-prize wholesalers, such as purchase agreements for G-prizes and lease agreements for a parcel of land on which the relevant pachinko hall is located. To the best of our Directors' knowledge, our G-prize wholesalers enter into similar agreements with their G-prize buyers. In the event that we are unable to maintain our business relationship with our G-prize wholesalers or promptly replace them, and/or our G-prize wholesalers are unable to maintain their business relationship with their respective G-prize buyers or promptly replace such G-prize buyers, there may be a disruption in our business, which may have a material adverse effect on our business, financial conditions, results of operations or prospects. Furthermore, the arrangements and dealings between the G-prize wholesalers and the G-prize buyers are beyond our control. We have no ownership or managerial control over any of our G-prize wholesalers or G-prize buyers and thus cannot ensure 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

Up to the Latest Practicable Date, gambling is a criminal offence under the Penal Code. 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 pachinko hall customer. The parties

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under the Three Party System include (i) pachinko hall operators (such as ourselves); (ii) G-prize wholesalers; and (iii) G-prize buyers. Please refer to the section headed “Three Party System” of this prospectus for details. Under the Three Party System, pachinko hall operators must be independent from (i) the G-prize wholesalers engaged by them; and (ii) the G-prize buyers engaged by the G-prize wholesalers. This ensures that the pachinko hall operators do not directly or indirectly exchange prize with customers for cash or securities.

If there is a breach of either of the independence requirements described above, it may expose us to a potential breach of the Penal Code, the Amusement Business Law and other local regulations. Such breach could disrupt our business operations at the affected 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 their G-prize buyer. We may also be subject to administrative proceedings and face fines or penalties by regulatory authorities.

Our business and financial performance may be adversely affected by the continuous market contraction of the pachinko industry arising from competition from other forms of entertainment

Prospective investors should note that the pachinko industry in Japan has been subject to a continuous market contraction since 2005 and faces intense competition from other forms of entertainment and gaming activities, such as horse racing, bicycle-racing, boat racing, auto-racing, the internet, video games, web-based gaming, online social gaming through mobile phones or other mobile entertainment services and potentially interactive gaming channels. In particular, in December 2016, the Act Promoting Implementation of Specified Integrated Resort Areas (Act No. 115 of 2016, the “**Integrated Resort Act**”), which stipulates the basic policy and the process for the introduction of casinos in Japan, was enacted in the Japan Diet session. The Integrated Resort Act does not on its own legalise casino operations in Japan. It describes the necessary legislative measures that should be taken within approximately one year after the enforcement of the Integrated Resort Act. If casino operations are legalised, we may face competition from casinos and other gaming venues (please refer to the paragraph headed “Implication of the casino law” under the section headed “Industry Overview” of this prospectus for details). If our current or target customers choose to participate in these activities rather than our pachinko games, our operations and revenue would be negatively impacted.

There is no assurance that our Group will be able to uphold our competitive strength. If we cannot effectively compete with our current and potential competitors from other forms of entertainment, our business, results of operations, financial conditions and prospects may be materially and adversely affected.

We face intense competition in the pachinko industry in Japan

The pachinko business in Japan is highly competitive. Based on the report from Yano Research, as at 31 December 2016, there were 3,421 pachinko hall operators running 10,986 halls throughout Japan. As at the Latest Practicable Date, we operated 18 pachinko halls in seven prefectures in Japan. According to Yano Research, the pachinko industry is fragmented. Our market share based on the total gross pay-ins was approximately 0.2% as at 31 December 2015, while our market share based on the number of halls in Japan was approximately 0.2%

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as at 31 December 2016. There are already established players in the industry with resources and/or strong brand recognition. It is also possible that there will be consolidation in the pachinko industry amongst our competitors who may rapidly acquire significant market share.

There is no assurance that our Group will be able to uphold our competitive strength. If we cannot effectively compete with our current or potential competitors, our business, results of operations, financial conditions and prospects may be materially and adversely affected.

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

Prospective investors should note that the business of our pachinko halls and our Group's financial performance in general are dependent upon the customer traffic in the areas where we operate, our ability to attract customer through our marketing and advertising efforts and our capability to respond to market trend and customer preferences. In particular, the success of any pachinko hall depends substantially 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 customer traffic and spending in these locations. If we are unable to maintain a sustainable level of customer traffic, our business, results of operations and financial conditions may be adversely affected. Please also refer to the risk factor headed "We may not be able to renew leases for the use of existing pachinko halls, or to obtain desirable sites for the expansion of our operations, on satisfactory terms or at all. Such locations may also become unattractive in the future" in this section.

Our business may be subject to fluctuations in financial performance due to the timing of new hall openings

The pachinko hall business is capital intensive, particularly at the time of new hall opening, when significant expenses such as machine costs and renovation costs are incurred. In line with applicable accounting principles, practices and policies adopted by the Group, the costs of machines are fully expensed immediately upon installation whilst revenue will only be generated after the hall commence operations. As such, our Group's financial performance may fluctuate from period to period depending on the timing of new hall openings and may incur net current liabilities at certain point of time.

Net current liabilities position exposes us to liquidity risk. Our future liquidity, payment of trade and other payables, our capital expenditure plans and repayment of debt obligations as and when they become due will depend on our ability to maintain adequate cash or cash equivalents generated from operating activities and/or to obtain additional external financing. We may have net current liabilities in the future, which may limit our working capital for the purpose of operations or the capital for implementation of our strategies and future plans and may adversely affect our business, financial conditions and results of operations.

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Our Group's net profit for the year ending 30 June 2017 may show a substantial decline due to Listing expenses and other factors

Shareholders and prospective investors are specifically warned that our financial performance for the financial year ending 30 June 2017 may show a substantial decline as compared to that of the previous financial year. This is attributed to (i) the estimated non-recurring Listing expenses of our Group, of which approximately ¥262 million are expected to be charged to the consolidated statements of profit or loss of our Group for the year ending 30 June 2017; (ii) non-recurring expenses (including machine expenses) for the opening of a new hall in Chugoku region; (iii) the continual contraction of the pachinko industry and competition from other forms of entertainment in Japan, which led to the general decline in the number of pachinko players as described under the section headed "Industry Overview" of this prospectus and consequently our gross pay-ins, revenue and profits; and (iv) the introduction of the Amended Voluntary Regulations as mentioned in the section headed "Industry Overview" of this prospectus reducing the jackpot size of pachinko and pachislot machines, which correspondingly resulted in the decline of gross pay-ins generated by the market as a whole and reduction of our appeal to players who are more attracted to the gaming nature of pachinko. Shareholders and prospective investors are advised to exercise caution when considering subscribing for the Shares under the Share Offer or, upon Listing, dealing in the Shares.

We may not be able to identify and/or procure machines in line with customer preferences and market trends at desirable costs

As a pachinko hall operator, our revenue is dependent on customers' spending on our machines. Therefore, we must constantly acquire and provide new and varied pachinko and pachislot machines so as to maintain customer interests. If our machine procurement strategy fails to attract and retain customers, our business, result of operations and financial conditions may be adversely affected. Machine costs constitute a significant portion of our operating expenses, accounting for approximately 46.1%, 41.4%, 34.9% and 37.2% of our total operating expenses during the three years ended 30 June 2016 and the four months ended 31 October 2016, respectively. Such expenses accounted for a significant portion for each period as we generally replace old machines with latest editions as and when necessary in order to boost customer traffic, generally taking into account (i) the popularity of each type of machine; and (ii) the diversity of machine composition in each hall. During the Track Record Period, the lifetime of our machines generally ranged from two months to one year. Such expenses were also dependent on the timing and frequency of new machine releases from our machine suppliers. Should the prices of pachinko machines increase without corresponding rise in customers' spending, our business, results of operations and financial conditions may be adversely affected.

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Acquisitions of additional pachinko halls involve significant risks and uncertainties and we may not be able to identify suitable targets or successfully integrate acquired pachinko halls into our existing operation

In addition to growing organically, we also plan to acquire additional pachinko halls in line with our business strategy. Acquisitions of additional pachinko halls, however, involve significant risks and uncertainties, including (i) lack of suitable targets; (ii) intense competition from other potential buyers or bidders of the bidding for the target pachinko halls; (iii) limited prior experience when expanding into new region; and (iv) our ability to secure funding, being equity and/or debt financing for the acquisitions.

Further, integration of newly acquired pachinko halls may be costly and time-consuming and could present us with significant risks and difficulties, including (i) integrating the operations and personnel of the acquired pachinko halls and implementing uniform information technology systems, controls, procedures and policies; (ii) retaining relationships with key employees, customers, business partners and suppliers of the acquired pachinko halls; and (iii) achieving the anticipated synergies and strategic or financial benefits from the acquisitions.

Given the above uncertainties, acquisitions of additional pachinko halls in the future may not proceed as expected, and failure in executing our acquisition plans could have a material adverse impact on our business, financial conditions and results of operations.

We may not be able to renew leases for the use of existing pachinko halls, or to obtain desirable sites for the expansion of our operations, on satisfactory terms or at all. Such locations may also become unattractive in the future

We lease properties to operate some of our pachinko halls. For details of our leased properties, please refer to the paragraph headed “Leased properties” under the section headed “Business” of this prospectus. For the three years ended 30 June 2016 and the four months ended 31 October 2016, our rental fees, being one of our major operating expenses, amounted to approximately ¥1,163 million, ¥1,104 million, ¥1,104 million and ¥377 million, representing approximately 9.4%, 10.2%, 11.6% and 11.6% of our total operating expenses, respectively. Our Directors believe that the rental costs for land and premises that are suitable for our pachinko hall operations will likely increase in the future. Our operating lease obligations whilst securing the continuity of our operating premises also limit our flexibility in adapting to adverse market conditions. Terms of our lease agreements vary from one to another, however, unless the lease is a “fixed term lease” under the Land and Building Leases Act, where the lessee is in principle given the right to renew the lease term indefinitely. As at the Latest Practicable Date, five out of 23 of our leases were in the form of “fixed term lease”.

In respect of our pachinko hall at Ozano, Dazaifu-shi, for which we have entered into a fixed term land lease with the landowner, the landowner holds title to the land and we only hold the title to the premise we constructed on the land. At the maturity of the lease we will therefore be required to demolish any property that we constructed on the land and return it to the lessor as a vacant site, unless a new and separate lease is signed. Currently, we are in the process

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of a renewal of the lease and as at the Latest Practicable Date, the Directors confirm that the renewal is likely to take place. If we are unable to enter into a new lease agreement in a timely manner and on commercially reasonable terms or at all, the maximum potential demolition costs for the pachinko hall premise is expected to be approximately ¥32 million.

In general, 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 or at all. Besides, after securing a potential site for establishing a new pachinko hall, we must make relevant applications and obtain construction permits pursuant to the City Planning Act (都市計画法) (Act No. 105 of 1968, as amended) and the Building Construction Standard Act (建築基準法) (Act No. 201 of 1950, as amended). Therefore, any inability to obtain leases and/or relevant construction permits for desirable pachinko hall locations on commercially reasonable terms could have a material adverse effect on our business and results of operations.

Even with the requisite permits and approvals, there is no assurance that the halls we establish on the properties identified by us will be successful or attract customers. The economic conditions or demographic patterns of the neighbourhood where our pachinko halls are located could also become less attractive in the future, thus potentially resulting in reduced customer traffic and spending in these locations.

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 may be raised through external financing. Our ability to obtain 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 developments in the global economy. As a result, there is no assurance 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 convertible securities, it will result in dilution of our then-existing shareholders' interests. If we raise additional capital through debt, our business may be affected by the amount of leverage incurred. For instance, such borrowings could subject us to covenants restricting our business activities, servicing interest which 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 above those of our equity investors. If we are unable to obtain adequate funding on a timely basis, we may not be able to carry out parts of our growth strategy or to maintain our growth and competitiveness, which could materially and adversely affect our business, results of operations, financial conditions and prospects.

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We are subject to extensive regulatory requirements, non-compliance or changes in these regulatory requirements which may affect our business operations and financial results

Pachinko hall operations are highly regulated. There are changes in rules and regulations from time to time in relation to the regulatory regime for the pachinko industry. Any such changes in the relevant rules and regulations may result in an increase in our cost of compliance, or might restrict our business activities. If we fail to comply with the applicable rules and regulations changing from time to time, we may face fines or restrictions on our business activities or even suspension or revocation of our operating licences for carrying on pachinko hall operations.

Furthermore, we are required under the Amusement Business Law to obtain an operating licence for each of our pachinko halls. In this respect, we have to ensure continuous compliance with all applicable laws (including the Amusement Business Law), regulations and guidelines, and satisfy the relevant authorities that we remain fit and proper to be licensed. If there is any change or tightening of the relevant laws and regulations, it may materially and adversely affect our business operations.

In particular, it is a general administrative intent of the Japan Government to counter gambling addiction and the associated negative social behaviours and, to this end, there is no assurance that the Japan Government will not impose further legal or regulatory restrictions over Japan's entertainment industry as a whole or the pachinko industry in particular. As at the Latest Practicable Date, the Japan Legal Adviser has confirmed that there is no bill or draft on any such restriction being considered or discussed in the Japan Diet Session. Any future change on the legal and/or regulatory framework of the pachinko industry, if any, enacted by the Japan Government may have a material adverse effect on our business operations.

Fluctuations in our other income from scrap sales of machines may affect our profitability and financial performance

During the Track Record Period, our other income from scrap sales of machines amounted to approximately ¥1,265 million, ¥1,097 million, ¥735 million and ¥226 million, respectively, for the three years ended 30 June 2016 and the four months ended 31 October 2016. Due to the implementation of the Amended Voluntary Regulations and their related announcements, the details of which are disclosed in the section headed "Industry Overview" of this prospectus, the market demand for our used machines (in particular, those with specifications which are disallowed under the Amended Voluntary Regulations and their related announcements) was significantly reduced, resulting in a decrease of our other income from scrap sales for the financial year ended 30 June 2016 of approximately 33.0%, thereby adversely affecting our profitability.

Our other income from scrap sales accounted for a substantial portion of our total income (revenue and other income) during the Track Record Period, accounting for approximately 8.8%, 8.8%, 6.7% and 6.8%, respectively, of our total income for the three years ended 30

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June 2016 and the four months ended 31 October 2016. Our profitability and financial performance in the future may be affected by fluctuations in our other income from scrap sales which in turn is affected by the demand for our used machines. Future changes in the regulatory environment of the pachinko industry or other key market drivers of the industry such as customers' preferences over used machines and the market performance of the industry as a whole may adversely affect the demand for our used machines, and in turn our profitability and financial performance.

Our success and business operations are largely dependent on the continuing efforts of certain key personnel and our ability to attract and retain talents

Our success is, to a large extent, attributable to the strategies and visions of our Executive Directors, who are supported by our senior management and other key employees. In particular, we rely on the expertise, experience and leadership of our Executive Directors, our senior management and other employees, who play a vital role in our operations. On average, our Executive Directors and our senior management have over 22 years' experience in the pachinko industry. If one or more of our Executive Directors, 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 disrupt our business and affect our results of operations and future prospects. Moreover, we may incur additional cost to recruit and retain such key personnel.

There is no assurance that the implementation of our future plan will be successful

As mentioned in the paragraph headed "Business strategies" under the section headed "Business" of this prospectus, our growth strategy includes the continuous opening of new pachinko halls and acquisition of pachinko halls when opportunities arise. Such plan is based on the existing intention of our Directors. In pursuing such strategies, we will incur significant capital expenditures associated with (i) the acquisition and construction of new pachinko halls; and (ii) the renovation of existing pachinko halls. For reference, during the three years ended 30 June 2016 and the four months ended 31 October 2016, we incurred approximately ¥392 million, ¥301 million, ¥234 million and ¥160 million, respectively, in capital expenditures mainly for the improvement and renovation of our pachinko halls. There is no assurance that our Group's future business plan will materialise and generate revenue as planned. The increase in cost as a result of opening new halls as contemplated under the future plan of our Group may outweigh the increase in revenue in the short run, which in turn, will have an adverse impact on our financial performance.

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 member customers (and their number of balls or tokens carried over) stored in our membership database servers. These systems facilitate our business decision making and

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the formulation of our strategies for machine replacement and procurement, marketing, prize procurement and inventory management. Such systems are inherently susceptible to the risk of hardware, software or network failure, which would materially impact our ability to conduct our business.

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 or similar events. These could have a material and adverse effect on our reputation, business, financial conditions 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 member customers, or cause interruptions in our services. 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. Please refer to the paragraph headed "We may be subject to liability if we fail to comply with Japan's privacy laws in connection with our membership system and database" in this section for details.

If we lose the services of our third-party information technology systems contractors without a timely replacement, our operations may be seriously disrupted

Our information technology network was developed and is maintained by third party contractors. We rely on our third party contractors to (i) maintain the network and infrastructure underlying our information technology systems; (ii) provide technical assistance to us on an ongoing basis; and (iii) upgrade our systems when and as necessary. Any failure by our third party contractors 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 contractors without timely replacement for any reason could cause a disruption in our business operations and thereby adversely affect our financial results.

We face the risk of fraud or cheating

Customers 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, amongst 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. Detected instances of illegal or fraudulent activity of a minor or insignificant nature by customers in our pachinko halls will be immediately reported to the prefectural police.

To prevent fraud or cheating, we have surveillance systems. There is no assurance 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 hall operations. In addition, negative publicity related to such acts or schemes could have an adverse effect on our

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reputation, and thereby our business, results of operations, financial conditions 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 a regulatory breach which may lead to revocation or suspension of our operating licence for the relevant pachinko hall.

If we fail to maintain an effective system of internal controls, we may be unable to detect and prevent fraud

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, financial conditions and cash flows. We continue to review our internal control policies and procedures on an ongoing basis and have implemented measures to improve and remedy certain deficiencies identified through the assistance of an independent third-party consultant. However, there is no assurance that we will be able to successfully address these issues on an ongoing basis.

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

The AML laws in Japan do not impose any specific obligations on pachinko hall operators. Nevertheless, we have voluntarily implemented AML policies 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, there is no assurance that these policies will be effective in preventing our pachinko hall 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 patrons would have a material adverse impact on our reputation and our relationship with regulators, and consequently would materially adversely affect our business, financial conditions, 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 licences. For more information regarding our compliance measures, please refer to the section headed “Internal Controls and Anti-money Laundering” of and Appendix V to this prospectus.

We may not be able to adequately protect our intellectual property

Our principal intellectual property rights are the logos and brands we use in our pachinko hall operations. During the course of our business development, we have established five brands, namely, “Monaco”, “K’s Plaza”, “Big Apple”, “Big Apple.” and “Big Apple. YOU PARK”. As at the Latest Practicable Date, our material trademarks, “ケイズプラザ” (K’s Plaza), “ビッグアップル”, “YOU PARK” and “” were registered in Japan. We are also applying for the registration of “ビッグアップル ドット ユーパーク” and “” as registered trademarks in Japan. For details, please refer to the

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paragraph headed “Our material intellectual property rights” in Appendix VI to this prospectus for further details. “*Monaco*”, being the brand under which our first pachinko hall has operated since its establishment in 1968, is not a registered trademark in Japan. Our Directors have also been advised that the word “*Monaco*” is too general and not descriptive enough to be accepted as a registered trademark because it is a name of a nation. For details, please refer to the paragraph headed “Intellectual property” under the section headed “Business” of this prospectus.

It is possible that we may be unable to register other trademarks or renew the registration of any of our existing registered trademarks in the future. In any case, we are susceptible to infringement of our logos and brands by third parties, whether or not such logos are or will continue to be registered trademarks. There is no guarantee that the registration of our trademarks can completely protect us against any infringement or passing off. The infringement of and passing off on our logos and brands could adversely affect the perception that our customers have of our pachinko halls. Enforcement of our intellectual property rights through litigation, whether successful or not, could incur substantial costs. All of these may in turn have a material adverse effect on our business, financial condition, results of operations and prospectus.

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, amongst other things, employees’ claims, labour disputes or contract disputes, which could have a material adverse effect on our reputation, operations and financial conditions. As at the Latest Practicable Date, there was an outstanding claim for unfair cancellation of negotiations of the potential acquisition by a subsidiary of our Group. Please refer to the paragraph headed “Legal proceedings” under the section headed “Business” of this prospectus for details. Any dispute may lead to legal or other proceedings and may result in substantial costs and the diversion of resources and management’s attention.

We may be subject to liability if we fail to comply with Japan’s privacy laws in connection with our membership system and database

We are subject to Japan’s Act on the Protection of Personal Information, which regulates the collection, use, handling, and transfer of personal information. For details, please refer to the section headed “Applicable Laws and Regulations” of this prospectus. We maintain a membership database that collects, stores and analyses information on our registered member customers, 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 internal leaks, or misappropriation by an unauthorised third party, will be reported to relevant authorities. Such breaches could subject us to civil and/or criminal liability, and since they are encouraged to be disclosed to the public, they may significantly damage our reputation.

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Our Group has records of certain non-compliance of tax filing requirements and requirements under the Labour Law in Japan

Members of our Group had certain non-compliance with (i) tax filing requirements; and (ii) maintenance of accurate records of our employees' working hours, specification of provision in employment contracts relating to payment of allowances and payment of adequate compensation with respect to our employees' overtime and/or late-night work under the applicable laws in Japan, details of which are set out in the paragraph headed "Historical compliance matters" under the section headed "Business" of this prospectus. There is no assurance that the relevant authorities would not impose fines and criminal penalties against members of our Group in relation to these non-compliance incidents. In the event that such penalties are imposed, and our Controlling Shareholder fails to honour the indemnity in full, our reputation, cash flow and results of operations may be adversely affected.

We may not be able to recover the deferred income tax assets

During the Track Record Period, our Group recorded deferred income tax assets of approximately ¥490 million, ¥842 million, ¥762 million and ¥838 million as at 30 June 2014, 2015 and 2016 and as at 31 October 2016, respectively. In assessing the recoverability of the deferred income tax assets, our Group takes into account, amongst others, projected future taxable profit and tax planning. If the projected taxable profit and/or the tax plan does not materialise in the future, our Group may not be able to recover the deferred income tax assets recorded during the Track Record Period as expected, which may materially and adversely affect our financial conditions and prospects.

We may recognise impairment on goodwill in subsequent financial periods

According to our accounting policies as set out in Appendix I to this prospectus, goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the cash generating unit containing the goodwill is compared to the recoverable amount, which is the higher of value-in-use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. In determining the value-in-use, our Group adopts key parameters, including five-year revenue growth rates, the long-term growth rate beyond year five and discount rates. There is no assurance that the key parameters adopted will continue to be reasonable in the future. Future changes in such key parameters may result in impairment charges in subsequent reporting periods and may materially and adversely affect our results of operations and financial conditions.

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

The Amusement Business Law sets certain limits on the pay-out ratios of pachinko and pachislot machines. Though we purchase and maintain our machines in adherence to such limit, 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

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customers' skill and experience, the mix of games played, the financial resources of customers and the amount of time customers spend on playing pachinko and pachislot games. These factors, separately or in combination, have the potential to adversely impact our pay-out ratios, which may materially and adversely affect our business, results of operations and financial conditions over certain periods.

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 values, there may be a material adverse effect on our business, results of operations and financial conditions

Our Property Valuer has valued selected properties in Japan in which our Group has interests as at 28 February 2017. Please refer to Appendix IV to this prospectus for the full text of their letter, summary of valuation and valuation certificates with regard to such properties' interests.

If any of the valuation assumptions provided by our Property Valuer are proved 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 properties in the market, and should not be taken as their actual realisable values or a forecast of their realisable values. Unforeseeable changes to regional economic conditions may also affect the values 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 conditions.

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. We also maintain movable property insurance for third party physical injuries and property damages, as well as labour and health insurance. Each policy generally contains certain customary exclusions. Therefore, certain acts and events could expose us to substantial uninsured losses. Our insurance may not continue to be available on commercially reasonable terms and, in any event, may not be adequate to cover all losses. As a result, our business, financial conditions and results of operations could be materially and adversely affected.

Any failure to renew or replace an insurance policy that may be required under our various credits and other material agreements could result in an event of default under such credits or other material agreements and have a material adverse effect on our business, financial conditions, results of operations and prospects.

B. RISKS RELATING TO THE INDUSTRY IN WHICH OUR GROUP OPERATES

There could be changes in regulatory, governmental policies (or their interpretations) or voluntary industry regulations that affect the pachinko industry

The pachinko industry is subject to multiple Japan laws, regulations and prefectural ordinances (including voluntary industry regulations established by industry players to ensure

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compliance with the legal and regulatory requirements). 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 licence, or even cancel the licence or suspend operations in cases such as that 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, the pay-out ratios of machines and advertising.

There are limited precedents with regard to the Amusement Business Law and its enforcement on pachinko hall operations. An administrative body may issue new or modified regulations, or a court or administrative or regulatory body may have 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. There has also been discussions about the introduction of pachinko tax, although no legislative process has taken place yet. If such additional tax is indeed imposed, it may negatively impact our business, results of operations, financial conditions and prospects.

Any future regulatory changes may limit our ability to grow our business, or increase the time, cost and other resources required to maintain compliance, any of which could materially adversely affect our business, results of operations, financial conditions and prospects.

The pachinko industry is experiencing a downward trend in terms of market size, which may have an adverse effect on our business and results of operations

According to Yano Research, the pachinko industry has been experiencing a downward trend in terms of market size since 2005 especially due to the shift to pachislot machines with less encouragement for customers' passion for gaming. The market size in term of gross pay-ins decreased from approximately ¥34.9 trillion in 2005 to approximately ¥23.2 trillion in 2015. An overall reduction in size of the pachinko market may have an adverse effect on our business, results of operations and financial conditions.

In addition, according to Yano Research, with the competition of a wide-range of gaming activities in the market, the pachinko industry has not yet come up with effective measures to attract new and young customers and to retain existing customers. The number of pachinko customers may decrease if the industry loses the middle-aged and senior layer of customers which comprise more than half of the pachinko customers' population. Our results of operations and prospects may be adversely affected if we lose the aged customer base and fail to broaden the demographic appeal of pachinko games.

Governmental authorities have broad discretion in exercising its administrative power

Under Japan laws, enforcement of regulatory matters, other than enforcement of criminal sanctions, is largely delegated to the national and local government bodies. With regard to pachinko hall operations, the local police and the Prefectural Public Safety Commission have practical discretion in the enforcement of the Amusement Business Law, the Enforcement Ordinance and the Prefectural Ordinance including issuance of administrative orders such as

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suspension or cancellation of the operating licence. In addition, the Amusement Business Law, the Enforcement Ordinances, the Prefectural Ordinances, the ABL Circular and the Police Advertisement Circular contain certain provisions with unclear contextual meanings. Therefore, the standard of enforcement of the regulations under the Amusement Business Law, the Enforcement Ordinances and the Prefectural Ordinances may vary from prefecture to prefecture, and from time to time. This may materially and adversely affect our business, results of operations, financial conditions and prospects.

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

Up to the Latest Practicable Date, 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 pachinko hall customer. The parties under the Three Party System include (i) pachinko hall operators (such as ourselves); (ii) G-prize wholesalers; and (iii) G-prize buyers. Please refer to the section headed “Three Party System” of this prospectus for details.

Various courts of Japan (including the Supreme Court) and the National Police Agency have made rulings or interpretations which have relevance to the legality of the Three Party System. Our Japan Legal Adviser has also advised us in this regard. Please refer to the paragraph headed “Legality of pachinko business and the Three Party System” under the section headed “Applicable Laws and Regulations” of this prospectus for details. Notwithstanding the above, we cannot assure, where any new law, regulation or court ruling is introduced in the future, that the Three Party System will continue to be an effective practice to ensure compliance with the Amusement Business Law or that pachinko and pachislot games will not be deemed to constitute a “gambling” offence under the Penal Code by any such new law, regulation or court ruling. Any such circumstance would materially and adversely affect our business, results of operations, financial conditions and prospects.

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

Historically, the pachinko industry has sometimes been linked to anti-social forces. To the best knowledge of our Directors, our Group, the G-prize wholesalers engaged by us and their G-prize buyers, have no involvement in any anti-social forces. There is no assurance 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 conditions, and also the reputation and perception of our industry as a whole.

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C. RISKS RELATING TO ECONOMIC AND POLITICAL CONDITIONS IN JAPAN

Our business may be affected by downturns in the economy, economic uncertainty and other factors affecting discretionary consumer preferences

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 economic conditions, a weakening job market, or an actual or perceived decrease in disposable consumer income and wealth. These and other factors had in the past reduced consumer demand for the gaming and entertainment services we offer and hence had adversely affected our gaming business, results of operations and financial conditions, and if we are not successful in responding to future changes in consumer spending trends, such factors could further affect our future prospects.

Japanese economy is subject to the fluctuations of the global economy. A continuous weakness in the global economy, or Japanese economy 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 in the number of customers, the frequency of visits by such customers, or the amount of money spent by such customers in our pachinko halls. Any reduction in consumer demand for the services we offer may materially and adversely affect our operating revenues and, as a result, our business, financial conditions and results of operations.

Our business may be adversely affected by natural disasters, such as earthquakes or disease outbreaks

Kyushu region is our most important strategic location, in which our headquarters and 12 of our halls (as at the Latest Practicable Date) are located. Our halls in the Kyushu region accounted for approximately 48.3%, 50.3%, 55.0%, and 57.5% of our total gross pay-ins for the three years ended 30 June 2016 and the four months ended 31 October 2016, respectively.

In April 2016, a series of earthquakes including a mainshock which occurred at magnitude around 7.0 struck Kumamoto Prefecture in the Kyushu region. Our Group did not sustained any loss in the said earthquakes. Nevertheless, 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 disasters or outbreak of an epidemic can adversely impact our employees and our ability to continue operating our pachinko facilities, our supplier's ability to continue their manufacturing or other operational activities, or our customers' discretionary spending. Ultimately, these events can cause significant disruptions to our business operation.

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 natural disasters or casualty events may materially and adversely affect our business, financial conditions and results of operations.

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Consumption tax is likely to increase in Japan, which may in turn affect the customer spending

The Japan government reviews tax policy annually as part of its budgeting process. The consumption tax is expected to increase to 10% in October 2019. We cannot predict if and when the consumption tax will further increase in the future or at what rate. If the consumption tax is increased, it is likely that customer spending will be adversely affected. Decline in customer spending may result in declines in our revenue, which can have material adverse effects on our financial conditions, results of operations or business.

D. RISKS RELATING TO THE SHARE OFFER

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 of 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 hall operations do not constitute “gambling” under, and do not violate, the Penal Code. Nevertheless, if the Stock Exchange still deems our operations to be gambling activities, and pursuant to Guidance Letter HKEx-GL71-14, if our pachinko hall 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 or 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 Share Offer, there was no public market for our Shares. Following the completion of the Share Offer, the Stock Exchange will be the only market where our Shares are publicly traded. While we have applied to be listed and deal our Shares on the Stock Exchange, we cannot predict the extent to which prospective investors’ interest in our Company will lead to the development of a trading market on the Stock Exchange or how active and liquid that market may become. If an active and liquid trading market does not develop, prospective investors may have difficulty in selling our Shares. The Offer Price of the Offer Shares was negotiated between us and the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters), and it may not necessarily be indicative of the market price of our Shares after the Share Offer is completed. A prospective investor who purchases our Shares in the Share Offer 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.

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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 and strategic alliances and/or acquisitions, could cause the market price of our Shares to change substantially. Any of such factors may result in large and sudden changes in the volume and price at which our Shares will be traded. We cannot assure that these factors will not occur in the future. In addition, shares of other companies listed on the Stock Exchange had 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, prospective investors 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 take place 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 when trading begins.

Prospective investors' 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 ownership percentage 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.

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 Share Offer, or speculation that these sales could occur, could cause the market price of our Shares to decline. Upon completion of this Share Offer, we will have 500,000,000 Shares outstanding. Certain holders of our Shares will be able to sell their Shares upon the expiration of certain lock-up periods. Please refer to

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the section headed “Underwriting” of this prospectus for details. We cannot predict the effect, if any, on the market price of our Shares resulted from market sales of securities held by our significant Shareholders or any other Shareholders or the availability of these securities for future sale.

As the Offer Price of our Shares may be higher than our net tangible asset value per Share, prospective investors in the Share Offer will experience immediate dilution

If prospective investors purchase our Shares in the Share Offer, depending on the final Offer Price, they may pay more for the Shares than our net asset value on a per Share basis. As a result, prospective investors in the Share Offer will experience an immediate dilution in the net tangible asset value and our existing Shareholders will receive an increase by the pro forma adjusted consolidated net tangible asset value per Share. In addition, prospective investors may experience a further dilution of their interest if we issue additional Shares in the future.

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 Hong Kong. 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, amongst other things, their distributable earnings and their ability to service their debt obligations. 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.

Our subsidiaries incorporated in Japan are required under Japan law to withhold tax prior to payment of dividends to our Company. In the absence of any applicable treaty or agreement reducing the maximum rate of withholding tax, the standard rate of Japan withholding tax applicable to dividends paid by Japanese corporations to non-resident shareholders is generally 20.42%. Notwithstanding the above, following the Hong Kong-Japan Tax Treaty which was entered into force on 14 August 2011, dividends paid by such subsidiaries incorporated in Japan to our Company will be subject to a withholding tax in Japan of 5%, if our Company can demonstrate to the Japan tax authorities that it is a tax resident in Hong Kong according to the Hong Kong-Japan Tax Treaty. 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 Shares.

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

During the Track Record Period we declared and paid dividends in the amount of ¥2 million, ¥2 million and ¥4,740 million for the three years ended 30 June 2016, respectively.

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Purchasers of the Offer Shares in the Share Offer 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 in accordance with our Articles. The payment and the amount of any dividends will depend on our earnings, financial conditions, results of operations, cash flows, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. We cannot assure that future dividends will be declared or paid in an amount equivalent to or exceeding historical dividends. Therefore, prospective investors should be aware that historical dividends are not indicative of the amount of future dividends or the frequency of our future dividend payment. For details, please refer to the paragraph headed “Dividend” under the section headed “Financial Information” of this prospectus.

Prospective investors may experience difficulty in effecting service of legal process and enforcing judgments against our management

Our Company was incorporated under the laws of Hong Kong, but substantially all of our current operations as well as administrative and corporate functions are conducted in Japan. Also, substantially all of our assets and our subsidiaries, as well as most of our Directors and members of senior management, are located in Japan. As a result, it may not be possible to effect service of process outside Japan upon any of these persons, or to enforce any judgments obtained in courts outside of Japan against them. As a result, judgments of a court in foreign jurisdiction related to any matter not subject to binding arbitration provision may not be recognised or enforced in Japan. In addition, it is uncertain whether Japanese courts would be competent to hear the original actions brought against us or such persons predicated upon the laws of other jurisdictions.

E. RISK RELATING TO CERTAIN INFORMATION CONTAINED IN THIS PROSPECTUS

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 information relating to the economy and the industry contained in this prospectus are derived from various publications and information provided by Yano Research. We cannot assure, or make any representation, as to the accuracy, completeness, quality or reliability of such information. Neither our Group nor any of our respective affiliates or advisers, nor the Sponsor, the Sole Bookrunner, and Lead Manager or any of their respective directors, officers, employees, advisers or agents, has prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from the third party market research reports. Due to possible flawed collection methods, discrepancies on 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 reports may be inaccurate or may

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not be comparable to or consistent with information available from other sources and should not be unduly relied upon. In all cases, prospective investors should give careful consideration as to how much weight or importance they 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, amongst other things, the discussion of our growth strategy and the expectations of our future operation, liquidity and capital resources.

Prospective investors should be 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. Prospective investors should not place undue reliance on such forward-looking information. For more details, please refer to the section headed “Forward-Looking Statements” of this prospectus.

Prospective investors 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

We wish to emphasise to prospective 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. Prospective investors making a decision as to whether to apply for the Shares should rely solely on the information contained in this prospectus and the Application Forms and not place any reliance on any other information.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have applied for, and been granted by the Stock Exchange, a waiver from strict compliance with certain provisions under the Listing Rules. A summary of the waiver is set out in this section below.

In preparation for the Listing, we have applied for, and have been granted by the Stock Exchange, the following waiver from strict compliance with certain provisions under the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Under Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our Executive Directors must be ordinarily residents in Hong Kong.

Our Group is principally engaged in the business of owning and operating pachinko halls in Japan. The headquarters of our Company is located in Nagasaki, Japan, and our operations are managed from our headquarters with pachinko halls located in Kyushu, Kanto, Kansai and Chugoku regions in Japan as at the Latest Practicable Date. We do not carry out or manage any business activity in Hong Kong.

Except for Mr. Yamamoto, none of our Executive Directors ordinarily resides in Hong Kong. Since the main operations of our Group are in Japan, we consider it practically difficult and commercially unviable and unnecessary for our Company to either relocate any other Executive Director to Hong Kong, or appoint an additional Executive Director who will ordinarily reside in Hong Kong. We further consider that it is in the best interest of our Company and our Shareholders for all other Executive Directors to attend to his functions and duties in Japan and remain close to our core operations.

Accordingly, our Company does not have, and does not contemplate in the foreseeable future to have, sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

In light of the aforesaid, we have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 8.12 of the Listing Rules on the following conditions:

- (a) pursuant to Rules 2.11 and 3.05 of the Listing Rules, we have appointed Mr. Takamasa Kawasaki, our Independent Non-Executive Director, and Mr. Man Yun Wah, our Company Secretary, as authorised representatives who will act as the principal channel of communication with the Stock Exchange. The authorised representatives will be available to meet with the Stock Exchange on reasonable notice as and when required and will be readily available by telephone, email and facsimile to promptly address the enquiries of the Stock Exchange and their contact details (including mobile phone numbers, residential and office phone numbers and facsimile numbers) have been provided to the Stock Exchange. We will inform the Stock Exchange promptly in respect of any change in the authorised representatives and their alternate(s);

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (b) each of the authorised representatives is duly authorised to communicate on behalf of our Company with the Stock Exchange. The authorised representatives should have means for contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. Each of our Directors is authorised to communicate on our Company's behalf with the Stock Exchange;
- (c) each Director will provide their respective mobile phone numbers, office phone numbers, e-mail addresses and fax numbers to the Stock Exchange. Each of our Directors is authorised to communicate on our Company's behalf with the Stock Exchange;
- (d) each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period;
- (e) our Company will retain professional advisers (including legal advisers and accountants) to advise on our on-going compliance obligations and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after the Listing;
- (f) pursuant to Rule 3A.19 of the Listing Rules, we have appointed Quam Capital as our compliance adviser who will have access at all times to the authorised representatives, our Directors and the other senior management of our Company. The compliance adviser will act as an additional channel of communication with the Stock Exchange. The compliance adviser will be appointed for a period commencing on the Listing Date and ending on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing; and
- (g) meetings between the Stock Exchange and our Directors could be arranged through the authorised representatives or the compliance adviser, or directly with our Directors, within a reasonable time frame.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Future (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters, the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE SHARE OFFER

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorised by us, the Sponsor, the Sole Bookrunner and Lead Manager, the Underwriters, any of their respective directors, officers, agents, employees or advisers or any other party involved in the Share Offer. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus, or imply that the information in this prospectus is correct as of any subsequent time.

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and Conditions of the Share Offer" of this prospectus, and the procedures for applying for the Public Offer Shares are set out in the section headed "How to Apply for the Public Offer Shares" of this prospectus and on the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Public Offer which forms part of the Share Offer. For applicants under the Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Public Offer.

The Listing is sponsored by Altus Capital. The Public Offer is fully underwritten by the Public Offer Underwriter under the terms of the Public Offer Underwriting Agreement. The Placing Underwriting Agreement relating to the Placing is expected to be entered into on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) and us. The Share Offer is managed by the Sole Bookrunner and Lead Manager.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

If, for any reason, the Offer Price is not agreed between our Company and the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) on or before the Price Determination Date, the Share Offer will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” of this prospectus.

RESTRICTIONS ON SALE OF OFFER SHARES

Each person acquiring the Public Offer Shares under the Public Offer will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and the Application Forms, and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit an offering of the Public Offer Shares or the distribution of this prospectus and the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and the Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation (i) in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised, or (ii) to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus, the Application Forms and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities or an exemption therefrom.

ELIGIBILITY FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Prospective investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and the permission to deal in, our Shares in issue and to be issued pursuant to the Share Offer and the Bonus Issue (including any Shares which may be issued pursuant to the exercise of the options to be granted under the Share Option Scheme).

No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list on any other stock exchange is being or proposed to be sought in the near future.

SHARE REGISTRAR AND STAMP DUTY

All Shares issued pursuant to applications made in the Share Offer will be registered on our Company's register of members to be maintained in Hong Kong by our Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Our Shares will be considered as Hong Kong stock for the purpose of the Stamp Duty Ordinance. Dealings in our Shares registered on our Hong Kong share register will be subject to stamp duty in Hong Kong.

PROFESSIONAL TAX ADVICE RECOMMENDED

Prospective investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing or holding of and dealing in the Offer Shares. None of our Company, the Sponsor, the Sole Bookrunner and Lead Manager, the Underwriters, any of their respective directors, officers, employees, advisers or agents or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase or holding of, or dealing in the Offer Shares.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedure for applying for the Public Offer Shares is set out in the section headed "How to Apply for the Public Offer Shares" of this prospectus and on the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Further information on the structure and conditions of the Share Offer, including its conditions, is set out in the section headed “Structure and Conditions of the Share Offer” of this prospectus.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the Japanese names of any of the entities and references to Japan laws and governmental authorities mentioned in this prospectus and their English and/or Chinese translations, the Japanese names shall prevail.

EXCHANGE RATE CONVERSION

For the purpose of illustration only, certain amounts in this prospectus denominated in Japanese yen have been converted into Hong Kong dollars. No representation is made that the Japanese yen amounts could have been, or could be, converted into Hong Kong dollars, or vice versa, at the indicated rates or at all. Unless indicated otherwise, Japanese yen amounts have been converted into Hong Kong dollars at the rate of HK\$1.00 to ¥14.2.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

| Name | Residential Address | Nationality |
|--|---|-------------|
| Executive Directors | | |
| Katsuya YAMAMOTO (山本勝也) | Flat C, 68/F, Diamond Sky Cullinan 2, 1 Austin Road West, Tsim Sha Tsui, Kowloon, Hong Kong | Japanese |
| Fumihide HAMADA (濱田文秀) | 252 Kogamachi, Nagasaki City, Nagasaki Prefecture, Japan | Japanese |
| Yutaka KAGAWA (香川裕) | Central Heights Sakai 301, 3-3 Nigiwaimachi, Nagasaki City, Nagasaki Prefecture, Japan | Japanese |
| Toshiro OE (大江敏郎) | 3-1-16-503 Showa, Nagasaki City, Nagasaki Prefecture, Japan | Japanese |
| Independent Non-executive Directors | | |
| Mitsuru ISHII (石井満) | 1-32-6 Kamiishiwara, Chofu City, Tokyo, Japan | Japanese |
| Yuji MATSUZAKI (松崎裕治) | Tamagawa Kuji Park Homes 106, 2-9-10 Seki, Tama-ku, Kawasaki City, Kanagawa Prefecture, Japan | Japanese |
| Takamasa KAWASAKI (川崎貴聖) | 1/F, No.57 Sha Kok Mei Village, Sai Kung, New Territories, Hong Kong | Japanese |

Further information of our Directors is disclosed under the section headed “Directors, Senior Management and Employees” of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

| | |
|---|---|
| Sponsor | Altus Capital Limited 21 Wing Wo Street, Central, Hong Kong |
| Sole Bookrunner, Lead Manager and Underwriter | Crosby Securities Limited 5/F, AXA Centre, 151 Gloucester Road, Wan Chai, Hong Kong |
| Legal Advisers to the Company | <i>As to Hong Kong law:</i> H.M. Chan & Co. in association with Taylor Wessing 21/F, 8 Queen's Road Central, Hong Kong <i>As to Japan law:</i> Anderson Mori & Tomotsune Akasaka K-Tower, 2-7, Motoakasaka 1-chome, Minato-ku, Tokyo 107-0051, Japan |
| Legal Advisers to the Sponsor and the Underwriters | <i>As to Hong Kong law:</i> Deacons 5/F, Alexandra House, 18 Chater Road, Central, Hong Kong <i>As to Japan law:</i> Soga Law Office 2/F, Yotsuya Y's Bldg, 7-6 Honshiocho, Shinjuku-ku, Tokyo, 160-0003 Japan |
| Auditor and Reporting Accountant | PricewaterhouseCoopers <i>Certified Public Accountants</i> 22/F, Prince's Building, Central, Hong Kong |
| AML Consultant | PricewaterhouseCoopers Limited 22/F, Prince's Building, Central, Hong Kong |

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

| | |
|---|--|
| Independent Property Valuer | DTZ Cushman & Wakefield Limited 16/F, Jardine House, 1 Connaught Place, Central, Hong Kong |
| Compliance Adviser | Quam Capital Limited 18/F-19/F, China Building, 29 Queen's Road Central, Hong Kong |
| Receiving Bank | Standard Chartered Bank (Hong Kong) Limited 15/F, Standard Chartered Tower 388 Kwun Tong Hong Kong |
| Financial Adviser to the Company | Aristagora Advisors Co., Ltd. Atago Green Hills MORI Tower, 35/F, 2-5-1 Atago, Minato-ku, Tokyo 106-6235, Japan |

CORPORATE INFORMATION

| | |
|---|--|
| Headquarters in Japan | 7/F, 13-10 Motofuna-machi, Nagasaki City, Nagasaki Prefecture, Japan 850-0035 |
| Registered office and principal place of business in Hong Kong | 11/F, Admiralty Centre Tower II, 18 Harcourt Road, Admiralty, Hong Kong |
| Company website | <u>www.okura-holdings.com</u> <i>(information on this website does not form part of this prospectus)</i> |
| Company secretary | Mr. Man Yun Wah <i>ACIS, ACS, MCG</i> Room 2105, 21/F, Office Tower, Langham Place, 8 Argyle Street, Mongkok, Kowloon, Hong Kong |
| Authorised representatives | Mr. Takamasa Kawasaki 1/F, No. 57 Sha Kok Mei Village, Sai Kung, New Territories, Hong Kong Mr. Man Yun Wah <i>ACIS, ACS, MCG</i> Room 2105, 21/F, Office Tower, Langham Place, 8 Argyle Street, Mongkok, Kowloon, Hong Kong |
| Audit Committee | Mr. Takamasa Kawasaki <i>(Chairman)</i> Mr. Mitsuru Ishii Mr. Yuji Matsuzaki |
| Remuneration Committee | Mr. Takamasa Kawasaki <i>(Chairman)</i> Mr. Mitsuru Ishii Mr. Yuji Matsuzaki Mr. Katsuya Yamamoto Mr. Yutaka Kagawa |
| Nomination Committee | Mr. Katsuya Yamamoto <i>(Chairman)</i> Mr. Takamasa Kawasaki Mr. Mitsuru Ishii Mr. Yuji Matsuzaki Mr. Yutaka Kagawa |

CORPORATE INFORMATION

Risk Management Committee

Mr. Fumihide Hamada (*Chairman*)
Mr. Satoshi Maeda
Mr. Hayato Tobisawa
Mr. Junichi Hitomi
Mr. Masayuki Sakata
Mr. Koji Nakao
Mr. Shuntaro Honda
Mr. Seiji Otofujii
Mr. Yutaka Kagawa
Mr. Masaki Oka
Mr. Fumihiko Tanaka

Hong Kong Share Registrar

Tricor Investor Services Limited
Level 22,
Hopewell Centre,
183 Queen's Road East,
Hong Kong

Principal bankers

Sumitomo Mitsui Banking Corporation, Saga Branch
2-3, Hachimankoji,
Saga City, Saga Prefecture,
Japan 840-0834

Shinwa Bank, Sumiyoshi Branch
2-22, Sumiyoshimachi
Nagasaki City, Nagasaki Prefecture,
Japan 852-8154

The Eighteenth Bank, Ltd., Sumiyoshi Branch
1-6 Nakazonomachi,
Nagasaki City, Nagasaki Prefecture,
Japan 852-8155

HISTORY AND DEVELOPMENT

OVERVIEW

Our business in pachinko hall operations was founded by Mr. Katsumitsu Yamamoto in 1968 with the establishment of our first pachinko hall, Monaco Sumiyoshi Honten, in Nagasaki. Mr. Katsumitsu Yamamoto is the father of our Chairman. In 1968, Mr. Katsumitsu Yamamoto established Monaco Sumiyoshi Honten. Since then, Mr. Katsumitsu Yamamoto has spent more than 40 years operating and managing pachinko halls in Japan.

Our Chairman joined Mr. Katsumitsu Yamamoto in his pachinko hall operation business in 1984, and has since worked towards expanding and institutionalising such business. In the same year, our Chairman incorporated Okura Japan to facilitate the expansion of Mr. Katsumitsu Yamamoto's pachinko hall operations. Since the incorporation of Okura Japan, our pachinko hall operations have grown gradually in terms of number of pachinko halls and geographic coverage. Our pachinko hall network comprised seven pachinko halls at the end of 1995, and had since grown to 18 pachinko halls by the end of 2016. In addition, our geographic coverage included areas in the Kyushu region outside Nagasaki as early as 1995, and had expanded to cover the Kanto region since 2003, the Kansai region since 2012 and the Chugoku region since 2016. Our Chairman has spent more than 30 years operating and managing pachinko halls in Japan.

During the Track Record Period, we operated our pachinko halls through a number of Japanese corporate entities comprising our Group. On 16 June 2015, our Company was incorporated under the laws of Hong Kong. On the same day, our Company acquired all issued shares in K's Holdings from our Chairman, in consideration of the allotment and issue of 8,000,000 founder Shares to him. Since then, our Company has become the holding company of our Group.

To centralise our marketing, advertising and human resources management functions, we acquired 60% of the issued shares in each of Aratoru and Adward in June 2015 from Mr. Satoshi Maeda, a member of our senior management, who had operated and managed Aratoru and Adward which primarily provide marketing and advertising services to our Group during the Track Record Period prior to the completion of such acquisition.

In view of the opportunities that may arise from industry consolidation of pachinko hall operations in Japan as detailed under the section headed "Industry Overview" of this prospectus, we aim to, amongst other things, strengthen our market position and strategically expand our pachinko hall operations through establishing new or acquiring pachinko halls. For details, please refer to the paragraph headed "Business strategies" under the section headed "Business" of this prospectus. We commenced the Reorganisation in 2013 in preparation for the Listing to enable our Group to raise our corporate profile and to diversify fund raising channels to facilitate the aforesaid expansion. Please refer to the paragraph headed "Reorganisation" in this section for further details relating to our Reorganisation. Having considered the liquidity, volatility, access to international investors, proximity to our

HISTORY AND DEVELOPMENT

operations, maturity of regulatory framework of the stock markets in Asia, and the familiarity of Hong Kong investors to pachinko business after the listing of two pachinko operators, our Directors are of the view that a listing on the Stock Exchange would be most favourable for the development of our business.

BUSINESS MILESTONES

The table below shows our key achievements and business milestones since our establishment in 1968:

- | | |
|------|--|
| 1968 | <ul style="list-style-type: none">• Opened Monaco Hall, commonly known as “Monaco Sumiyoshi Honten”, in Nagasaki |
| 1984 | <ul style="list-style-type: none">• Our Chairman joined the management of Monaco Sumiyoshi Honten• Our Chairman incorporated Okura Japan (formerly known as K’s Co., Ltd. and renamed as Okura Co., Ltd. in April 2012) to institutionalise the operation of Monaco Sumiyoshi Honten and facilitate further expansion of the pachinko hall operations started by Mr. Katsumitsu Yamamoto• Adopted multi-hall operation and management strategy• Opened Togitsu Monaco (which was strategically closed in July 2005) in Togitsu, Nagasaki, being the second pachinko hall established by our Group |
| 1986 | <ul style="list-style-type: none">• Opened Monaco Shower (renamed as Big Apple Togitsu in December 2000) in Togitsu, Nagasaki, being the third pachinko hall established by our Group |
| 1995 | <ul style="list-style-type: none">• Operated six pachinko halls in Nagasaki, and also opened our first pachinko hall outside Nagasaki in Kyushu region• Operated a total of seven pachinko halls in Kyushu region |
| 2001 | <ul style="list-style-type: none">• Our Chairman became the president of our Group |
| 2003 | <ul style="list-style-type: none">• Opened Big Apple. Akihabara, being the 13th pachinko hall operated by our Group, and also the first pachinko hall we have operated in Kanto region. |
| 2005 | <ul style="list-style-type: none">• Operated a total of 18 pachinko halls in the Kyushu and the Kanto regions |
| 2012 | <ul style="list-style-type: none">• Changed corporate name of Okura Japan from K’s Co., Ltd. to Okura Co., Ltd.• Acquired 100% issued shares in Aisen, which operated the pachinko hall IKOKA Kakogawa (renamed as Big Apple. Kakogawa in July 2013) in Kakogawa, Hyogo, and began operating our first pachinko hall in the Kansai region |
| 2015 | <ul style="list-style-type: none">• Incorporation of our Company |

HISTORY AND DEVELOPMENT

- Acquisition of Aratoru and Adward, being the contractors of, amongst other things, our Group's marketing, advertising and human resources management functions, to centralise our key operational functions
 - Completed the Reorganisation upon which all assets and corporate entities belonging to our Group became wholly owned by our Company
- 2016
- Opened Big Apple. Shunan, being the 18th pachinko hall operated by our Group, and also our first pachinko hall in Chugoku region.
- 2017
- Acquisition of Okura Kyushu for the purpose of acquiring a property in Nagasaki, Kyushu for setting up a new flagship hall in Nagasaki

HISTORY AND CORPORATE DEVELOPMENT

Monaco Sumiyoshi Honten

Our business in pachinko hall operations was principally founded by Mr. Katsumitsu Yamamoto in 1968 with the establishment of our first pachinko hall, Monaco Sumiyoshi Honten, in Nagasaki. Mr. Katsumitsu Yamamoto managed the operations of Monaco Sumiyoshi Honten without any corporate establishment. Our operations were institutionalised into a corporate structure in April 1984 with the establishment of Okura Japan. Set out below is the corporate history of our Group:

Okura Japan and K's Holdings

On 3 April 1984, Okura Japan was incorporated under the laws of Japan as a company owned as to 93.6% by our Chairman, Mr. Katsumitsu Yamamoto and their associates, and 6.4% by Independent Third Parties. At incorporation, Okura Japan primarily engaged in the management and operation of Monaco Sumiyoshi Honten. Okura Japan adopted a multi-hall operation and management strategy in 1984, and opened two pachinko halls, Togitsu Monaco and Big Apple Togitsu, in 1984 and 1986, respectively. Okura Japan has, since its incorporation, served as our Group's main operating and holding subsidiary for the operation and management of our pachinko halls in Japan. Okura Japan became wholly-owned by our Chairman on or around 31 March 1995.

On 27 October 2008, K's Holdings was incorporated under the laws of Japan. At incorporation, K's Holdings issued 160 shares to our Chairman in consideration of the transfer of all the 1,000 issued shares our Chairman then held in Okura Japan to K's Holdings. The consideration of the transfer was determined in accordance with the advice of our tax adviser. Upon completion of the aforesaid transfer and the incorporation of K's Holdings, all of the 1,000 issued shares in Okura Japan became legally and beneficially held as to 100% by K's Holdings, and remained so as at the Latest Practicable Date, and K's Holdings became a company wholly owned by our Chairman until the date of incorporation of our Company. Since its incorporation, K's Holding has served primarily as an investment holding company, holding all of the 1,000 issued shares in Okura Japan.

HISTORY AND DEVELOPMENT

During the Track Record Period, and until the date of incorporation of our Company and the completion of the K's Holdings Investment Agreement (defined below) on 16 June 2015, all of the 160 issued shares of K's Holdings were legally and beneficially held by our Chairman. Upon completion of the K's Holdings Investment Agreement (defined below) on 16 June 2015, all of the 160 issued shares of K's Holdings became legally and beneficially held as to 100% by our Company, and remained so as at the Latest Practicable Date.

K's Properties

On 30 March 2001, K's Properties was incorporated under the laws of Japan as a non-wholly owned subsidiary of K's Holdings Limited Company (有限会社ケイズホールディングス) (“**KHLC**”), which is, in turn, an investment holding company held as to 100% by our Chairman and his associates¹. Since its incorporation, K's Properties has held the real estate properties that we used in our operations. Since the commencement of the Track Record Period, K's Properties was held as to 99.996% by KHLC, 0.003% by Okura Japan, and 0.001% by Fujio Tanaka, Ikuo Yamaguchi, Mitsuru Ishii, Ryuzo Kato and Tetsuo Yamaguchi (the “**Five K's Properties Shareholders**”) collectively². Except for Mitsuru Ishii, who is an Independent Non-executive Director, each of Fujio Tanaka, Ikuo Yamaguchi, Ryuzo Kato and Tetsuo Yamaguchi is an Independent Third Party of our Company.

On 27 December 2013, KHLC completed the acquisition of all 14 and 360 shares in K's Properties from the Five K's Properties Shareholders and Okura Japan, respectively. For details, please refer to the paragraph headed “Share transfers involving K's Properties” in this section.

On 19 May 2015, KHLC merged with K's Holdings, with K's Holdings remaining as the surviving entity, and KHLC dissolved upon completion of the Merger (defined below). Please refer to the paragraph headed “Mergers involving K's Holdings and KHLC” in this section for details. Since then, all of the 10,696,054 issued shares in K's Properties became legally and beneficially held as to 100% by K's Holdings, and had remained so as at the Latest Practicable Date.

Notes:

- ⁽¹⁾ The issued capital of KHLC was held at the commencement of the Track Record Period by our Chairman, Kinya Yamamoto, Kai Yamamoto, and Kakuya Yamamoto as to 30,000, 10,000, 10,000 and 10,000, respectively. Our Chairman is the father of Kinya Yamamoto, Kai Yamamoto and Kakuya Yamamoto.
- ⁽²⁾ The issued capital of K's Properties was held at the commencement of the Track Record Period by KHLC, Okura Japan, Fujio Tanaka, Ikuo Yamaguchi, Mitsuru Ishii, Ryuzo Kato and Tetsuo Yamaguchi as to 10,695,680 shares, 360 shares, 4 shares, 4 shares, 2 shares, 2 shares and 2 shares, respectively.

HISTORY AND DEVELOPMENT

Aisen

On 20 September 2012, Okura Japan, as purchaser, signed an agreement with Ms. Yosiko Ri, Ms. Keiko Ri and Ms. Hatsuko Ri, together as sellers, to acquire all of the 400 issued shares of Aisen³. Each of Ms. Yosiko Ri, Ms. Keiko Ri and Ms. Hatsuko Rei is an Independent Third Party. The aggregate consideration was ¥1,562,000,000, which was determined upon arm's length negotiation with reference to, amongst other things, the value of the business carried on by Aisen, the value of those buildings and properties that we need to separately purchase for Aisen's business, and the amount of debt liabilities on the books of Aisen. The acquisition of Aisen by Okura Japan was completed and the consideration was fully settled on 1 October 2012. All 400 issued shares of Aisen became legally and beneficially owned as to 100% by Okura Japan as at 1 October 2012, and had remained so as at the Latest Practicable Date.

Aisen was incorporated under the laws of Japan on 9 March 2000. It operated the pachinko hall IKOKA Kakogawa (renamed as Big Apple. Kakogawa in July 2013) in Kakogawa, Hyogo at the time of the aforesaid acquisition.

Okura Nishinihon

On 3 December 2012, Okura Nishinihon was incorporated in Japan as a wholly-owned subsidiary of Okura Japan with 2,000 issued shares. The incorporation of Okura Nishinihon resulted from the "incorporation-type corporate split" of Aisen under the Companies Act (the "**demerger**"). Immediately following the demerger of Aisen and the incorporation of Okura Nishinihon, the management and operations of Big Apple. Kakogawa as well as the related properties, assets and goodwill, were succeeded by Okura Nishinihon with no debts and liabilities attached, and Aisen became an investment holding company holding only all debts and liabilities incurred by Aisen prior to the completion of its acquisition by Okura Japan. During the Track Record Period and as at the Latest Practicable Date, all of the 2,000 issued shares in Okura Nishinihon were legally and beneficially held as to 100% by Okura Japan.

Okura Kyushu

On 23 January 2017, Okura Japan, as purchaser, signed an agreement with Lumax Networks Co., Ltd. (株式会社ルマックスネットワークス) ("**Lumax**"), as seller, in relation to all issued shares in Okura Kyushu for a consideration of ¥3,086,252,720, which was determined in a bidding process with reference to, among other things, the Group's valuation of the property held by Okura Kyushu in Nagasaki, Kyushu (the "**Nagasaki Property**"). It was intended that the Nagasaki Property will be developed into our new flagship pachinko hall in Nagasaki. Immediately prior to the completion of such acquisition, Okura Kyushu was wholly owned by Lumax. The consideration of the acquisition was fully settled and Lumax transferred

Notes:

⁽³⁾ The issued capital of Aisen immediately before the completion of the acquisition by Okura Japan held by Ms. Yosiko Ri, Ms. Keiko Ri and Ms. Hatsuko Ri were 195 shares, 195 shares and 10 shares, respectively.

HISTORY AND DEVELOPMENT

all 5,000,000 issued shares in Okura Kyushu held by it to Okura Japan on 28 February 2017. All issued shares of Okura Kyushu became legally and beneficially owned as to 100% by Okura Japan as from 28 February 2017, and had remained so as at the Latest Practicable Date.

Okura Kyushu was incorporated under the laws of Japan on 17 February 2017. It was incorporated by Lumax for holding the Nagasaki Property for effecting the aforesaid acquisition. Lumax was an Independent Third Party.

Subsidiaries merged and dissolved as a result of the Reorganisation

Since the establishment of Okura Japan in 1984, Mr. Katsumitsu Yamamoto, our Chairman and our Group, had incorporated a number of separate corporate entities to establish new pachinko halls or to undertake specific functions of our pachinko hall operations. Some of these corporate entities had been merged and dissolved within our corporate structure during the Track Record Period as a result of our Reorganisation. The following table sets out the details of such merged and dissolved corporate entities within our Group during the Track Record Period:

| Date of incorporation | Name of Japanese-incorporated subsidiary | Principal business activities | Issued capital as at 1 July 2013 |
|----------------------------|--|--|----------------------------------|
| 21 March 2000 | EQU Limited Company* (有限会社イーキューユー) ("EQUL") | Managing our Group's owned and leased properties by engaging in licensed real estate property brokering business | ¥3,000,000 |
| 1 November 2001 | SU Limited* (有限会社エスユー) ("SUL") | Providing human resources management services for our Group | ¥3,000,000 |
| 9 March 2005 | EQU* (株式会社EQU) | Providing human resources management services for our Group | ¥10,000,000 |
| 24 November 2005 | KHLC | Investment holding | ¥50,000,000 |
| 30 October 2006 | NICS KP* (株式会社ニックス・ケイズプロパティ) ("NICS KP") | Investment holding | ¥10,000,000 |
| 15 March 2007 | Mercury Service Co., Ltd.* (マーキュリーサービス株式会社) ("Mercury") | Engaging in car park operations and management | ¥50,000,000 |
| 28 March 2007 | K's Parking Co., Ltd.* (株式会社ケーズパーキング) ("K's Park") | Engaging in car park operations and management | ¥100,000,000 |

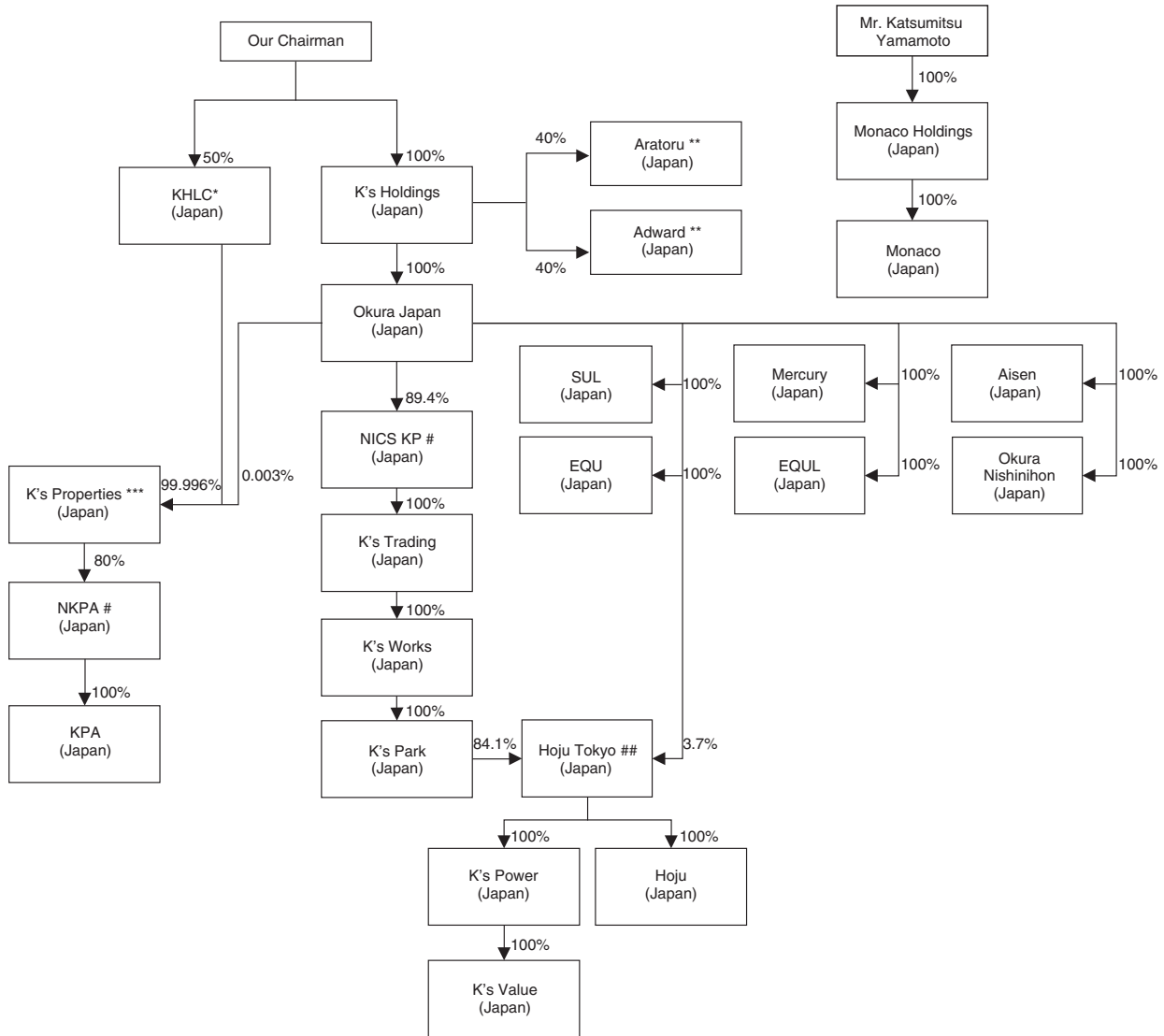
HISTORY AND DEVELOPMENT

| Date of incorporation | Name of Japanese-incorporated subsidiary | Principal business activities | Issued capital as at 1 July 2013 |
|-----------------------------|---|--|----------------------------------|
| 1 June 2007 | Monaco Co., Ltd.* (株式会社モナコ) (“ Monaco ”) | Operating one pachinko hall, Monaco Sumiyoshi Honten | ¥1,000,000 |
| 15 October 2008 | Monaco Holdings Co., Ltd.* (株式会社モナコホールディングス) (“ Monaco Holdings ”) | Holding issued shares in Monaco Co., Ltd. | ¥1,000,000 |
| 18 November 2008 | K’s Works | Providing office and administration management services for our Group | ¥8,000,000 |
| 22 January 2009 | K’s Trading Co., Ltd.* (株式会社K’s Trading) (“ K’s Trading ”) | No substantial operations since incorporation | ¥50,000,000 |
| 31 March 2009 | Hoju Co., Ltd.* (株式会社宝珠) (“ Hoju ”) | No substantial operations since incorporation | ¥8,000,000 |
| 16 December 2009 | K’s Value | Holding real estate properties and engaging in real estate property leasing business | ¥10,000,000 |
| 22 December 2009 | K’s Power Co., Ltd.* (株式会社ケース・パワー) (“ K’s Power ”) | Investment holding | ¥10,000,000 |
| 18 August 2010 | Hoju Tokyo Co., Ltd.* (株式会社宝珠東京) (“ Hoju Tokyo ”) | Investment holding | ¥10,000,000 |
| 26 August 2010 | KPA | Holding real estate properties and engaging in real estate property leasing business | ¥10,000,000 |
| 17 September 2010 | NKPA Co., Ltd.* (株式会社NKPA) (“ NKPA ”) | Investment holding | ¥12,500,000 |

HISTORY AND DEVELOPMENT

REORGANISATION

The chart below shows the shareholding and corporate structure of our Group as at 1 July 2013:



Notes:

* The issued capital of KHLC was held at the commencement of the Track Record Period by our Chairman, Kinya Yamamoto, Kai Yamamoto, and Kakuya Yamamoto as to 30,000 shares, 10,000 shares, 10,000 shares and 10,000 shares, respectively. Our Chairman is the father of Kinya Yamamoto, Kai Yamamoto and Kakuya Yamamoto.

** The issued capital of each of Adward and Aratoru was held as at the commencement of the Track Record Period by Mr. Satoshi Maeda and K's Holdings as to 300 shares and 200 shares, respectively. Mr. Satoshi Maeda is a member of our senior management and a director of Adward and Aratoru, and is therefore a connected person of our Company.

HISTORY AND DEVELOPMENT

- *** *The issued capital of K's Properties was held at the commencement of the Track Record Period by KHLC, Okura Japan, Fujio Tanaka, Ikuo Yamaguchi, Mitsuru Ishii, Ryuzo Kato and Tetsuo Yamaguchi as to 10,695,680 shares, 360 shares, 4 shares, 4 shares, 2 shares, 2 shares and 2 shares, respectively. Except for Mitsuru Ishii, who is an Independent Non-executive Director, each of Fujio Tanaka, Ikuo Yamaguchi, Ryuzo Kato and Tetsuo Yamaguchi is an Independent Third Party.*
- # *The issued capital of NKPA was held as at the commencement of the Track Record Period by K's Properties and NICS Taxation Co., Ltd. ("**NICS Taxation**") as to 20,000 shares and 5,000 shares, respectively. The issued capital of NICS KP was held as at the commencement of the Track Record Period by Okura Japan and NICS Taxation as to 2,000,000 shares and 236,000 shares respectively. NICS Taxation is a company wholly owned by Park Holdings Co., Ltd. ("**Park Holdings**"), an Independent Third Party.*
- ## *The issued capital of Hoju Tokyo was held as at the commencement of the Track Record Period by K's Park, Okura Japan and Park Holdings as to 34,470 shares, 1,530 shares and 5,000 shares, respectively. Park Holdings is an Independent Third Party.*

Set out below are the steps of our Reorganisation undertaken by our Group in preparation for the Listing.

Share transfers involving K's Properties

On 6 August 2013, KHLC, as purchaser, entered into an agreement with each of the Five K's Properties Shareholders, each as a seller, to acquire 14 issued shares in K's Properties at an aggregate consideration of ¥14,000, which was determined with reference to the net asset value of K's Properties in accordance with the advice of our tax advisers. The acquisition of the shares in K's Properties by KHLC from the Five K's Properties Shareholders was completed and the consideration was fully settled on 9 August 2013. On 3 December 2013, KHLC as purchaser, entered into an agreement with Okura Japan, as seller, to acquire 360 issued shares in K's Property at an aggregate consideration of ¥360,000, which was determined with reference to the net asset value of K's Properties in accordance with the advice of tax advisers of our Group. The acquisition of K's Properties by Okura Japan was completed and the consideration was fully settled on 27 December 2013, upon which all 10,696,045 issued shares in K's Properties became legally and beneficially held as to 100% by KHLC.

Merger involving K's Works, K's Trading and K's Park

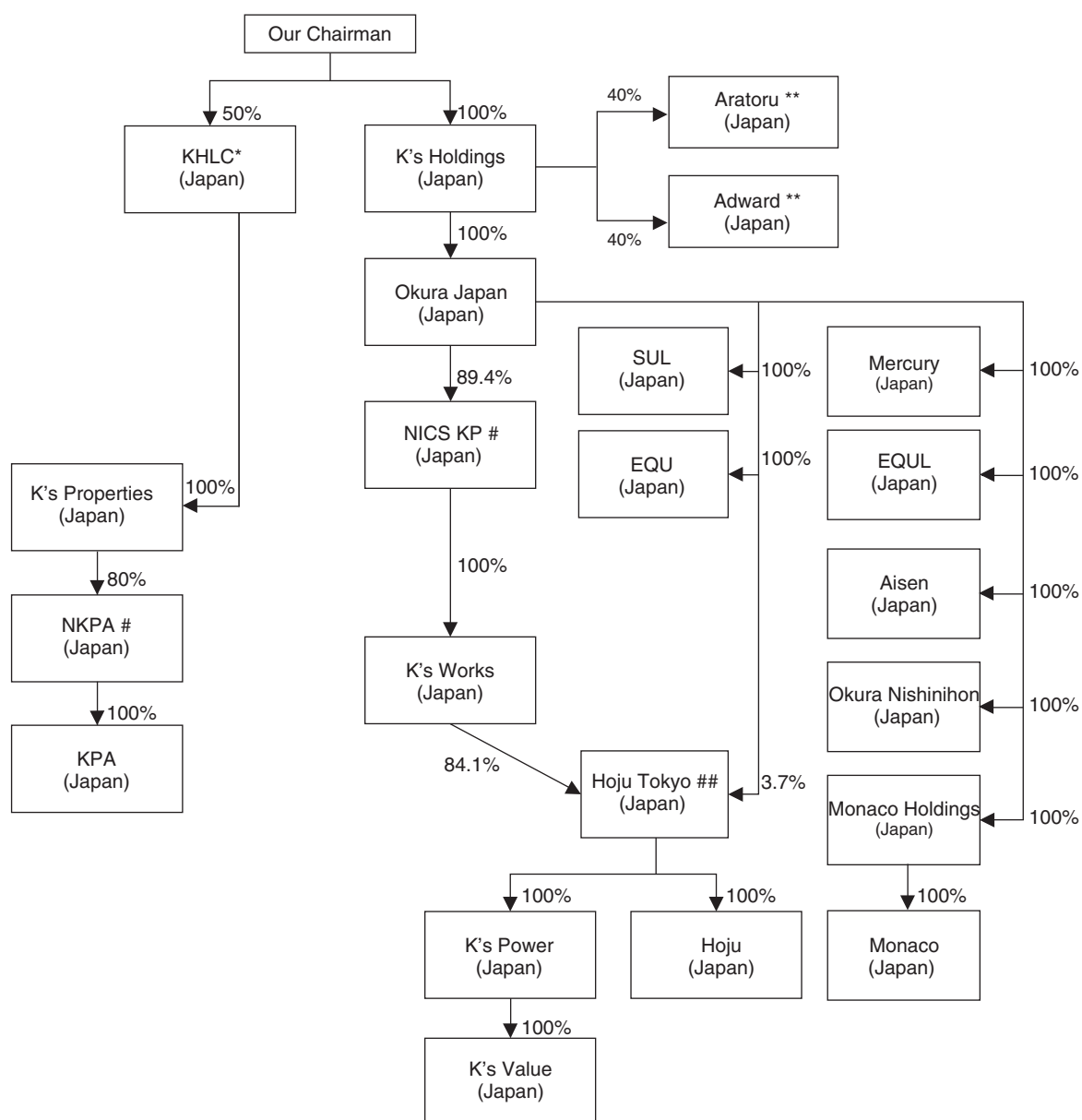
On 6 January 2014, K's Works, K's Trading and K's Park entered into an agreement, pursuant to which the three parties shall undergo an "absorption-type corporate merger" in accordance with the Companies Act (the "**Merger**"), with K's Works remained as the surviving entity and K's Trading and K's Park dissolved upon completion of the Merger. Pursuant to the aforesaid agreement, all assets, liabilities, rights and obligations of each of K's Trading and K's Park, respectively, shall be transferred to K's Works, the surviving company. Except for the transfer to NICS KP of all the 20,000 issued shares in itself that it acquired through the absorption of K's Trading, its then sole shareholder, K's Works did not issue any shares or pay any cash consideration. The Merger was completed on 1 March 2014, and each of K's Trading and K's Park was dissolved as at 1 March 2014.

HISTORY AND DEVELOPMENT

Share transfer involving Monaco Holdings

On 22 December 2014, Okura Japan, as purchaser, entered into an agreement with Mr. Katsumitsu Yamamoto, as seller, to acquire all of the 1,000 issued shares in Monaco Holdings at an aggregate consideration of ¥27,000,000. Such consideration was determined with reference to the net asset value of Monaco Holdings in accordance with the advice of our tax advisers. The consideration was fully settled on 27 December 2014, and in accordance with the agreement, all of the 1,000 issued shares in Monaco Holdings became legally and beneficially held as to 100% by Okura Japan as of 22 December 2014.

The chart below shows the shareholding and corporate structure of our Group as at 27 December 2014:



HISTORY AND DEVELOPMENT

Notes:

- * *The issued capital of KHLC was held as at 27 December 2014 by our Chairman, Kinya Yamamoto, Kai Yamamoto, and Kakuya Yamamoto as to 30,000 shares, 10,000 shares, 10,000 shares and 10,000 shares, respectively. Our Chairman is the father of Kinya Yamamoto, Kai Yamamoto and Kakuya Yamamoto.*
- ** *The issued capital of each of Adward and Aratoru was held as at 27 December 2014 by Mr. Satoshi Maeda and K's Holdings as to 300 shares and 200 shares, respectively. Mr. Satoshi Maeda is a member of our senior management and a director of each of Adward and Aratoru, and is therefore a connected person of our Company.*
- # *The issued capital of NKPA was held as at 27 December 2014 by K's Properties and NICS Taxation as to 20,000 shares and 5,000 shares. The issued capital of each of NICS KP was held as at 27 December 2014 by Okura Japan and NICS Taxation as to 2,000,000 shares and 236,000 shares respectively. NICS Taxation is a company wholly owned by Park Holdings, an Independent Third Party.*
- ## *The issued capital of Hoju Tokyo was held as at 27 December 2014 by K's Park, Okura Japan and Park Holdings as to 34,470 shares, 1,530 shares and 5,000 shares respectively. Park Holdings is an Independent Third Party.*

Share transfers and mergers involving Hoju Tokyo, NKPA and NICS KP

On 15 January 2015:

- (a) K's Works, as purchaser, entered into an agreement with Park Holdings, as seller, to acquire 5,000 of the issued shares in Hoju Tokyo at an aggregate consideration of ¥50,970,000. Such consideration was determined with reference to the net asset value of Hoju Tokyo in accordance with the advice of our tax advisers. K's Works, as purchaser, entered into an agreement with Okura Japan, as seller, to acquire 1,530 issued shares in Hoju Tokyo at an aggregate consideration of ¥15,596,820. Such consideration was determined with reference to the net asset value of Hoju Tokyo in accordance with the advice of our tax advisers. The two acquisitions were completed and the total consideration was fully settled on 20 January 2015, upon which all of the 41,000 issued shares in Hoju Tokyo became legally and beneficially held as to 100% by K's Works.
- (b) Hoju, as purchaser, entered into an agreement with each of K's Properties and NICS Taxation, each as a seller, to acquire 20,000 and 5,000 of issued shares in NKPA at an aggregate consideration of ¥12,125,000. Such consideration was determined with reference to the net asset value of NKPA in accordance with the advice of our tax advisers. The acquisition was completed and the consideration was fully settled on 20 January 2015, upon which all of the 25,000 issued shares in NKPA became wholly legally and beneficially held as to 100% by Hoju.

HISTORY AND DEVELOPMENT

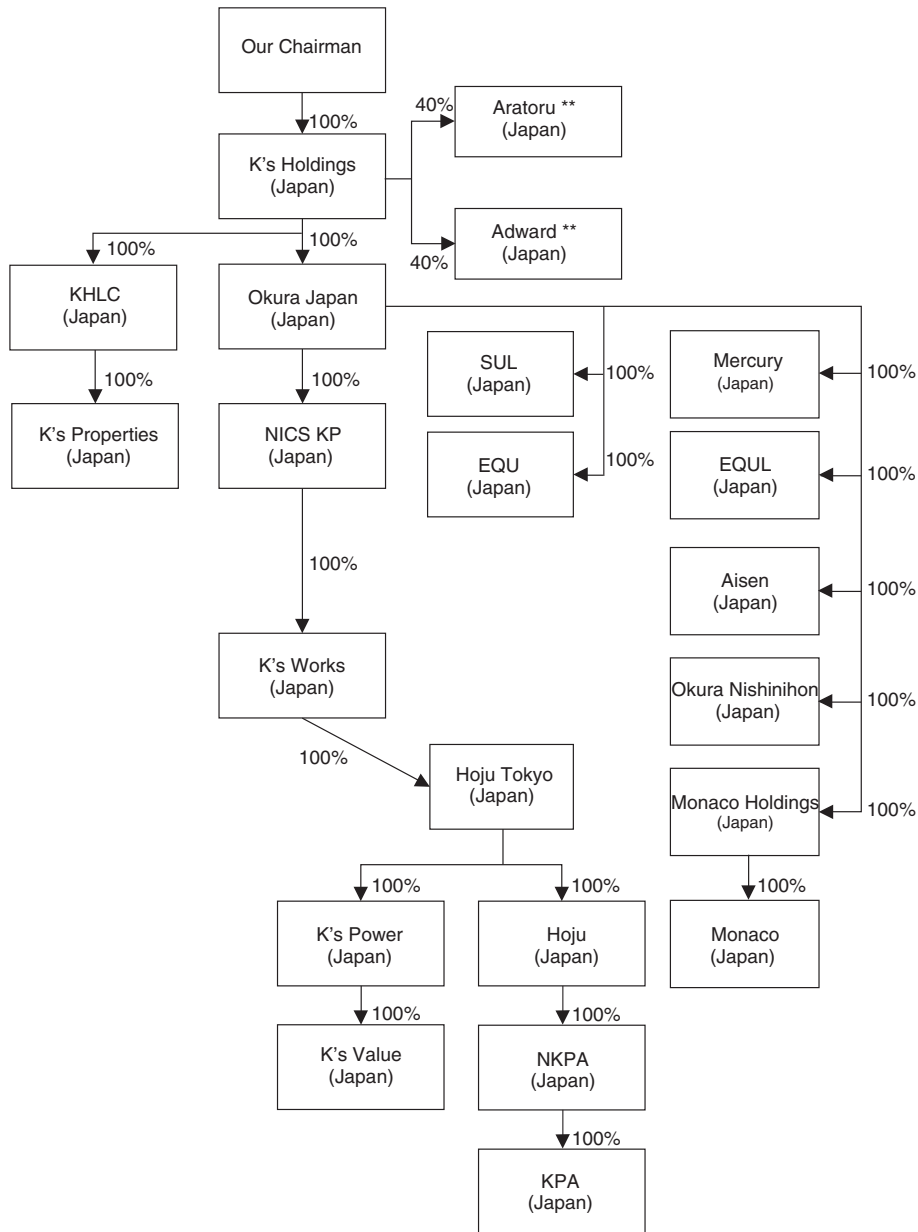
- (c) Okura Japan, as purchaser, entered into an agreement with NICS Taxation, as seller, to acquire 236,000 of the 2,236,000 issued shares in NICS KP at an aggregate consideration of ¥123,428,000. Such consideration was determined with reference to the net asset value of NICS KP in accordance with the advice of our tax advisers. The acquisition was completed and the consideration was fully settled on 20 January 2015, upon which all of the 2,236,000 shares in NICS KP became legally and beneficially held as to 100% by Okura Japan.

Share transfers Involving KHLC

On 19 March 2015, K's Holdings, as purchaser, entered into an agreement with each of our Chairman, Kinya Yamamoto, Kai Yamamoto, and Kakuya Yamamoto, each as a seller, to respectively acquire 30,000, 10,000, 10,000, and 10,000 issued shares in KHLC at an aggregate consideration of ¥34,020,000. Our Chairman is the father of Kinya Yamamoto, Kai Yamamoto and Kakuya Yamamoto. Such consideration was determined with reference to the net asset value of KHLC in accordance with the advice of our tax advisers. The consideration was fully settled on 27 March 2015, and in accordance with the agreement, all of the 60,000 issued shares in KHLC became legally and beneficially held as to 100% by K's Holdings as at 19 March 2015.

HISTORY AND DEVELOPMENT

The chart below shows the shareholding and corporate structure of our Group as at 27 March 2015:



Notes:

** The issued capital of each of Adward and Aratoru was held as at 27 March 2015 by Mr. Satoshi Maeda and K's Holdings as to 300 shares and 200 shares, respectively. Mr. Satoshi Maeda is a member of our senior management and a director of each of Adward and Aratoru, and is therefore a connected person of our Company.

HISTORY AND DEVELOPMENT

Merger involving Monaco Holdings and Monaco

On 23 March 2015, Okura Japan, Monaco Holdings and Monaco entered into an agreement, pursuant to which:

- (a) Okura Japan and Monaco Holdings shall undergo a merger, with Okura Japan being the surviving entity and Monaco Holdings being dissolved; and
- (b) upon completion of the aforesaid merger, Okura Japan and Monaco shall undergo a merger, with Okura Japan being the surviving entity and Monaco being dissolved.

Pursuant to aforesaid agreement, all assets, liabilities, rights and obligations of each of Monaco Holdings and Monaco shall be transferred to Okura Japan, the surviving entity, with no issue of shares or payment of any cash consideration by such surviving entity. The two mergers were completed on 1 May 2015, and each of Monaco Holdings and Monaco was dissolved as at 1 May 2015.

Mergers involving K's Works, Hoju Tokyo, Hoju, NKPA, NICS KP, Mercury, EQUL, and K's Power

On 10 April 2015, K's Works, Hoju Tokyo, Hoju, NKPA, NICS KP, Mercury, EQUL, and K's Power entered into an agreement, pursuant to which:

- (a) K's Works and NICS KP shall undergo a merger, with K's Works being the surviving entity and NICS KP being dissolved;
- (b) upon completion of the aforesaid merger, K's Works, Mercury and EQUL shall undergo a merger, with K's Works being the surviving entity and Mercury and EQUL being dissolved;
- (c) upon completion of the aforesaid mergers, K's Works and Hoju Tokyo shall undergo a merger, with K's Works being the surviving entity and Hoju Tokyo being dissolved;
- (d) upon completion of the aforesaid mergers, K's Works, Hoju and K's Power shall undergo a merger, with K's Works being the surviving entity and Hoju and K's Power being dissolved; and
- (e) upon completion of the aforesaid mergers, K's Works and NKPA shall undergo a merger, with K's Works being the surviving entity and NKPA being dissolved.

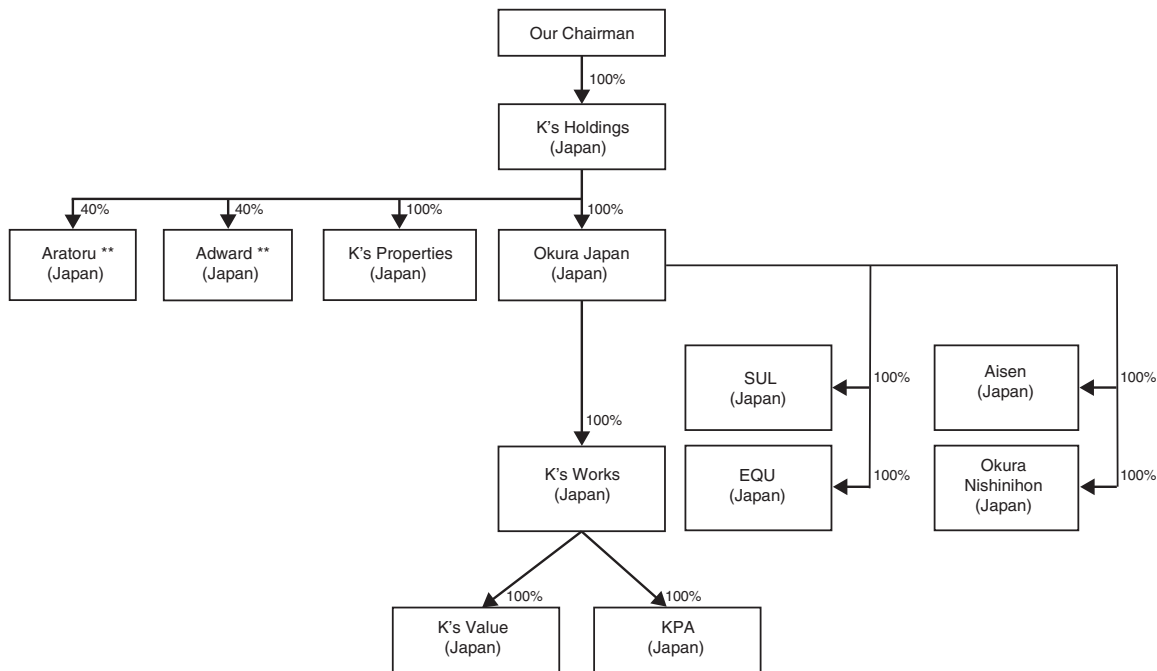
HISTORY AND DEVELOPMENT

Pursuant to the aforesaid agreement, all assets, liabilities, rights and obligations of each of Hoju Tokyo, Hoju, NKPA, NICS KP, Mercury, EQU, and K's Power shall be transferred to K's Works, the surviving entity upon completion of the mergers. Except for the transfer of all of the 20,000 issued shares in K's Works to Okura Japan, being the sole shareholder of NICS KP immediately prior to the completion of such merger, there was no issue of shares or payment of any cash consideration by such surviving entity. The mergers were completed on 15 May 2015, and each of Hoju Tokyo, Hoju, NKPA, NICS KP, Mercury, EQU, and K's Power was dissolved as at 15 May 2015.

Mergers involving K's Holdings and KHLC

On 23 March 2015, K's Holdings and KHLC entered into an agreement, pursuant to which the two parties shall undergo a merger, with K's Holdings being the surviving entity and KHLC being dissolved upon completion of the merger. Pursuant to the aforesaid agreement, all assets, liabilities, rights and obligations of KHLC shall be transferred to K's Holdings, the surviving entity, with no issue of shares or payment of any cash consideration by such surviving entity. The merger was completed and KHLC was dissolved as at 19 May 2015.

The chart below shows the shareholding and corporate structure of our Group as at 19 May 2015:



Note:

** The issued capital of each of Adward and Aratoru was held as at 19 May 2015 by Mr. Satoshi Maeda and KHLC as to 300 shares and 200 shares, respectively. Mr. Satoshi Maeda is a member of our senior management and a director of each of Adward and Aratoru, and is therefore a connected person of our Company.

HISTORY AND DEVELOPMENT

Incorporation of our Company and injection of K's Holdings

For the purpose of the Listing, our Directors are of the view that investors in Hong Kong and overseas are generally familiar with investing in issuers listed on the Main Board of the Stock Exchange that are incorporated in Hong Kong, and that the use of a Hong Kong incorporated listing vehicle will generally enhance investors' confidence and appetite. Considering our Chairman ordinarily resides in Hong Kong, and is familiar with the relevant Hong Kong legal requirements applicable to the maintenance of a Hong Kong incorporated company, our Directors chose to incorporate our Company in Hong Kong for the Listing.

On 16 June 2015, our Company was incorporated with limited liability by our Chairman as the founder member under the laws of Hong Kong to serve as the listing vehicle for the Group. There is no limit to the number of shares of any class that our Company may issue.

On incorporation, our Company entered into an investment agreement with our Chairman (the "**K's Holdings Investment Agreement**"), pursuant to which (i) our Company shall allot and issue 8,000,000 Shares at ¥1.00 per Share (the "**Founder Shares**") to our Chairman in consideration of ¥8,000,000, and (ii) our Chairman shall transfer all of the 160 issued shares in K's Holdings held by him to our Company for a consideration of ¥8,000,000 (the "**K's Holdings Share Transfer**"). The K's Holdings Investment Agreement was completed and the consideration was fully settled on 16 June 2015, upon which all of the 160 issued shares in K's Holdings became legally and beneficially held as to 100% by our Company.

Acquisition of Aratoru and Adward

On 29 June 2015, K's Holdings, as purchaser, entered into an agreement with Mr. Satoshi Maeda, as seller, to acquire (i) 300 of the 500 issued shares of Aratoru (the "**Aratoru Acquisition**") and (ii) 300 of the 500 issued shares of Adward (the "**Adward Acquisition**"). The aggregate consideration for the Aratoru Acquisition and the Adward Acquisition was ¥204,083,228, which was determined based on the aggregate net asset value of Aratoru and Adward as at 30 June 2015, plus a margin of ¥150,000,000. Each of the Aratoru Acquisition and the Adward Acquisition was completed on 30 June 2015, upon which all of the 500 issued shares in each of Aratoru and Adward became legally and beneficially held as to 100% by K's Holdings. All consideration for the acquisitions was fully settled on 29 September 2015.

Aratoru was incorporated on 22 February 2007 under the laws of Japan and is principally engaged in the provision of marketing services. Adward was incorporated on 16 October 2007 under the laws of Japan and is principally engaged in advertising and business promotion of our Group.

Distribution of shares of EQU, SUL and K's Works

On 24 August 2015, Okura Japan distributed all of the 20,000 issued shares in K's Works, all of the 20,000 issued shares in EQU, and all of the 60 issued shares in SUL to K's Holdings, being the sole shareholder of Okura Japan. As a result, all of the 20,000 issued shares in K's Works, all of the 20,000 issued shares in EQU, and all of the 60 shares in SUL became legally and beneficially held as to 100% by K's Holdings as at 24 August 2015.

HISTORY AND DEVELOPMENT

Mergers involving K's Properties, EQU, SUL, K's Works, KPA and K's Value

On 11 September 2015, K's Properties, EQU, SUL, K's Works, KPA and K's Value entered into an agreement, pursuant to which:

- (a) K's Properties, EQU, SUL and K's Works shall undergo a merger, with K's Properties being the surviving entity and EQU, SUL and K's Works being dissolved; and
- (b) upon completion of the aforesaid merger, K's Properties, KPA and K's Value shall undergo a merger, with K's Properties being the surviving entity and KPA and K's Value being dissolved.

Pursuant to the aforesaid agreement, all assets, liabilities, rights and obligations of each of EQU, SUL, K's Works, KPA and K's Value shall be transferred to K's Properties, the surviving entity, with no issue of shares or payment of any cash consideration by such surviving entity. These mergers were completed on 1 November 2015, and each of EQU, SUL, K's Works, KPA and K's Value was dissolved as at 1 November 2015.

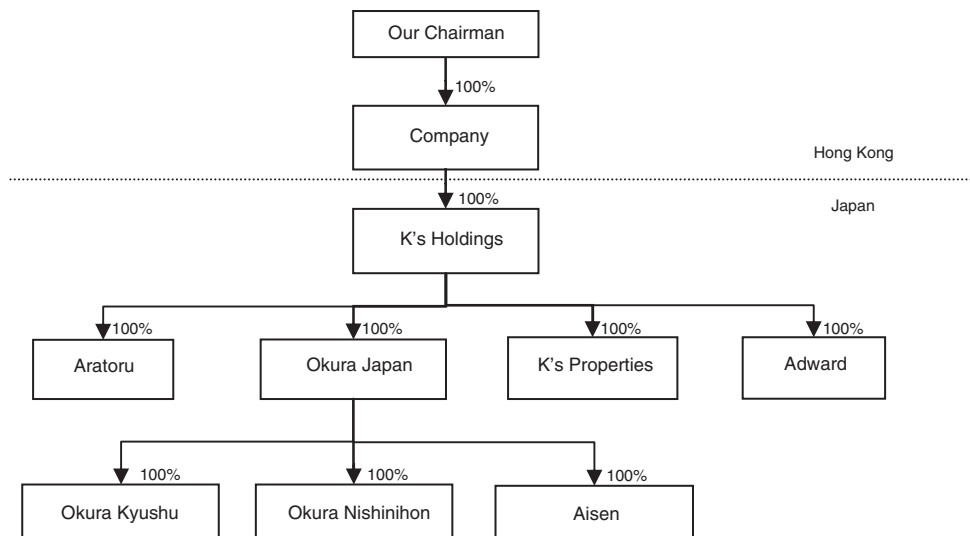
Acquisition of Okura Kyushu

On 28 February 2017, Okura Japan completed the acquisition of Okura Kyushu as part of its acquisition of a property in Nagasaki for the purpose of setting up a new flagship pachinko hall in Nagasaki. For details, please refer to the paragraph headed "Okura Kyushu" in this section.

No pre-IPO investment

There was no pre-IPO investor to our Group before and after our Reorganisation within the meanings of the Listing Rules.

The chart below shows the shareholding and corporate structure of our Group immediately upon completion of the Reorganisation but prior to the completion of the Bonus Issue and the Share Offer:



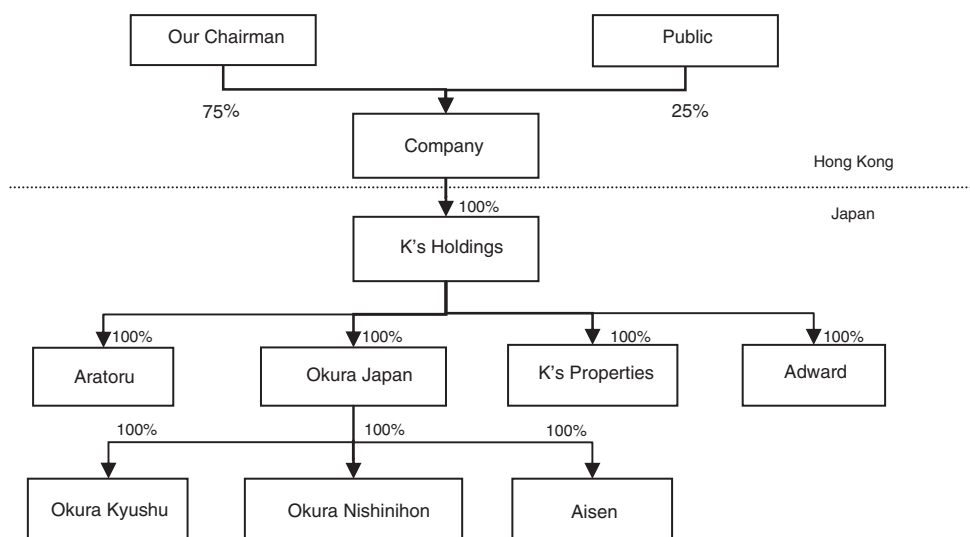
HISTORY AND DEVELOPMENT

BONUS ISSUE AND SHARE OFFER

Conditional upon the Share Offer becoming unconditional, a total of 367,000,000 Shares will be allotted and issued to our Chairman, the existing shareholder of the Company, by way of a bonus issue (“**Bonus Issue**”) immediately prior to the completion of the Share Offer.

Except as disclosed herein, during Track Record Period, we had not conducted any acquisition, disposal and/or merger that is considered material by us, in terms of the amount of consideration paid/received or the assets, revenue and profit contribution of the target. Our Japan Legal Adviser confirmed that we have obtained all necessary approvals for effecting the Reorganisation from the relevant authorities in Japan and that the Reorganisation complied with applicable laws and regulations.

The chart below shows the shareholding and corporate structure of our Group immediately upon completion of the Bonus Issue and the Share Offer (prior to the exercise of any option under the Share Option Scheme):



INDUSTRY OVERVIEW

This section and other sections of this prospectus contain information and statistics relating to Japanese economy and the pachinko industry in Japan, which has been extracted from a commissioned report by Yano Research. We believe that the source of the information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information and statistics are false or misleading. Such information and statistics have not been independently verified by us, the Sponsor, the Sole Bookrunner and the Lead Manager, the Underwriters or any of our or their respective directors, officers, representatives, affiliates or advisers or any other party involved in the Share Offer, other than Yano Research with respect to the information contained in their report. We make no representation as to the accuracy, completeness or fairness of such information and accordingly the information contained herein should not be unduly relied upon.

OVERVIEW OF THE JAPANESE ECONOMY

GDP of Japan

The Japanese economy is the third largest in the world. Although Japan experienced a recession after the Lehman crisis in 2008 and the aftermath from the Great East Japan Earthquake in 2011, the Japanese economy recovered in 2014 to the level before the Lehman crisis. Moreover, the Japanese economy experienced a demand hike immediately prior to the increase of the consumption tax in 2014 and has continued such upward momentum with improving employment and income environments. The table below shows certain economic data with respect to Japan for the indicated dates and years:

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E | CAGR | |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-------------|---------------|
| | | | | | | | | | | | 2011 - 2015 | 2016E - 2020E |
| Total population of Japan as at | | | | | | | | | | | | |
| 1 October (thousands) | 127,799 | 127,515 | 127,298 | 127,083 | 127,095 | 126,193 | 125,739 | 125,236 | 124,689 | 124,100 | -0.1% | -0.4% |
| Total real GDP of Japan | | | | | | | | | | | | |
| for the year ended 31 | | | | | | | | | | | | |
| December (¥ trillion) | 510 | 519 | 526 | 526 | 528 | 535 | 538 | 541 | 546 | 550 | 0.9% | 0.7% |
| Growth rate of the total real GDP | | | | | | | | | | | | |
| of Japan for the year ended | | | | | | | | | | | | |
| 31 December (%) | -0.5 | 1.7 | 1.4 | 0.0 | 0.4 | 1.0 | 0.4 | 0.7 | 0.9 | 0.7 | | |

Source: Ministry of Internal Affairs and Communications of Japan, National Institute of Population and Social Security Research of Japan, Cabinet Office of Japan, International Monetary Fund and Yano Research

INDUSTRY OVERVIEW

Real income and consumption expenditure

According to the “Household Expenditure Survey” conducted by the Ministry of Internal Affairs and Communications of Japan, the monthly real income per household was ¥462,221 in 2011 which slightly decreased to ¥461,577 in 2016, representing a negative CAGR of approximately 0.03%. Given that pachinko is an entertainment, the customers’ demand is affected by the monthly real income per household.

Population and real GDP of the regions in which our Company operates

As at the Latest Practicable Date, our Group operated pachinko halls in four regions, namely (i) Kyushu region; (ii) Kanto region; (iii) Kansai region; and (iv) Chugoku region. These regions had a total population of approximately 84 million as at 1 October 2015 and a real GDP of approximately ¥370 trillion for the year ended 31 December 2015, representing approximately 66.2% of the country’s population as at 1 October 2015 and approximately 70.1% of the real GDP of Japan for the year ended 31 December 2015.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017E | 2018E | 2019E | 2020E | CAGR | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------|---------------|
| | | | | | | | | | | | 2011 - 2015 | 2016E - 2020E |
| Total population of the four regions as at 1 October (thousands) | 84,226 | 84,124 | 84,072 | 84,042 | 84,175 | 84,072 | 84,097 | 84,116 | 84,121 | 82,470 | -0.02% | -0.5% |
| Percentage of the total population of the four regions out of that of Japan (%) | 65.9 | 66.0 | 66.0 | 66.1 | 66.2 | 66.6 | 66.9 | 67.2 | 67.5 | 66.5 | N/A | N/A |
| | | | | | | | | | | | CAGR | |
| | | | | | | | | | | | 2011 - 2015 | 2016E - 2020E |
| Total real GDP of the four regions (¥ trillion) | 362 | 361 | 362 | 369 | 370 | 372 | 376 | 380 | 382 | 382 | 0.9% | 0.7% |
| Growth rate for the year ended 31 December of the total real GDP of the four regions (%) | 2.2 | -0.3 | 0.3 | 1.9 | 0.4 | 0.5 | 1.1 | 0.9 | 0.5 | 0.1 | N/A | N/A |

Source: Population Estimates by Ministry of Internal Affairs and Communications of Japan, Prefectural Accounting by Cabinet Office of Japan and Yano Research

THE PACHINKO INDUSTRY IN JAPAN

History and development of the pachinko industry

The first pachinko hall in Japan was allegedly opened in 1930. The operations of pachinko hall were prohibited in 1942 due to war and were approved again around 1946 to 1947 in

INDUSTRY OVERVIEW

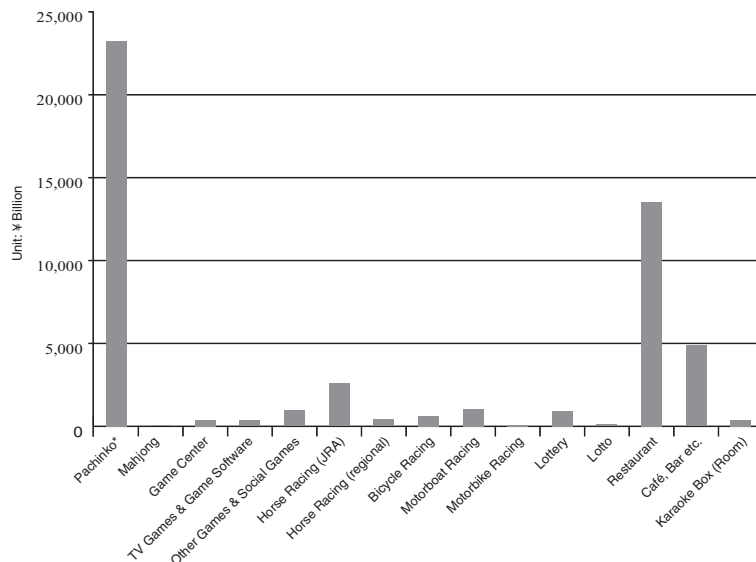
tandem with post-war reconstruction and became a popular entertainment for the general public. Pachinko machines in the 1940s required players to put the balls into the machine manually. Such machines were known as “hand-loading type with single shot”. Nowadays, pachinko machines are equipped with computer chips, stereo sound systems and advanced liquid crystal display video screens that display enriched content, such as popular animation, drama characters and various celebrities, which enhances the playing experience for the customer.

Currently, the playing cost for pachinko and pachislot generally ranges from ¥0.5 to ¥4 per ball and ¥2 to ¥20 per token respectively. Around 2006, low playing cost machines with playing cost ranging from ¥0.5 to ¥3 per ball for pachinko machines and ¥5 to ¥10 per token for pachislot machines were introduced to the market. Since the summer of 2007, the number of pachinko halls offering low playing cost balls increased sharply. By 2010, more than half of the pachinko halls have installed and operated low playing cost pachinko machines. Some halls provided machines with a variety of playing costs, while some halls only specialised in low playing cost machines. The pachinko industry is regulated under the Amusement Business Law. In addition, the operation of pachinko halls requires business permits from the Public Safety Commission of each prefecture where each hall is located. For further details of these laws and regulations, please refer to the section headed “Applicable Laws and Regulations” of this prospectus.

Largest contributor to Japan’s entertainment market

The pachinko industry was the largest contributor to the Japan’s entertainment market, accounting for approximately 46.9% of Japan’s entertainment market in 2015 in terms of market share (the total gross pay-ins of the pachinko industry against the total revenue of Japan’s entertainment industry). The diagram below shows the entertainment market in Japan in terms of market size by industry in 2015:

Entertainment market size in 2015



* In terms of pachinko industry, gross revenue is equivalent to gross pay-ins.

Source: White book on Leisure by Japan Productivity Centre and Yano Research

INDUSTRY OVERVIEW

The players of pachinko/pachislot games, due to its gaming feature attached, overlap with many players of public gambling, in particular horse racing, where the major customers are aged between 30 and 49 and are characterised by high male participation. Furthermore, online social games through mobile phones have gained popularity. It is not uncommon for customers, especially young customers, to play online social games in pachinko halls, thus it is estimated that a considerable number of pachinko/pachislot players are also online social game players. The following table shows the age distribution of pachinko and pachislot players as at November 2015:

Age distribution of pachinko/pachislot players

| | 18-29 | 30-39 | 40-49 | 50-59 | 60 or more |
|--------------------|-------|-------|-------|-------|------------|
| Pachinko. | 20.2% | 20.4% | 21.6% | 14.3% | 23.6% |
| Pachislot. | 26.3% | 27.3% | 24.1% | 10.3% | 12.0% |

* The above statistics are based on a questionnaire conducted with 30,000 people in Japan as of February 2017

Source: Yano Research

As illustrated in the table above, pachinko is most popular amongst players over 60 years old and least popular amongst those aged between 50 and 59, whilst other brackets are fairly represented. On the other hand, pachislot is more popular amongst the younger generation of those aged between 18 and 39, who makes up the majority of pachislot players.

Key trends of the pachinko industry in Japan

Declining gross pay-ins

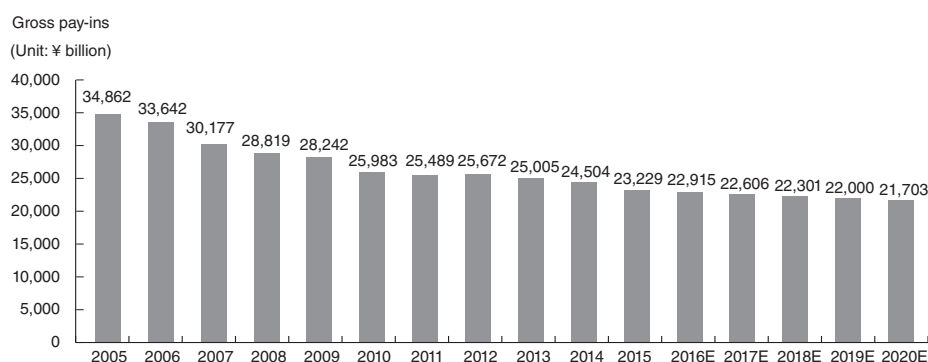
Since 2005, according to Yano Research, gross pay-ins of the pachinko industry have been declining due to (i) the introduction of Amended Voluntary Regulations reducing the size of jackpots; and (ii) the competition from other forms of entertainment such as video games, the internet and other mobile entertainment services. In particular, 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.

INDUSTRY OVERVIEW

Decreasing market size

According to Yano Research, the market size has been gradually decreasing since 2005 and the market size in 2015 was approximately ¥23 trillion in terms of gross pay-ins. It is expected that the market size will further decrease from approximately ¥23 trillion in 2015 to ¥22 trillion in 2020 in terms of gross pay-ins. The diagram below sets forth the market size of the pachinko industry from 2005 to 2020:

Market size of pachinko industry



Source: *White Book on Leisure* by Japan Productivity Centre and Yano Research

Similar to the effect on gross pay-ins, the Amended Voluntary Regulations and growing competition from other forms of entertainment have contributed to the gradual decline in the number of pachinko players and thereby the market size in the past decade. To address the reduction in the number of pachinko players, pachinko hall operators installed more low playing cost machines to appeal to a broader range of customers. While such tactic has stalled the decline in the number of players, it has also adversely affected the gross pay-ins.

Decreasing number of pachinko halls and growing dominance of Mid- to Large-sized Pachinko Hall Operators

According to Yano Research, the number of pachinko halls has been declining since 1996. The total number of pachinko halls by the end of 2016 was 10,986, representing a decrease of 10.9% from 12,323 in 2011.

Further, according to Yano Research, as at 31 December 2016, there were 3,421 pachinko hall operators, amongst which 95.1% operated less than ten halls, and more than 50.0% operated only one hall. As shown in the following table, the number of pachinko hall operators which operate less than ten halls has been decreasing since 2010. The major reason for this trend is that Small-sized Pachinko Hall Operators (operating one to two halls) were driven out of business as they were unable to compete with Mid- to Large-sized Pachinko Hall Operators (operating more than 15 halls) who have greater capital strength.

INDUSTRY OVERVIEW

| No. of halls | Number of operators as at 31 December | | | | | | | | | | | | | | | | | | | | | |
|-----------------------------------|---------------------------------------|------|-------|------|-------|------|-------|-------|-------|-------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E | | | | | | | | | | | |
| | % | % | % | % | % | % | % | % | % | % | % | | | | | | | | | | | |
| 1 | 2,236 | 54.4 | 2,176 | 54.2 | 2,145 | 54.0 | 2,020 | 52.9 | 1,977 | 53.4 | 1,922 | 53.8 | 1,824 | 53.3 | 1,770 | 53.2 | 1,717 | 53.0 | 1,666 | 52.8 | 1,617 | 52.6 |
| 2 | 800 | 19.5 | 773 | 19.2 | 774 | 19.5 | 751 | 19.7 | 684 | 18.5 | 649 | 18.2 | 642 | 18.8 | 616 | 18.5 | 591 | 18.2 | 567 | 18.0 | 544 | 17.7 |
| 3 | 386 | 9.4 | 375 | 9.3 | 372 | 9.4 | 365 | 9.6 | 367 | 9.9 | 354 | 9.9 | 324 | 9.5 | 318 | 9.6 | 313 | 9.7 | 308 | 9.8 | 302 | 9.8 |
| 4 | 187 | 4.5 | 193 | 4.8 | 185 | 4.7 | 197 | 5.2 | 194 | 5.2 | 175 | 4.9 | 180 | 5.3 | 178 | 5.3 | 176 | 5.4 | 174 | 5.5 | 172 | 5.6 |
| 5-9 | 350 | 8.5 | 343 | 8.5 | 337 | 8.5 | 323 | 8.5 | 316 | 8.5 | 309 | 8.7 | 284 | 8.3 | 277 | 8.3 | 270 | 8.3 | 264 | 8.4 | 257 | 8.4 |
| Less than 10 (sub-total) . . . | 3,959 | 96.3 | 3,860 | 96.1 | 3,813 | 95.9 | 3,656 | 95.8 | 3,538 | 95.6 | 3,409 | 95.4 | 3,254 | 95.1 | 3,159 | 94.9 | 3,067 | 94.7 | 2,979 | 94.4 | 2,892 | 94.2 |
| 10-14 | 69 | 1.7 | 71 | 1.8 | 73 | 1.8 | 73 | 1.9 | 81 | 2.2 | 77 | 2.2 | 83 | 2.4 | 85 | 2.6 | 87 | 2.7 | 89 | 2.8 | 91 | 3.0 |
| 15-19 | 37 | 0.9 | 35 | 0.9 | 41 | 1.0 | 40 | 1.0 | 36 | 1.0 | 34 | 1.0 | 34 | 1.0 | 34 | 1.0 | 33 | 1.0 | 33 | 1.0 | 32 | 1.1 |
| More than 20 . . . | 46 | 1.1 | 51 | 1.3 | 48 | 1.2 | 49 | 1.3 | 47 | 1.3 | 52 | 1.5 | 50 | 1.5 | 51 | 1.5 | 53 | 1.6 | 54 | 1.7 | 56 | 1.8 |
| Total | 4,111 | 100 | 4,017 | 100 | 3,975 | 100 | 3,818 | 100 | 3,702 | 100 | 3,572 | 100 | 3,421 | 100 | 3,329 | 100 | 3,240 | 100 | 3,154 | 100 | 3,071 | 100 |

Source: Yano Research

Reduced jackpot size and pay-out ratios

In November 2015 and December 2015, respectively, the association for pachinko machine manufacturers in Japan (the “**Machine Association**”) amended certain voluntary industry regulations to the effect that the jackpot size of pachinko machines and the pay-out ratios of pachislot machines are significantly reduced (the “**Amended Voluntary Regulations**”), which is in line with the legislative intent of the Enforcement Ordinance not to provide players’ excitement for gaming. According to Yano Research, the Amended Voluntary Regulations were implemented as an effort to reposition pachinko, which has historically been associated with negative social behaviour and a higher level of gaming and risk elements, as a form of mass entertainment and a leisure-based activity to broaden its customer base.

The Amended Voluntary Regulations have resulted in changes in model of machines, which reduced the interests of players that are attracted to the gaming nature of pachinko and pachislot games and ultimately led to a decrease in player traffic and competitiveness of pachinko and pachislot games compared to other forms of entertainment in Japan, and in turn, a decline in gross pay-ins and revenue of the pachinko hall operators. According to Yano Research, the effects of the Amended Voluntary Regulations on player traffic, gross pay-ins and revenue would fade out because (i) machines with higher jackpot size and pay-out ratios generally have a probability matrix that places heavy financial burden during a single hall visit on players who set sight on substantial price return, which ultimately discourages them from paying multiple visits at a high frequency; and (ii) customers who are attracted to higher gaming and risk elements (i.e. higher jackpot size and pay-out ratio) account for around 20.0% of the playing population and amongst such players, around 90.0% of customers also play machines with a lower jackpot size and pay-out ratios (which are not subject to the Amended Voluntary Regulations).

INDUSTRY OVERVIEW

In addition, hall operators and machine manufacturers have, before and since the introduction of the Amended Voluntary Regulations, continuously worked together to improve the industry's appeal to the playing population. This was achieved by enhancing the ancillary entertainment features of machines such as liquid crystal display video screens showing popular animation or drama characters and stereo sound systems. Yano Research is of the view that these measures had historically been proven effective in lessening the negative impacts of previous rounds of reduction of jackpot size and pay-out ratios and withdrawal of machines. For example, these measures helped to counter the effect of the last round of large scale machine withdrawal to discourage gaming spirit in September 2007 (the scale of which was larger than the Amended Voluntary Regulations and their related Announcements (as defined below)). As demonstrated in the table headed "Market size of pachinko industry" in this section, the market size of the pachinko industry (in terms of gross pay-ins) decreased from approximately ¥30 trillion in 2007 to approximately ¥26 trillion in 2010 due to the effects of the 2007 withdrawal. The general decline slowed down and stabilised in 2011 at approximately ¥26 trillion and 2012 at approximately ¥26 trillion, indicating that the negative effects of the 2007 withdrawal have faded off. On this basis, Yano Research believes that the current measures adopted by the pachinko industry, which are similar to those adopted in response to the 2007 withdrawal, shall be effective in lessening the negative impacts of the Amended Voluntary Regulations and the related Announcements (as defined below).

Following the Amended Voluntary Regulations, the pachinko hall operators began disposing machines programmed with the old jackpot size (for pachinko) or pay-out ratios (for pachislot) and replaced them with new machines programmed with the new, reduced jackpot size (for pachinko) or pay-out ratios (for pachislot). Accordingly, second-hand market demand for used machines programmed with the old jackpot size (for pachinko) or pay-out ratios (for pachislot) has in general dropped shortly before and following the implementation of the Amended Voluntary Regulations.

As the jackpot size of a pachinko machine is set right during the manufacturing process and cannot be adjusted afterward, the Machine Association enforced the Amended Voluntary Regulations by making three announcements (the "**Announcements**") for collecting certain types of pachinko machines which were used in the market. The Announcements made in February 2016, March 2016 and June 2016, involved 28 types (around 48,863 machines), 17 types (around 88,104 machines) and 93 types (around 589,510 machines) of pachinko machines, respectively. The Machine Association required the market participants to withdraw those machines from the halls by the end of December 2016. As a result, more than 700,000 machines, which were installed in pachinko halls in Japan, were withdrawn by the end of December 2016. The Machine Association indicated that the third Announcement in June 2016 would be the last notice. According to Yano Research, it is unlikely for the Machine Association to issue further announcement to withdraw machines in a similar scale to the Announcements and the impact caused by the Announcements would fade out. Pachislot machines are not subject to the Announcements because machine manufacturers have been gradually reducing the pay-out ratios of pachislot machines since early 2004. As such, they have adopted a step-by-step approach to phase out the pachislot machines with higher pay-out ratios and pachislot machines are not required to be withdrawn under the Announcements. In response to the Amended Voluntary Regulations, the machines held by our Group which were subject to

INDUSTRY OVERVIEW

withdrawal as required under the Amended Voluntary Regulations and related Announcements were either sold to a third party engaging in the recycling of pachinko machine materials or traded-in with machine manufacturers. In any case, none of the pachinko machines installed at our halls or acquired as inventory as at 31 December 2016 and up to the Latest Practicable Date were subject to the Amended Voluntary Regulations and the Announcements.

The Amended Voluntary Regulations and the Announcements are the governing rules of the Machine Association and bind all machine manufacturers. They effectively bind hall operators as well because hall operators purchase certified and inspected machines from machine manufacturers who submit their machine prototypes to the Security Communications Association for certification and sell their machines with compliance certificates. Purchasing certified machines and following any voluntary regulations of the Machine Association are effective means to avoid violation of any laws and regulations that are applicable to machine specifications. For further details on the machine certification process, please refer to the paragraph headed “Pachinko and pachislot machine regulations” under the section headed “Applicable Laws and Regulations” of this prospectus.

According to Yano Research, following the large-scale withdrawal of machines corresponding to the Amended Voluntary Regulations and the Announcements, pachinko machines with high level of gaming elements have been withdrawn from the market and the overall gaming elements of the pachinko game have been lowered as a whole. The industry has also taken the initiative to reduce the proportion of pachislot machines with higher gaming elements progressively and the trend of lowering gaming elements of pachislot machines is expected to develop similar to that of pachinko machines. Given the Machine Association’s objective of repositioning the pachinko industry as mass entertainment (as promoted by the administrative authority) has been achieved and that large scale of machine withdrawal is costly and disruptive to the pachinko industry as a whole, Yano Research is of the view that the Machine Association is unlikely to issue further announcements to withdraw machines on a similar scale to the Announcements.

Further, our Directors confirmed that consultations are generally held between the Machine Association and the associations of hall operators prior to any large-scale machine withdrawal, and up to the Latest Practicable Date, our Directors are not aware of any such consultation.

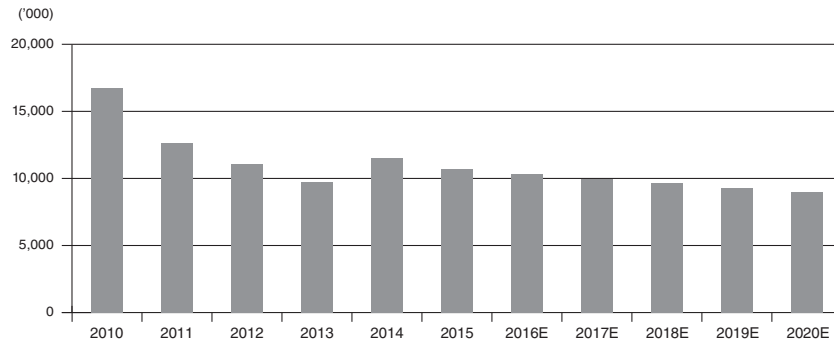
Pachinko players

According to Yano Research, the number of pachinko players has dropped from approximately 17 million in 2010 to approximately 10 million in 2013, representing a negative CAGR of approximately 16.6%. In 2014, the number of pachinko players increased by approximately 2 million from 2013 to approximately 12 million. According to Yano Research, the increase in number of pachinko players in 2014 may be due to the introduction of more low playing cost machines which lowered the cost for customers to play in pachinko halls. In 2015, the number of pachinko players decreased by approximately 800,000 from 2014 to approximately 11 million. It is expected that the number of pachinko players will decrease from approximately 10 million in 2016 to approximately 9 million in 2020, representing a negative

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CAGR of approximately 3.4%. The following chart shows the number of pachinko players for the indicated years:

Number of Pachinko Players



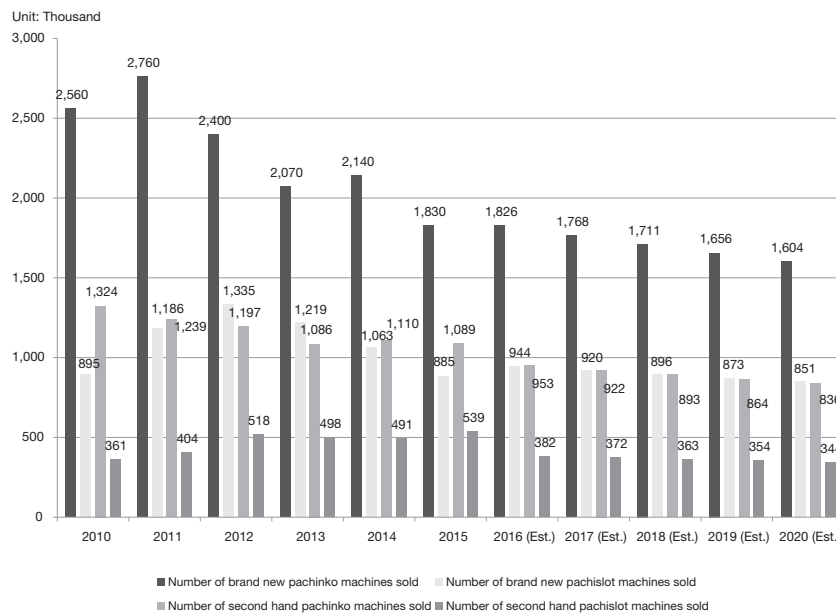
Source: White Book on Leisure by Japan Productivity Centre and Yano Research

Price trend of pachinko and pachislot machines

According to Yano Research, the number of brand new pachinko and pachislot machines sold in 2015 were approximately 2 million and 1 million units, respectively; and the number of second-hand pachinko and pachislot machines sold in 2015 were approximately 1 million and 500,000, respectively.

The following diagram shows the number of brand new and second-hand pachinko and pachislot machines sold for the indicated years:

**Development of Number of Pachinko/Pachislot Machines Sold
(brand new & second hand machines)**



Source: Yano Research

INDUSTRY OVERVIEW

As shown in the above diagram, sales of pachinko machines have been decreasing since 2011. According to Yano Research, the trend was caused by the fact that machines with higher jackpot size and pay-out ratios (which stimulate higher level of gaming spirit and impose higher financial burden on the customers) discouraged prolonged pachinko playing. Although such machines have boosted the business performance of pachinko hall operators, they also led to the decrease in customers and thereby a drop in sales of pachinko machines. As to pachislot machines, the number of machines sold increased from 2010 to 2012 due to the stagnation of pachinko machine sales and investment shifted to pachislot machines seeking better business performance. However, in order to recoup the investments in pachislot machines, the hall operators have increased the playing costs and hence resulted in a reduction in the number of pachislot players from 2013 to 2014. As a result, the investment into pachislot machines was reduced and consequently the number of pachislot machines sold declined.

The second-hand market of used machines expanded in an explosive manner since 2003 due to the emergence of websites for trading purposes and changes in machine replacement strategy of hall operators. With the emergence of websites specialising in trading of second-hand machines, such trading became more convenient and contributed to the expansion of the second-hand market. It is common for popular machine models to be traded at a premium and for majority of new machines to be traded at the market price in the second-hand market. With the development of the second-hand market, the hall operators tend to purchase more brand-new machines as they may resell the machines more easily.

As such, hall operators nationwide generally replace their machines more frequently since the emergence of the second-hand market. Set out below are the average machine turnover ratios of hall operators at a national level:

| | Year | | |
|----------------|------|------|------|
| | 2014 | 2015 | 2016 |
| Pachinko..... | 1.0 | 1.0 | 0.9 |
| Pachislot..... | 0.9 | 0.9 | 0.8 |

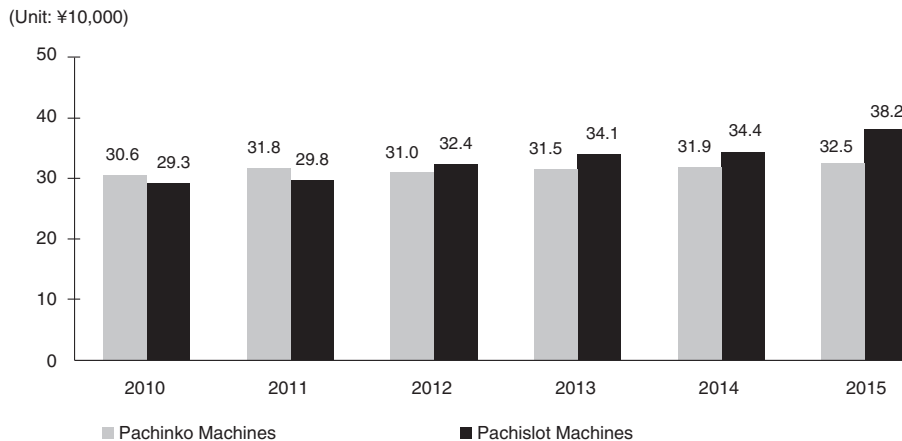
Source: Yano Research

However, there were problems of illegal adjustments to the settings of second-hand machines. In June 2010, the government implemented certain measures to avoid illegal alteration on machines during the course of distribution in the second-hand market, including (i) putting security seals on machines to ensure no alteration can be made to the machines during transit; and (ii) imposing documentation requirement at removal and installation of the machines.

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The average unit price of pachinko machines had increased from approximately ¥306,000 in 2010 to approximately ¥325,000 in 2015. The average unit price of pachislot machines had also increased from approximately ¥293,000 in 2010 to approximately ¥381,600 in 2015. The following diagram sets forth the average unit price of pachinko machines and pachislot machines for the indicated years:-

Average Price of Pachinko and Pachislot Machines



Source: Yano Research

As mentioned above, as a result of the Amended Voluntary Regulations and the Announcements, more than 700,000 machines were withdrawn from the pachinko halls by the end of December 2016. This led to an increase in demand for new or second-hand machines which comply with the new requirements, causing the average price of both new and second-hand machines to increase in 2016.

Amended Voluntary Regulations

Over the past decade, the pachinko industry as a whole has experienced changes to industry regulations similar to the Amended Voluntary Regulations. Accordingly to the Yano Research, in response to the first large-scale withdrawal of machines in early 2000s, the hall operators and machine manufacturers have, as a joint industry effort, introduced the concept of low playing cost machines to lessen the negative impact of the withdrawal. Thereafter, hall operators responded to less extensive withdrawals and changes to industry regulations by adjusting the ratio of high playing cost and low playing cost machines within their own halls. Since a healthy development of the pachinko industry as a whole is the common interest of machine manufacturers and hall operators, the Machine Association, hall operators and machine manufacturers have historically worked closely with each other to implement industry-wide measures to lessen the negative impact of any change in industry regulations.

In summary of the above, the pachinko industry as a whole has been subject to a continual contraction and faces multiple challenges, mainly including (i) decreasing players population due to competition from other forms of entertainment; and (ii) tightening regulation

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changes from time to time, such as the Amended Voluntary Regulations in 2015. Additionally, the ageing population in Japan will also be a long-term challenge to the pachinko industry as currently, customers over 60 years of age take up a significant portion of the playing population for pachinko machines.

COMPETITIVE LANDSCAPE

The pachinko industry in Japan is highly fragmented. According to Yano Research, the aggregate gross pay-ins recorded in 2015 by the top five and top ten hall operators, accounted for approximately 15.3% and 19.8% of the entire market respectively, while the aggregate number of halls operated by these top five and top ten operators merely represented approximately 8.9% and 11.1% of the total 10,986 halls, respectively as at 31 December 2016. As at 31 December 2016, there were only 50 hall operators that operated over 20 halls.

According to Yano Research, in terms of the aggregate gross pay-ins, our Group ranked 74th out of the top 600 pachinko hall operators⁽¹⁾ as at 31 December 2015; and in terms of the number of halls in Japan, our Group ranked 58th out of 3,421 pachinko hall operators as at 31 December 2016. Our market share based on gross pay-ins in 2015 was approximately 0.2% and our market share based on the number of halls in Japan in 2016 was approximately 0.2%. With 12 halls in the Kyushu region, we were the 7th largest pachinko hall operator⁽²⁾ based on the number of halls as at 31 December 2016 and ranked the 10th in terms of aggregate gross pay-ins in the Kyushu region.

Summary of ranking of pachinko hall operators in terms of gross pay-ins as at 31 December 2015 in Japan

| Ranking by gross pay-ins | Hall operator | Approximate % of total gross pay-ins | Number of halls as at 31 December 2016 | Approximate % of total number of halls in Japan as at 31 December 2016 | Approximate % of total number of machines Japan as at 31 December 2016 |
|-----------------------------|---------------|--|---|---|---|
| 1 | A | 8.0 | 316 | 2.9 | 4.8 |
| 2 | B | 3.4 | 371 | 3.4 | 3.8 |
| 3 | C | 1.4 | 172 | 1.6 | 2.0 |
| 4 | D | 1.2 | 74 | 0.7 | 1.1 |
| 5 | E | 1.2 | 39 | 0.4 | 0.6 |
| 6 | F | 1.1 | 41 | 0.4 | 0.8 |
| 7 | G | 1.0 | 56 | 0.5 | 0.9 |
| 8 | H | 0.9 | 23 | 0.2 | 0.4 |
| 9 | I | 0.8 | 39 | 0.4 | 0.5 |
| 10 | J | 0.8 | 71 | 0.6 | 0.9 |
| Total | | 19.8 | 1,202 | 10.9 | 15.6 |
| ⋮ | ⋮ | ⋮ | ⋮ | ⋮ | ⋮ |
| 74 | Our Group | 0.2 | 18 | 0.2 | 0.2 |

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Summary of ranking of top 10 pachinko hall operators in terms of gross pay-ins as at 31 December 2015 in the Kyushu region

| Ranking by gross pay-ins | Hall operator | Approximate % of total gross pay-ins | Number of halls as at 31 December 2016 | Approximate % of total number of halls in Japan as at 31 December 2016 | Approximate % of total number of machines Japan as at 31 December 2016 |
|-----------------------------|---------------|--|---|---|---|
| 1 | a | 1.2 | 39 | 0.4 | 0.6 |
| 2 | b | 0.5 | 26 | 0.2 | 0.4 |
| 3 | c | 0.3 | 15 | 0.1 | 0.2 |
| 4 | d | 0.2 | 13 | 0.1 | 0.1 |
| 5 | e | 0.2 | 20 | 0.2 | 0.3 |
| 6 | f | 0.2 | 11 | 0.1 | 0.1 |
| 7 | g | 0.2 | 17 | 0.2 | 0.2 |
| 8 | h | 0.2 | 13 | 0.1 | 0.2 |
| 9 | i | 0.2 | 9 | 0.1 | 0.1 |
| 10 | Our Group | 0.2 | 18 | 0.2 | 0.2 |
| Total | | 3.5 | 181 | 1.6 | 2.6 |

Source: Amusement Japan, National Police Agency of Japan and Yano Research

Notes:

- (1) According to Yano Research, the ranking of the pachinko hall operator in terms of gross pay-ins is based on the top 600 pachinko hall operators out of the total number of pachinko hall operators as the pachinko industry is highly fragmented and the gross pay-ins of the smaller pachinko hall are not publicly available. Yano Research confirmed that as other pachinko hall operators are smaller than our Group, the unavailability of such information will not affect or distort the ranking of our Group.
- (2) According to Yano Research, the ranking of the pachinko hall operators in the Kyushu region in terms of gross pay-ins is the ranking of the pachinko hall operators headquartered and/or registered in the Kyushu region.

Entry Barriers to the Pachinko Industry

Government approval

Only entity or person with a business permit can enter the pachinko hall operation business. The business permit can be obtained if (i) the entity or person does not fall into the category of disqualified entity or person; (ii) the location of hall and the operation facility satisfies the local requirements under the law of the corresponding prefecture; and (iii) the operation facility satisfies certain requirements such as meeting the noise and vibration regulation, not displaying photos, advertisement and decorations which may potentially harm good morals and clean environment for entertainment and amusement business.

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Capital investment

The pachinko hall business is capital intensive, requiring substantial initial capital and operating investment. New entrants must have sufficient capital support not only for the opening of a new pachinko hall, but also for ongoing machine purchases to maintain customer traffic after commencement of business.

Future outlook of the pachinko industry

Opportunities

Industry consolidation

Contraction of the pachinko industry since 2005 has resulted in challenging market conditions for pachinko hall operators, especially Small-sized Pachinko Hall Operators, leading to a general decline in the number of Small-sized Pachinko Hall Operators in the industry from 2010 to 2015. Such development, coupled with the high fragmentation of the industry, has presented consolidation opportunities for Mid- to Large-sized Pachinko Hall Operators.

Low playing cost games

Low playing cost machines, albeit generate lower revenue compared to high playing cost machines in general, are considered to be more entertainment-oriented. As customers who are attracted to low playing cost games are generally less sensitive to change in pay-out ratios, this type of machine appeals to a broader customer base, such as retirees and first timers. Such appeal to broader customer base may offset the downward pressure on the revenue. Furthermore, as players of the low playing cost games play for entertainment value instead of for winnings, pachinko hall operators can generally offer a lower pay-out ratio on the low playing cost games than that of the traditional high playing cost games.

Threats

Tightening of regulation on the pachinko industry

The tightening of the regulation on the pachinko industry may have some impact on the revenue and profit level of individual pachinko hall operators. For details, please refer to the paragraph headed “Reduced jackpot size and pay-out ratio” in this section. However, from the industry viewpoint, as over 700,000 pachinko machines were withdrawn from the pachinko halls nationwide by the end of December 2016, it may lead to an increase in production and demand for new pachinko machines which fulfil the new requirements, leading to a new business environment for the whole pachinko industry. Further, in the past, the industry had been subject to tightening of regulations aiming to lower the level of gaming spirits but had always managed to recover from such difficult condition by creating new attractive features on machines (such as enhancing the entertainment element and adoption of animation character etc.).

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Decrease of players population

According to the White Book on Leisure, the playing population slightly recovered in 2014, but is expected to be on a downward trend in the long term. The major reason is stringent regulation had limited innovation of the industry. As such, the content of pachinko/pachislot machines has remained more or less the same in the past decade. With the competition of a wide-range of gaming activities in the market, the pachinko industry has yet to come up with an effective countermeasure to attract new and young players and to retain existing players. The number of pachinko players may decrease if the industry loses its middle-aged and senior players, which currently make up more than half of the population of the participants. Meanwhile, the pachislot game is more popular amongst younger players which make up majority of the pachislot players. For details, please refer to the paragraph headed “Largest contributor to Japan’s entertainment market” in this section.

Implication of the casino law

In December 2016, the Act Promoting Implementation of Specified Integrated Resort Areas (Act No. 115 of 2016) (the “**Integrated Resort Act**”) which stipulates the basic policy and the process of the introduction of casinos in Japan, was enacted in the Japan Diet session. The Integrated Resort Act does not on its own legalise casino operations in Japan. It describes the necessary legislative measures that should be taken within approximately one year after the enforcement of the Integrated Resort Act (which is a non legally-binding period). As of the Latest Practicable Date, no legislative measure has been taken to this regard except for the establishment of a government agency to supervise the development progress of integrated resorts. According to various media coverage, the draft bill of the first legislation to be implemented in accordance with the Integrated Resort Act is expected to be available by mid 2017. In view of the time required for the bidding and selection processes of host cities, planning, construction and other steps in order for the resorts to begin operations, as well as the complexity of the legislative process, our Japan Legal Adviser advised us that it is the general conception in Japan that legalised casino operations will not begin prior to the 2020 Tokyo Olympic Games. The Japan Government is required under the Integrated Resort Act to implement anti-gambling measures to curb gambling and negative social behaviour associated with it as it lays groundwork for casino operations. Please refer to the paragraph headed “Further regulatory changes” below for the measures reported to be under consideration.

There are approximately 11,000 pachinko halls scattered all over Japan, and the commercial zone of each pachinko hall is estimated to be within an area of approximately 3km radius. Thus, pachinko players tend to visit the pachinko hall located in the vicinity of their residence on a daily basis. In contrast, the current proposal of the government is for casinos to be a part of the integrated resorts located in a few selected areas. Therefore, there is no competition between pachinko halls and casinos due to their geographic differences. In addition, pachinko halls and casinos have different customer segments. Casinos appeal to those who are attracted to the chance element, whilst pachinko halls focus more on leisure activity with a low stimulation of gaming spirits.

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Further regulatory changes

It has been reported in Japanese media that certain regulatory restrictions are currently under consideration by the Japan Government and the National Police Agency to curb gambling and the negative social behaviour associated with it as it lays groundwork for casino operations under the Integrated Resort Act. Certain restrictions may apply to the pachinko industry. Our Directors believe that these restrictions will not, in general, have a material adverse impact on our business operations based on the following:

- ***Reduction of pay-out ratio, ball return ratio (i.e. number of balls allowed per win) and chance elements of machines.*** The pachinko industry has over the past years implemented industry regulations, including the Amended Voluntary Regulations and their related Announcements, to reduce the jackpot size and the pay-out ratios of machines. These industry efforts are in line with the Japan Government's regulatory intent. If there is any further reduction of pay-out ratio, jackpot size and ball return ratio of machines imposed by the Japan Government, we will continue to monitor the industry trend and customer preferences as a result of such reduction and adjust our mix of machine composition at each pachinko hall to boost our customer traffic, utilising our experience of making operational changes in response to the Amended Voluntary Regulations and related Announcements.
- ***Strict enforcement of prohibited access to pachinko halls by minors and family.*** We have internal controls procedures in place to counter the negative social behaviours associated with such access. In particular, we have deployed regular patrols at two hours intervals for our pachinko halls to ensure that no access is allowed by minors and playing customers with children. Prominent notices are also placed at the entrance of each hall and any violation will result in expulsion from the relevant hall.
- ***Display of pay-out ratios, ball numbers and other information adjacent to machines.*** Our Directors believe that this potential requirement is in line with the general transformation of the pachinko industry into a form of mass entertainment. It is expected that the pachinko playing traffic will be less inclined to the gaming elements of pachinko with the increasing popularity of low playing cost machines, and the display of pay-out ratio, ball numbers and other information will not have a material adverse impact on our operations. Our Group currently also displays pay-out ratios and ball numbers in the liquid crystal display devices adjacent to the machines.
- ***Register of restricted patrons based on information provided by players and their family.*** We are well prepared to enhance our existing internal control procedures to comply with and act upon such register, if created. This may include enhancement of the patrol system and the introduction of an entrance check at our pachinko halls to prevent any person on such register to enter our pachinko halls.

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- **Substantial investments required from hall operators to comply with any new law and regulation.** Our Directors believe that we are in a good financial position with sufficient corporate resources to fund the relevant compliance costs. In particular, the tightening regulations will, similar to the Amended Voluntary Regulations, have a significant impact on the Small-sized Pachinko Hall Operators, creating further consolidation opportunities for us to expand and maintain a sustainable business operation.
- **Establishment of third-party institution to evaluate industry framework.** We are member of a number of industry organisations, including the Zennichyuren (全日本遊技事業協同組合連合会), the largest organisation of hall operators which frequently works with the National Police Agency and other social stakeholders on the regulatory regime of pachinko industry and the social problems associated with it. Our Group is prepared to work with the newly-established institutions (if any) on various regulatory and social issues and, in a joint effort with other hall operators, launch industry-wide efforts to address the institution's concerns and counter the negative impacts brought about by the measures, if any, adopted by it.
- **General anti-gambling measures.** The Japan Government is also reported to be considering other general social measures to curb gambling, including strengthening and expanding functions of gambling addicts recovery support groups and the implementation of other tightened gambling addiction measures at pachinko halls. It is expected that the customer traffic generated from players inclined to the gaming and chance elements of pachinko will decrease upon implementation of such measures. As discussed above, our Group is generally committed to the pachinko industry's intention to transform pachinko into a form of mass entertainment, and continues to make effort to appeal to customers who are attracted to the leisure element of pachinko. We will continue to adjust the ratio of our low playing cost machines to expand our customer base and appeal to the younger generation, which we believe will allow us to lessen the negative impact brought about by the anti-gambling-addiction measures of the Japan Government.

In light of our Group's contemplated response to the potential regulatory changes as set out above, our Directors and the Sponsor consider that our Group, capitalising on our corporate resources, financial position, industry experience, market position as a Mid-sized Pachinko Hall Operator and our track record of adapting to market and regulatory changes, is well prepared to sustain our business operations in the event any of the aforementioned changes materialises.

Consumption tax hike

Consumption tax in Japan rose from 5% to 8% in April 2014 and is expected to increase to 10% by October 2019. According to Yano Research, pachinko players have comparatively low income, and are considered to be price sensitive. Therefore, pachinko hall operators are likely to absorb the increase in costs from the rise in consumption tax rate rather than transferring such costs to the players. As a result, the revenue of the pachinko hall operator is likely to be adversely affected.

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Outlook of our Group

Although the pachinko industry faces a number of threats as mentioned above, it remains of a substantial size, accounting for approximately 46.9% of the Japanese entertainment market in 2015 in terms of market share (the total gross pay-ins of the pachinko industry against the total revenue of Japan's entertainment industry). Our Directors believe, with the enhanced equity base following our Listing together with our strengths (as set out under the paragraph headed "Competitive strengths" under the section headed "Business" of this prospectus) as well as the improved public credibility afforded by a listing status, our Group will be in a stronger position to capitalise on the aforementioned consolidation opportunities.

SOURCES OF INFORMATION

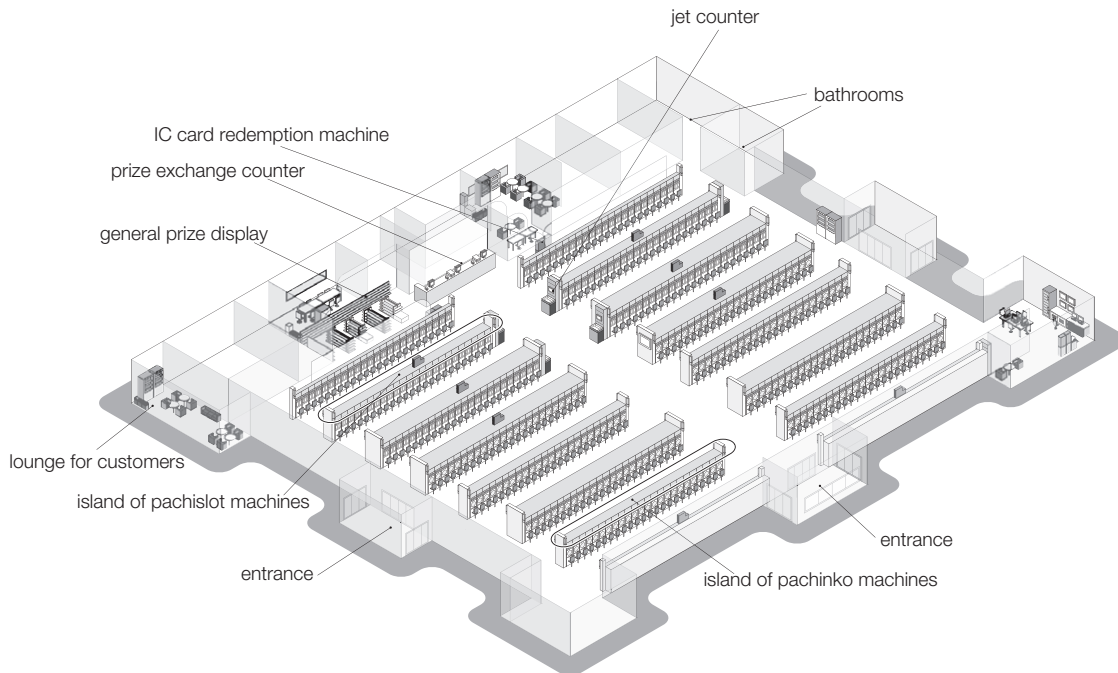
In connection with the Listing, our Company has commissioned a research report from Yano Research for inclusion in this prospectus to provide prospective investors with necessary information on the economy of Japan, the industry and market segments in which we operate and our competitive position, including forward-looking information. The total fee paid to Yano Research for the above services was ¥3.1 million. Yano Research is a private market research company in Japan, founded in 1958, and provides market intelligence and consulting services specialising in the gaming industry. Yano Research performs research and publishes annual reports as well as other learning materials on the pachinko industry. In preparation of their report, Yano Research collected and reviewed publicly available data such as government-derived information, annual reports and industry association statistics. Yano Research advised us that it has exercised due care in collecting and reviewing the information collected and believes that the basic assumptions contained therein are factual and correct, and that the interpretations are reasonable. Yano Research advised us that it has independently analysed the information collected, but that the accuracy of the conclusions of its review largely depends upon the accuracy of the information collected. In compiling and preparing their report, Yano Research assumed that (i) Japan's social, economic and political environment is likely to remain stable; and (ii) key industry trends are likely to continue to affect the market over the forecast period from 2016 to 2020. For the projection of total market size and number of pachinko players, Yano Research plotted available historical data against macroeconomic data as well as data with respect to related industry trends. The projections and data relating to the future periods in this section were extracted from Yano Research's report. Our Directors believe such projections and data to be reliable and not misleading on the basis that Yano Research is an independent professional research agency with extensive experience in their profession.

NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, our Directors, after due care and reasonable consideration, confirm that they were not aware of any adverse change to the market information since the date of the Yano Report which may qualify, contradict or have an impact on the information in this section.

OVERVIEW OF PACHINKO AND PACHISLOT OPERATIONS

Pachinko halls provide a venue for customers to play two types of recreational arcade games: (i) pachinko; and (ii) pachislot. Pachinko halls usually have a standardised layout featuring many “islands”, or rows of machines separated by aisles. Each island typically features machine of the same playing cost (for example, only ¥1 pachinko machines or only ¥20 pachislot machines). A typical layout of pachinko hall is set out below:



The mechanics and method of playing are largely the same for the pachinko and pachislot machines. These games are played as follows:

1. Purchasing pachinko balls or pachislot tokens

Pachinko balls are used to play pachinko games, while pachislot tokens are used to play pachislot games. The playing costs of pachinko and pachislot games generally range from ¥0.5 to ¥4 per ball for pachinko machines and from ¥2 to ¥20 per token for pachislot machines.

To obtain pachinko balls or pachislot tokens, a customer initially inserts cash into the game machine. The customer can then obtain pachinko balls or pachislot tokens by deducting the balance of the cash inserted, and put the balls or tokens into the machine for play.

When the customer finishes playing a particular machine, any unutilised cash, balls or tokens will be recorded by the pachinko hall. Please refer to the paragraph headed “Membership system” under the section headed “Business” of this prospectus for more details on our membership cards.

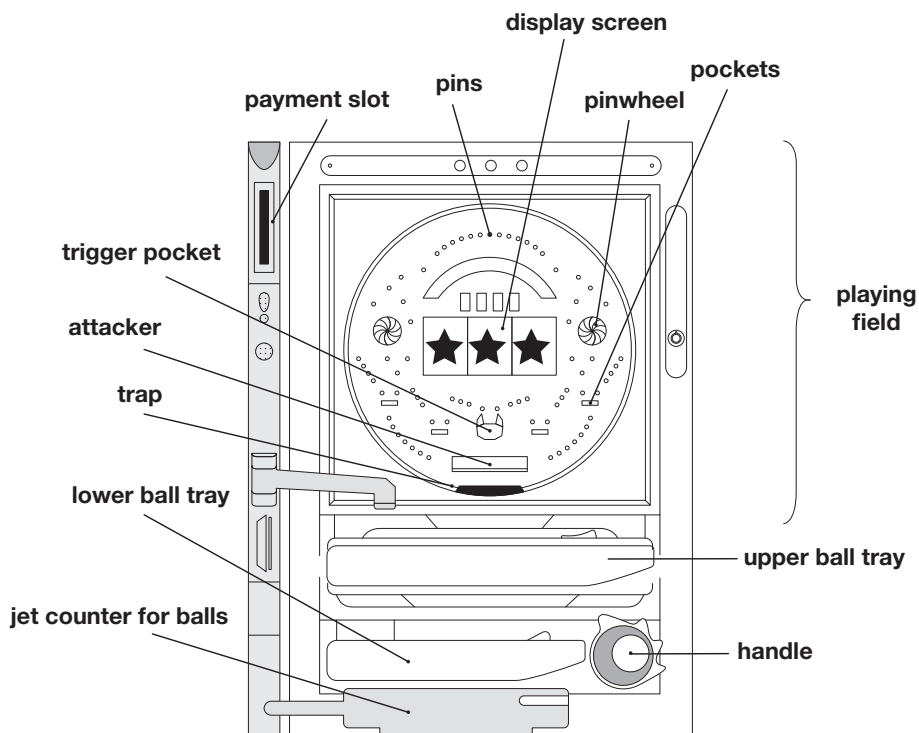
OVERVIEW OF PACHINKO AND PACHISLOT OPERATIONS

These IC and membership cards can then be: (i) re-inserted into machines in the same hall to utilise any remaining cash, balls or tokens; (ii) inserted into the cash changer to redeem any remaining cash balance before such card's expiry; or (iii) handed over to the staff in the same hall to exchange the remaining balance of balls or tokens for prizes.

For IC cards, any remaining balls or tokens can only be used on the same day when the card is issued, while any cash balance will be forfeited 21 or 31 days after the card is issued. Unutilised cash stored in IC cards is accounted for as other payables and is recognised as gross pay-ins when the customer uses it to obtain balls or tokens.

2. Playing pachinko or pachislot

Pachinko



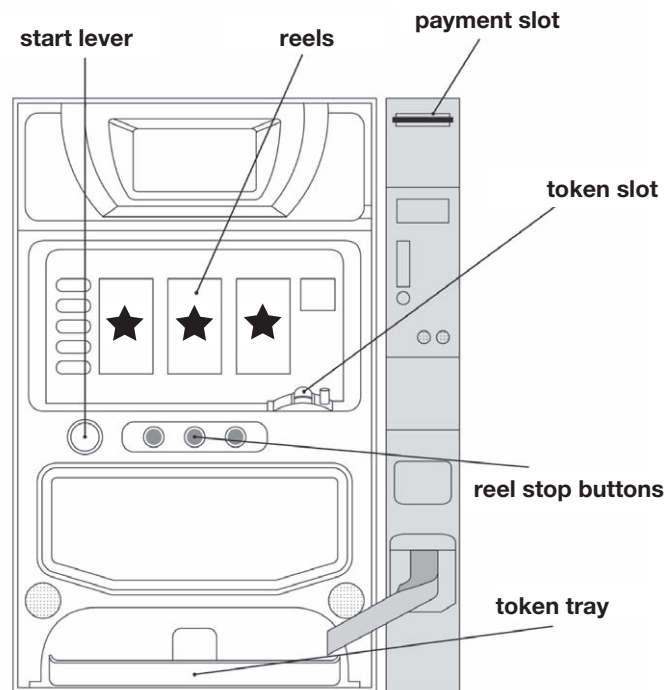
A pachinko machine resembles a vertical pinball machine (but without pinball flippers and with a large number of playing balls). The objective is to collect as many pachinko balls as possible, in order to exchange them for prizes at pachinko halls. Upon inserting cash, an IC card or a membership card into the payment slot adjacent to the machine, a number of small metal pachinko balls are dispensed into the ball tray located near the bottom of the machine. The customer fires the balls into the playing field in rapid succession, while controlling the velocity of the pachinko balls by turning a handle located next to the tray. The key is to find the proper shooting strength, as turning the handle too far sends the pachinko balls straight into the trap and the balls will be forfeited, while not turning the handle far enough will not cause the balls to launch into the playing field at all.

OVERVIEW OF PACHINKO AND PACHISLOT OPERATIONS

Once shot into play, the pachinko balls cascade down through the dense array of pins in the playing field. Pachinko balls will either fall into: (i) the trap at the bottom of the playing field and such pachinko balls will be lost; or (ii) the pockets located at the bottom of the playing field, which in turn trigger the release of more pachinko balls into the ball tray for subsequent play or exchange for prizes.

There is typically one pocket near the bottom of the playing field, a “trigger” pocket, which causes images arranged in multiple columns on the digital screen in the centre of the playing field to spin, similar to the reels in a slot machine. Each spin pays out a small number of balls. If the spins produce a winning combination of images on-screen, the “jackpot” mode commences and opens a larger pocket in the playing field (the “attacker”) for a limited time. Each ball that lands in the “attacker” during this “jackpot” mode pays out a large predetermined number of pachinko balls.

Pachislot



A pachislot machine is similar to a traditional western slot machine, with three reels of different images in the playing field. The objective of pachislot is to collect more tokens by stopping the spinning reels such that the images on each reel match up to form a winning combination. To play, as with pachinko machines, a customer inserts cash, an IC card or a membership card into the payment slot adjacent to the machine, which then dispenses tokens to be used in the game into the token tray. The customer inserts tokens into the machine and pulls the start lever, which causes the three reels to begin to spin. While the reels are spinning, the customer presses the stop button under each reel to stop the corresponding reel. If, after the three reels have been stopped and a winning combination of pictures appear, the customer wins more tokens. If none of the pictures on the three reels matches up, the tokens played are lost.

OVERVIEW OF PACHINKO AND PACHISLOT OPERATIONS

3. Redeeming Prizes

Both games end when the customer either runs out of pachinko balls or pachislot tokens, or simply stops playing. Each machine may have its own theme or enhancing features such as a display screen that shows short video clips during play as additional entertainment, in order to provide the customer with a more entertaining gaming experience.

Once a customer is done, the pachinko balls or pachislot tokens collected by them must be returned to the pachinko hall and cannot be used at other halls. The pachinko hall will count such balls or tokens and issue a receipt to the customer showing the number of balls or tokens collected or register such number in the IC card. The customer may then take this receipt or IC card to claim prizes at a prize exchange counter in the pachinko hall (operated by the hall operator). The number of balls or tokens required to exchange for prizes varies by location and market value of such prizes. Generally, prizes must be claimed on the same day when the receipt is issued as the receipt is only valid on its issue date. Please refer to the paragraph headed “Membership system” under the section headed “Business” of this prospectus for information on carrying over unused balls for subsequent visits.

Prizes provided by pachinko halls consist of the following:

- a. **General prizes.** These are typically daily goods sold in convenience stores, such as accessories, fragrances, food and snacks, household goods, drinks (including liquor), cigarettes and toys.

The value of pachinko balls or pachislot tokens required to redeem general prizes varies for different pachinko halls depending on suggested retail prices from the prize suppliers. Regulations set the upper limit of the value of all prizes at ¥9,600 (before consumption tax). For more information, please refer to the section headed “Applicable Laws and Regulations” of this prospectus.

- b. **G-prizes.** These are decorative cards with a small embedded piece of precious metal (such as gold) or coin-shaped pendants of precious metal (such as gold), and can be subsequently sold by customers to independent G-prize buyers for cash. The value of pachinko balls or pachislot tokens required to redeem G-prizes varies depending on location and/or any guidance provided by the local prefecture government.

APPLICABLE LAWS AND REGULATIONS

This section sets forth a summary of the most important aspects of Japan laws and regulations relating to our business in Japan.

A. OVERVIEW OF THE JAPAN LEGAL SYSTEM

Primary features

The Japan legal system has the following significant features:

- The Japan legal system is a hybrid civil law system with characteristics of both (i) civil law system, such as the French and German legal systems, as well as (ii) common law system, such as the United States and Hong Kong legal systems.
- Under Japan law, any act, including our operations under the Three Party System, shall not be subject to criminal prosecution unless such act is explicitly and clearly described as a crime under a strict contextual interpretation of the applicable statutory provisions.
- Court rulings, although they have a de facto binding effect on inferior courts, do not modify existing law or create new law. Laws can only be adopted or modified through the legislative process.
- Court rulings, similar to court rulings in other civil and common law systems elsewhere, may be overturned by laws and regulations and/or amendments to existing laws and regulations enacted or adopted by legislative or executive authorities.
- The highest court in Japan is the Supreme Court (最高裁判所) (the “**Supreme Court**”).

Historical background

The early modernisation of the Japan legal system in the mid-19th century to early-20th century was primarily influenced by the German and French codes, which are civil law codes that served as models for the major Japanese codes such as the Civil Code.

After the Second World War, some laws in Japan such as the Constitution of Japan (日本国憲法) (the “**Constitution**”), criminal procedure laws, and labour laws were amended or replaced using principles from the United States law, which is based on the common law. Therefore, the Japan legal system is a hybrid of the civil law system and the common law system, and has evolved substantially and independently in accordance with the Japan legal culture.

APPLICABLE LAWS AND REGULATIONS

The distinction between common law and civil law mainly lies in the precedential value of case law. In a common law system, judicial decisions of superior courts have precedential value in later court decisions and form part of the common law, along with laws and regulations enacted or adopted by the legislative and executive branches of government. As a result, judges in a common law system have a substantial role in shaping the law.

In contrast, a civil law system tends to be a codified body of broad and general principles. The judge's role is to establish the facts of the case and to apply the provisions of the applicable code. Judicial decisions are consequently less crucial in the development of the law.

Constitution

Japan's current legal system was established by the Constitution, promulgated on 3 November 1946 after the Second World War. The Constitution provides for the separation of the legislative, judicial and executive powers.

The Constitution establishes a parliamentary system of government, where the legislative authority is vested in a bicameral National Diet (the "**Diet**"). The executive authority is exercised by the Prime Minister and the Cabinet of Japan (内閣) (the "**Cabinet**") who are answerable to the legislature; and the judiciary is headed by the Supreme Court.

Source of law and legislative process

The sources of Japan law include the Constitution, treaties and international agreements, acts, cabinet orders, ministry ordinances and ministry notifications.

Under Article 98 of the Constitution, the Constitution is the supreme law of the nation and no law, ordinance, imperial rescript or other act of government, or part thereof, contrary to the provisions of the Constitution, shall have legal force or validity.

Under Article 41 of the Constitution, the Diet is the highest organ of state power and the sole law-making body. The Diet is made up of two houses, the House of Representatives (Shugi-in) (衆議院) and the House of Councillors (Sangi-in) (参議院). Under the Japan legislative process, most draft bills come from the executive branches and are then submitted to the Diet through the Cabinet. To become law, a bill must be passed by both houses of the Diet. Japan law comprises written laws that fit into a certain hierarchy, headed by the Constitution. Statutes are often sorted, by subject matter, into substantive and procedural laws. The Cabinet and each ministry may make subordinate regulations such as cabinet orders, ministry ordinances and ministry notifications based upon delegation from the Diet.

APPLICABLE LAWS AND REGULATIONS

Judiciary

Under the Constitution, the Supreme Court is the highest court in the nation exercising appellate jurisdiction. The high courts are appellate courts primarily hearing appeals from district courts or family courts. The district courts are primarily courts of general and first-instance jurisdiction handling all cases. The summary courts have original jurisdiction over civil cases involving claims not exceeding ¥900,000 and minor criminal offences.

The Supreme Court is only able to overturn its own interpretation of a law through the full Supreme Court. If a lower court's judgment does not follow the judgment rendered by the Supreme Court, the decision may be appealed. Therefore, although Japan does not, strictly speaking, adopt the common law system as in Hong Kong, the Supreme Court's judgments have a *de facto* binding effect on any court in subsequent cases.

Choice of Law (Act on General Rules for Application of Law)

The rules for choice of law, which will be taken by Japan courts as international private law, are mainly governed by the Act on General Rules for Application of Laws (法の適用に関する通則法) of Japan (Act No.78 of 2006).

The formation and effect of a juridical act including, without limitation to contracts, shall be governed by the law of the place chosen by the parties. In the absence of such choice, the formation and effect of a juridical act shall be governed by the law of the place with which the act is most closely connected at the time of the act. In such case, if only one of the parties to a contract is to provide performance involved in a juridical act, the law of the habitual residence of the party providing such performance shall be presumed to be the law of the place with which the act is most closely connected. In cases where the party has a place of business connected with the juridical act, the law of the place of business will apply. In cases where the party has two or more such places of business which are connected with the juridical act and which are governed by different laws, the law of the principal place of business will apply. The parties may change the governing law otherwise applicable to the formation and effect of a juridical act, provided, however, that if such change prejudices the rights of a third party, it may not be asserted against the third party.

Penal Code and the Code of Criminal Procedures (刑事訴訟法) of Japan (Act No. 131 of 1948)

Crimes in Japan are mainly enumerated in the Penal Code, which provides the elements of different types of crimes and the penalties for different types of crimes. The Penal Code sets out minimum and maximum sentences for offences. Penalties range from fines and short-term incarceration to compulsory labour and death penalty.

Under Article 31 of the Constitution, the requirements for constituting a crime under the Penal Code and any other criminal laws shall be construed strictly in accordance with the specific provisions contained in these laws. Any interpretations that rely upon analogy to other

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laws, or that look similar to treatment for actions under other laws, are prohibited. Therefore, under Japan law, an act shall not be punishable unless such act is explicitly and clearly described as a crime under a strict contextual interpretation of the corresponding provisions.

A person shall not be subject to any criminal liability without procedural due process being observed under the Code of Criminal Procedures. Police have to secure warrants to search for or seize evidence. A warrant is also necessary for an arrest. However, if the crime is very serious or if the perpetrator is likely to flee, a warrant can be obtained immediately after arrest. Within 48 hours after placing a suspect under detention, the police have to present their case before a prosecutor, who is then required to apprise the accused of the charges and of the right to counsel. Prosecution will be denied if there is insufficient evidence on the prosecutor's judgment. Most offences are tried first in district courts before one or three judges, depending on the severity of the case. Defendants are protected from self-incrimination, forced confession, and unrestricted admission of hearsay evidence. In addition, defendants have the right to appoint counsel for public trial or cross-examination.

Civil Code

(a) Structure of Civil Code

The Civil Code of Japan (Minpo) (民法) was enacted in 1896. It was heavily influenced by the German Civil Code and the French Civil Code. The code is divided into five parts, general provisions, property, claims, family and inheritance. The parts related to family and succession retain certain vestiges of the old patriarchal family system that was part of Japanese tradition.

(b) Contract Law

As is the case for many countries, contracts under Japan law are formed by the manifestation of intention by way of offer and acceptance. The parties may generally enjoy freedom to agree on the terms and conditions of any contract which will supersede provisions of the Civil Code. However, some contracts may be subject to the mandatory requirements under the Consumer Contract Act (消費者契約法) of Japan (Act No. 61 of 2000) and other applicable laws and regulations. The formation of contracts does not require documentation unless otherwise required under special laws and regulations. Contrary to common law jurisdictions, consideration is not necessary for a contract to be enforceable. Also, there are no rules directly equivalent to the parol evidence rule in interpreting the terms and conditions of the contract.

(c) Torts

Under the Civil Code, a person who has intentionally or negligently infringed on any right of another, or a legally protected interest of another, shall be liable to compensate the other party for consequential damages. An employer is liable for damages inflicted on a third party

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by the actions of his/her employees in the execution of the employer's business; provided, however, that this shall not apply if the employer exercised reasonable care in appointing the employee or in supervising the employee's activities, or if the damages could not have been avoided even if he/she had exercised reasonable care. If more than one person has inflicted damages on another party or parties by their joint tortious acts, each of them shall be jointly and severally liable to compensate the other party or parties for those damages. The same shall apply if it cannot be ascertained which of the joint tortfeasors inflicted the damages.

(d) Property

Property rights are based upon the concept of ownership (title) under Japan law. The owner of the property generally enjoys an absolute right to possess, utilise and dispose of the property, unless otherwise (i) restricted under the mandatorily applicable laws; or (ii) specifically agreed through a contract. Therefore, there is no concept of negative or affirmative covenants under Japan law and the same purpose is achieved by mandatory laws in Japan (such as zoning, or building or environmental laws and regulations) or by specific contractual arrangements.

Under the Civil Code, no type of property can be established other than those prescribed by laws including the Civil Code. The creation and transfer of property rights shall take effect solely by the manifestations of intention of the relevant parties. Any deed or written agreement is generally not required for the transfer of property (including land ownership) to be valid and enforceable under Japan law, and oral agreement is generally sufficient. However, the acquisition or loss of or any change in property rights concerning immovable property may not be asserted against a third party unless the same are registered pursuant to the applicable provisions of the Real Estate Registration Act (不動産登記法) of Japan (Act No. 123 of 2004) and other applicable laws and regulations regarding land registration.

B. REGULATORY FRAMEWORK FOR PACHINKO AND PACHISLOT BUSINESS

Our pachinko hall operations are subject to various requirements and restrictions under Japan laws and oversight by Japan regulatory authorities. Generally, pachinko regulations fall under the Amusement Business Law and the Cabinet and ministerial ordinances and regulations thereunder. In particular, the Penal Code states that "gambling" is an offence, and the Amusement Business Law (and its ancillary prefectural local regulations) prohibits pachinko hall operators from being involved in the exchange of prizes for cash or securities by either providing cash or securities as prizes or repurchasing from customers the prizes provided to them. In order to ensure compliance with the Penal Code and the Amusement Business Law, the pachinko industry operates under the "Three Party System" to ensure independence amongst pachinko hall operators, G-prize buyers and G-prize wholesalers. For details on the Three Party System, please refer to the section headed "Three Party System" of this prospectus.

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We are also subject to Japan laws and regulations that require pachinko hall operators to obtain operating licences and impose various operating requirements on pachinko halls and pachinko and pachislot machines, as well as other Japan laws and regulations applicable to Japan companies generally, such as those relating to corporate governance, taxation and labour.

Pachinko is an established business and has been in place in Japan for a long time. The history of the pachinko industry has been characterised by government efforts to reform the industry to curb speculative excesses and perceived social problems relating to the industry. Prior to the later part of the period from 1995 to 1999, questionable business practices, crime and other anti-social forces gave the pachinko industry a negative public image. However, over the last two decades, the growing magnitude and importance of pachinko to the Japan economy spurred the Japan government and industry associations to step in to establish strict regulations, remove criminal and anti-social elements and improve the public image of the pachinko industry. The regulatory efforts have been highly successful. Due to the success of these reform efforts, the pachinko industry has evolved and become an integral part of the entertainment industry in Japan and an important component of the Japanese economy.

The following table sets forth the major regulatory developments that have affected the pachinko industry over time.

| Date | Events |
|-------------------------|--|
| 17 July 1880 | The predecessor to the current Penal Code is first enacted, including provisions equivalent to the present provisions related to “gambling” and “running a gambling place for the purpose of gain” (Articles 260 and 261), which provided that: (i) “gambling” is a criminal offence punishable by imprisonment for one to six months and/or a fine of ¥5 to ¥50; and (ii) “running a gambling place for the purpose of gain” is a criminal offence punishable by imprisonment for 3 months to one year and/or a fine of ¥10 to ¥100. |
| 24 April 1907 | The Penal Code is promulgated, replacing its predecessor. The Penal Code includes provisions equivalent to the present provisions related to “gambling”, “habitual gambling” and “running a gambling place for the purpose of gain” (Articles 185 and 186), which provided that: (i) “gambling” is a criminal offence punishable by a maximum fine of ¥1,000; (ii) “habitual gambling” is a criminal offence punishable by up to three years’ imprisonment; and (iii) “running a gambling place for the purpose of gain” is a criminal offence punishable by imprisonment of three months to five years. |
| 1930 | The first pachinko hall is opened in Nagoya. |
| 1942 to 1945 | The pachinko hall business is banned during World War II as an unnecessary business in times of emergency. |

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| Date | Events |
|-------------------------|--|
| 10 July 1948 | <p>The “Act Regulating Amusement Business” (風俗営業取締法) is enacted, under which pachinko hall operations became subject to licensing by the Public Safety Commission. Under Article 3 of this Act, each prefecture may set restrictions on amusement business operators, as necessary to prevent harm to good morals. Pursuant to this Article 3, prefectures began promulgating local regulations prohibiting pachinko halls from:</p> <ul style="list-style-type: none"><li data-bbox="507 618 903 645">(i) providing cash as prizes;<li data-bbox="507 674 1414 779">(ii) repurchasing from customers the prizes provided to them by those pachinko halls (the “Direct Repurchase Regulation”); and<li data-bbox="507 801 1414 869">(iii) causing a third party to repurchase the prizes (the “Indirect Repurchase Regulation”). |
| 10 November 1953 . . . | <p>The Supreme Court held that, if an operator of a gaming place, with a valid licence from the Public Safety Commission under the “Act Regulating Amusement Business”, offers prizes within the scope of the licence, it is an “activity involving betting for a thing that is provided only for short time amusement” under Article 185 of the Penal Code and thus will not constitute “gambling” under the Penal Code.</p> |
| 1961 | <p>An early form of the Three Party System is adopted in Osaka. Since then, the Three Party System has spread across Japan.</p> |
| 17 June 1968. | <p>The Fukuoka High Court (福岡高等裁判所) held that there is no violation of the Direct Repurchase Regulation or Indirect Repurchase Regulation in local regulations by purchasing prizes provided by other pachinko halls.</p> |
| 14 August 1984. | <p>The “Act Regulating Amusement Business” (風俗営業取締法) is renamed as “Act on Control and Improvement of Amusement Business, etc.” (風俗営業等の規制及び業務の適正化等に関する法律) (that is the Amusement Business Law), introducing the Direct Repurchase Regulation into the national legislation, and is substantially amended to prohibit, amongst others:</p> <ul style="list-style-type: none"><li data-bbox="507 1675 1345 1702">(i) providing customers with cash or securities as prizes; and<li data-bbox="507 1731 1414 1794">(ii) repurchasing from customers the prizes provided to them (Article 23). |
| August 1984 | <p>Most prefectural governments have in place local regulations ancillary to the Amusement Business Law as well as the Indirect Repurchase Regulation and Direct Repurchase Regulation.</p> |

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| Date | Events |
|----------------------------|--|
| 11 January 1985. | The Enforcement Ordinance is enacted, limiting the value of a prize offered by an amusement business to no more than ¥3,000. |
| 25 September 1990. | The Enforcement Ordinance is amended, raising the maximum limit on the value of a prize offered to ¥10,000 (after consumption tax) (approximately ¥9,524 before consumption tax, calculated based on the consumption tax rate of then effective 5%) (Article 35, Paragraph 3). |
| 17 April 1991 | The Penal Code is amended to raise the maximum amount of fine for the criminal offence of “gambling” to ¥500,000 (Article 185). |
| 1 April 2014. | The Enforcement Ordinance was amended to stipulate that the value of a prize offered by an amusement business cannot exceed ¥9,600 (before consumption tax) (¥10,368 after consumption tax, calculated based on the consumption tax rate of currently effective 8%). |

Principal administrative authorities

The following are the principal administrative and regulatory authorities that oversee pachinko hall operations in Japan:

- the National Public Safety Commission (including the National Police Agency);
- the Prefectural Public Safety Commission in the prefecture in which the relevant hall is located;
- police personnel;
- prefectural governments;
- the Security Communications Association (保安通信協会);
- the Prefectural Entertainment Environment Cleanup Association (都道府県風俗環境浄化協会); and
- the Minors Orientation Committee (青少年健全育成審議会).

National Public Safety Commission (including the National Police Agency)

The National Public Safety Commission is an administrative commission belonging to the Cabinet, oversees national security and police organization in Japan and implements regulations relating to the technical specifications of pachinko and pachislot machines as well as the operations of pachinko halls. For example, National Public Safety Commission

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regulations in conjunction with the Amusement Business Law govern the playing costs of pachinko games, machine designs, maximum pay-out ratios and maximum balls and pachislot tokens put into play and released, method of providing prizes, maximum value of prizes offered and the minimum age for playing pachinko.

The National Public Safety Commission also oversees the National Police Agency, which leads the prefectural police in their implementation of National Public Safety Commission regulations and policies.

Prefectural Public Safety Commission

The Prefectural Public Safety Commission in each prefecture is an administrative commission that supervises prefectural police agencies in their implementation of National Public Safety Commission policies and regulations. Each Prefectural Public Safety Commission has the power to grant or cancel pachinko hall licences, grant permission for changes in the structure of pachinko halls, certify and approve pachinko and pachislot machines, approve the technical standards for pachinko and pachislot machines and monitor violations of laws and regulations by pachinko hall operators. It has the authority, to the extent necessary for enforcement of the Amusement Business Law, to require holders of a pachinko hall licence to submit documentation concerning business matters. It also conducts hearings related to revocation, suspension or cancellation of pachinko hall licences or pachinko hall operations, and other related disciplinary actions against pachinko hall operators and pachinko hall managers.

Police personnel

Police personnel are permitted to enter pachinko halls to the extent necessary for enforcing the Amusement Business Law.

Prefectural governments

Prefectural governments set the standards for the hours of operation of pachinko halls and the level of noise and vibration around pachinko halls, and collect fees which are necessary for certification, approval and examination of pachinko halls, as well as pachinko and pachislot machines. The aforementioned standards must at least meet the minimum standards set out under the Amusement Business Law.

Security Communications Association (保安通信協会)

The Security Communications Association is responsible for examining machines to ensure that they comply with the Amusement Business Law standards in their technical specifications and also to ensure that they do not promote a “passion for gambling”.

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Prefectural Entertainment Environment Cleanup Association (都道府県風俗環境浄化協会)

The Prefectural Entertainment Environment Cleanup Association works under the Prefectural Public Safety Commission to organise personnel training and promote compliance with the Amusement Business Law.

Minors Orientation Committee (青少年健全育成審議会)

The Minors Orientation Committee works under the Prefectural Public Safety Commission to prevent minors from being involved in any “amusement business”.

C. LEGALITY OF PACHINKO BUSINESS AND THE THREE PARTY SYSTEM

Penal Code

In Japan, gambling is a criminal offence prohibited by the Penal Code, but there is a special exemption for the criminal offence of gambling for activities “involving betting for a thing that is provided only for short time amusement”. “A thing that is provided only for short time amusement” is interpreted as those which can be instantly consumed for amusement.

The Penal Code does not expressly define gambling, but it is generally taken that “gambling is to bet certain economic benefit over win or loss driven by accidental matters”.

Article 185 prohibits “simple criminal gambling”, and violation is generally punishable by a maximum fine of ¥500,000. If gambling is a repeated vice, it is considered “habitual criminal gambling”, which is prohibited by Article 186 and is punishable by up to three years’ imprisonment. Both types of gambling can be applied to a person engaged in the act considered to be gambling as well as to a person or entity who runs or organises a place for gambling. The Penal Code exempts activities that are expressly provided in the laws and regulations of Japan, such as small-scale lotteries and public horse racing. Article 185 also exempts activities involving “betting for a thing that is provided only for short time amusement”. As a pachinko hall operator, the Company must therefore conduct its operations such that it only offers prizes that fall within the scope of “a thing that is provided only for short time amusement”.

The Supreme Court, the highest court in Japan, has upheld a lower court judgment holding that if a duly licenced operator of a gaming place offers prizes within the scope of its operating licence granted by the Public Safety Commission under the Amusement Business Law, such act of offering such prizes is “an activity involving betting for a thing that is provided only for short time amusement” under Article 185 of the Penal Code and thus would not be deemed as “gambling” under the Penal Code. In addition, the Amusement Business Law contains various regulations which are intended to make sure that playing pachinko or pachislot would be within the scope of “betting for a thing that is provided only for short time amusement”, such as the regulation on maximum amount of prize and regulation on pay-out

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ratio of game machines. As a result, the operations of pachinko hall operators who hold a valid operating licence under the Amusement Business Law and offer prizes in compliance with the Amusement Business Law are deemed to fall within the exemption to the prohibition on gambling under the Penal Code.

Our Japan Legal Adviser, after conducting due diligence as described under the section headed “Three Party System” of this prospectus, has confirmed that we have duly obtained and maintained at all times a valid operating licence under the Amusement Business Law for all of our halls, our pachinko hall operations (including the prizes offered by each of our halls) are conducted in accordance with the conditions and restrictions applicable to such operating licence, we have not committed any material breach of the Amusement Business Law, and thus, our pachinko hall operations do not constitute any gambling offence under, or violate, any applicable laws and regulations including the Penal Code.

Amusement Business Law and Third Party Local Regulations

The Amusement Business Law sets regulations for “amusement businesses” such as pachinko. It sets out various requirements and regulations that pachinko hall operators must comply with in order to operate their halls. Amongst other regulations, Article 23 of the Amusement Business Law prohibits pachinko hall operators from being involved in the exchange of prizes for cash or securities by either providing cash or securities as prizes or repurchasing from customers the prizes provided to them for cash or securities. A breach of Article 23 may cause the pachinko hall operator to be subject to administrative orders as described under the paragraph headed “Other regulations on pachinko and pachislot business” in this section. In addition, a penalty of imprisonment up to six months, or a fine of ¥1 million may be imposed as criminal sanctions. If the pachinko hall operator is a company, the hall operator itself will only be subject to the fine, while person(s) who committed the breach as its representative, attorney or employee will be subject to imprisonment and/or the fine.

In accordance with industry practice, we strictly do not provide cash or securities to our customers, but only general prizes and G-prizes. Our Japan Legal Adviser, after conducting due diligence searches as described under the section headed “Three Party System” of this prospectus, has confirmed we have fully complied with such industry practice and that we have never been, and are not currently, in breach of Article 23 of the Amusement Business Law.

The Amusement Business Law does not prohibit a customer from selling a G-prize redeemed in a pachinko hall to a third party who is not the pachinko hall operator, nor does it prohibit the pachinko hall from purchasing a G-prize from a third party. However, there are local regulations established by prefectural governments which prohibit pachinko hall operators from causing third parties to repurchase G-prizes from customers (the “**Third Party Local Regulations**”).

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D. OTHER REGULATIONS ON PACHINKO AND PACHISLOT BUSINESS

Pachinko hall operating licence

Operation of pachinko halls is designated as one of the “amusement business” under the Amusement Business Law and other relevant laws, regulations and prefectural ordinances, and the operators shall, prior to starting the operations of each pachinko hall, at each of its place of operation, obtain an operating licence from the relevant Prefectural Public Safety Commission. The Prefectural Public Safety Commission may impose conditions for such licence and vary such conditions from time to time (Article 3, Paragraph 2 of the Amusement Business Law, with such conditions imposed, the “**Operating Licence(s)**”).

The Prefectural Public Safety Commission may withhold issuing the Operating Licence of pachinko halls with the game machines installed, if such machines may provoke customers’ excitement for gambling, as set forth in the subordinating regulations of the National Public Safety Commission (Article 4, Paragraph 4 of the Amusement Business Law).

Other than that, when considering an application for an Operating Licence, the Prefectural Public Safety Commission will consider the following factors prescribed by the Amusement Business Law:

- whether the business owner/operator is, with reference to past offences or other instances of regulatory non-compliance, a fit and proper person to hold an Operating Licence (the “**Fit and Proper Person Requirements**”);
- the proposed place of business, including its structural integrity and other building specifications;
- the location of the intended place of business, including town planning and area zoning considerations and proximity to schools and hospitals; and
- the compliance with legal specifications of the pachinko and pachislot machines intended to be installed at the proposed hall.

The Prefectural Public Safety Commission may, at its discretion and at any time, impose conditions on the Operating Licence which it considers necessary in order to maintain certain standards of moral decency within the pachinko hall and otherwise for the protection of minors. Generally, no specific conditions are imposed under the Operating Licence, and pachinko halls are only required to comply with the Amusement Business Law and other regulations.

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Other significant restrictions on the holder of an Operating Licence (the “**Licence Holder**”) include restrictions on corporate restructuring and corporate succession, so as to prevent the unauthorised transfer of an Operating Licence. The Prefectural Public Safety Commission must grant prior approval to any corporate restructuring carried out by Licence Holder in the relevant prefecture. Any Operating Licence transferee is subject to the same requirements as the original Licence Holder. For example, the Operating Licences for all our halls in Tokyo (東京都) have a standard condition (that applies to all halls for all pachinko hall operators), which states that customers can only play one machine at a time, and customers must not use any equipment that will affect the handle of the playing machines. Also, the Operating Licence for one hall in Hyogo Prefecture (兵庫県) has another condition that restricts the hall from expanding to an area within 100 metres of a school. Save for the above, there are no other conditions in the Operation Licence of our halls.

As at the Latest Practicable Date, we owned 18 halls and had obtained an operating licence for each of our pachinko halls, all of which are currently valid.

Administrative orders

A breach of the Amusement Business Law may cause the pachinko hall operator to be subject to “administrative orders” (行政処分).

The Prefectural Public Safety Commission may give necessary instructions to pachinko hall operators (the “**Instruction Order(s)**”) when the Prefectural Public Safety Commission deems that there is a breach of the Amusement Business Law or related prefectural regulations which may do harm to the good and clean environment of amusement business. Instruction Order is one of the administrative orders and if a pachinko hall operator receives an Instruction Order, it shall provide a written report on actions taken to improve its operation.

The Prefectural Public Safety Commission may also order cancellation of an Operating Licence or suspension of an Operating Licence for a maximum period of 180 days as an administrative order, where:

- it has been obtained through fraudulent or other illegal means;
- the Licence Holder no longer satisfies the Fit and Proper Person Requirements;
- the pachinko business has not commenced within six months from the grant of an Operating Licence or there has been any suspension of operations for more than six months without justifiable grounds;
- the whereabouts of the Licence Holder is unknown for more than three months;
- the Licence Holder breaches any legislation pertaining to the business which is the subject of the Operating Licence, and such violation is likely to:
 - cause substantial harm to a good and quiet moral environment; or

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- violate the rights of minors; or
- the Licence Holder fails to comply with a directive of the Prefectural Public Safety Commission or a licence condition.

Instruction Orders are orders indicating violation of the Amusement Business Law, giving the recipient a chance to improve the situation before being given more strict administrative orders, suspension or cancellation of the Operating Licence. Thus, an Instruction Order is the lightest administrative order without immediate sanction.

Unless there is a material and serious breach of regulations, it is generally expected that an administrative order in the form of an Instruction Order will be first given, and if there is no improvement, an order for suspension of the Operating Licence will be made. If the situation does not improve still, an order for cancellation of the Operating Licence will finally be made.

Administrative orders under the Amusement Business Law are administrative matters of the Prefectural Public Safety Commission, and the Prefectural Public Safety Commission has discretion in taking the administrative actions though such actions are in accordance with laws and regulations. In the event that the pachinko operator has an objection to the cancellation or suspension of an Operating Licence, it may, within six months from such decision, bring an action with the relevant court for the revocation of the administrative decision. Procedures for the filing of an objection to an administrative order are set forth under the Law Concerning Review of Objection to Administration (行政不服審査法) (Law No. 160 of 1962).

Criminal sanctions

Criminal sanctions are not applicable to all regulations under the Amusement Business Law, but are applicable only to some significant regulations under the Amusement Business Law. For pachinko hall operators, those significant regulations with criminal sanction include but are not limited to, “change of game machines without obtaining permission from the Prefectural Public Safety Commission”, “prohibition for provision of cash or securities as the prize” and “prohibition from purchasing prize from customers” under Article 23.

Procedures for criminal cases are totally out of the authority of the Public Safety Commission or police thereunder, because though criminal sanction procedures start with investigation by the police, the criminal cases shall be taken over from the police by the public prosecutors, who have the sole authority for prosecution, and upon prosecution, the criminal cases are brought to the criminal trial before a court in Japan.

As disclosed above, administrative orders and criminal sanctions are under totally different procedures under different authorities. In addition, under Article 31 of the Constitution, the requirements under the Penal Code and any other criminal laws, including provisions of the Amusement Business Law with criminal sanctions, shall be construed strictly in accordance with the literal interpretation of specific provisions. Any interpretations that rely

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upon analogy to other laws, or that look similar to treatment of actions under other laws, are prohibited. Therefore, under Japan law, an act shall not be punishable by criminal sanctions unless such act is explicitly and clearly described as a crime under a strict contextual interpretation of the corresponding provisions.

Therefore, strictly contextual interpretation shall be applied to the regulations with criminal sanctions under the Amusement Business Law, and there shall be little discretion by the police or administrative authorities in applying those regulations with criminal sanctions.

Pachinko and pachislot machine regulations

The Enforcement Ordinance sets forth the following thresholds and required ranges regarding pay-out ratios and other performance data so as not to provoke customers' excitement for gambling, and so as to maintain an average pay-out ratio for each machine that is within the required ranges:

The ranges of the number of pachinko balls that a pachinko machine may pay out are generally required to be: (i) less than or equal to 15 times the number of balls put into play at any time; (ii) less than or equal to 3 times the number of balls put into play over a continuous 1-hour period; and (iii) between 0.5 to 2 times the number of balls put into play over a continuous 10-hour period.

The ranges of the number of pachislot tokens that a pachislot machine may pay out are generally required to be: (i) less than or equal to 15 times the number of tokens put into play at any time; (ii) less than or equal to 3 times the number of tokens used for 400 consecutive plays; (iii) less than or equal to 1.5 times the number of tokens used for 6,000 continuous plays; and (iv) between 0.55 to 1.2 times the number of tokens used for 17,500 continuous plays.

A person who intends to manufacture or import a pachinko or pachislot machine or to install it may, but is not legally required to, apply for an inspection of the machine by the Security Communications Association (保安通信協会) for specifications of such imported or manufactured pachinko or pachislot machine. A machine manufacturer typically submits its machine prototypes to the Security Communications Association for testing. Machine prototypes that pass such testing receive certificates. Each machine subsequently manufactured according to that prototype will also have a certificate showing its compliance with such testing. Purchasing machines from manufacturers that have received this approval reduces the risk of installing machines that do not comply with the legal requirements. A pachinko operator that intends to increase or change its number of machines, including the transfer of a machine to a different pachinko hall, must obtain prior written permission from the Prefectural Public Safety Commission. Also, before any machine is delivered, the prefectural police must certify the eligibility and compliance of the machine or replacement part, which is evidenced by a "Notice of Inspection" issued to the manufacturer (for new machines) or dealer

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(for second-hand machines). A similar notice is issued when machine parts are replaced. In addition, prior to operation of a new or second-hand machine, the pachinko hall must submit an application to the local police authority to request an inspection, upon completion of which an approval is granted and operation of the machine may begin.

As we only purchase machines which are made by manufacturers that submit their machine prototypes for testing by the Security Communications Association, our pachinko and pachislot machines all have certificates demonstrating compliance with those tests and have passed all inspections conducted by the relevant Prefectural Public Safety Commission during the Track Record Period.

Maintenance of pachinko and pachislot machines

Pachinko halls need to maintain the pins in the pachinko machines (the “**Maintenance of Pins**”), on a regular basis, in order to (amongst others) ensure compliance with the restrictions on pay-out ratios and to compensate for the misalignment of the angle of the pins which naturally and inevitably occurs in the course of play.

Under the Amusement Business Law, any change in a game machine installed in a pachinko hall requires the prior permission of the Public Safety Commission, except that, for minor changes, a notification after such minor changes to the Public Safety Commission is sufficient.

Under the Police Circular (No. 15.7(3)), any change in the pins and other parts which may make contact with the balls (collectively the “pins, etc.”) is taken to be a “change” in a game machine itself, and cannot be considered minor. Thus, if the Maintenance of Pins constitutes a “change” in the pins, etc., it can only be done with prior permission from the Public Safety Commission.

However, there is no law, regulation, court decision or academic discussion which has addressed the criteria for a maintenance which constitutes a “change”. Replacing (including installation of new pins for dropped pins) and bending (or other modification on the shape of the pins) should be regarded as “change”, as such modification would affect the performance of the machines in a way affecting the excitement for gambling under the purposes of the law. However, as a “change” of pins has been the subject of criminal legal proceedings, strict and contextual interpretation shall be adopted, which is similar to the case with the interpretation of the prohibition of direct purchase of prizes from customers. Also, we are not aware of, through publicly available information, any case where the National Police Agency or any other relevant authority has challenged or taken any action (including enforcement actions such as criminal or administrative sanctions) against any pachinko hall operator regarding the legality of the Maintenance of Pins, or otherwise deemed any maintenance as a “change” in a game machine (whether major or minor) that specifically required prior approval of or subsequent notice to the Public Safety Commission under the Amusement Business Law, so long as the maintenance does not amount to replacing or bending pins.

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Also, although the standard period necessary for the Public Safety Commission to examine the application for a prior permission has not been determined, it is generally considered that rough target for such period should be 12 days or less. However, as mentioned above, pachinko halls need to maintain pins in their machines on a regular basis in order to ensure full and consistent compliance with the applicable required ranges. Therefore, it is impossible, and would be unduly burdensome, for pachinko halls to apply for prior permission with respect to such regular maintenances (without already breaching the applicable required ranges and/or materially disrupting operations by shutting down the concerned machine(s)). As such, these regular maintenances should not be subject to the requirement for prior permission and as a matter of reality, the police should be aware of the existence and necessity of these regular maintenances.

Based upon the above, our Japan Legal Adviser is of the view that the Maintenance of Pins (including maintenance on the angles of the pins) will not constitute a “change” in a game machine (whether major or minor) that requires prior approval of or subsequent notice to the Public Safety Commission under the Amusement Business Law, if the following three criteria are satisfied:

- (i) the Maintenance of Pins does not involve any bending or other modification on the shape of the pins;
- (ii) the purpose of the Maintenance of Pins is to ensure compliance with the relevant required ranges and to maintain an average pay-out ratio for each machine that is in compliance with the relevant required ranges; and
- (iii) the pay-out ratio of the machine for which the Maintenance of Pins has been completed remains within the required range.

Provided that the above three criteria are satisfied, pachinko hall operators may conduct Maintenance of Pins anytime.

The due diligence investigations conducted by our Japan Legal Adviser have revealed that our Group has strictly complied with the above mentioned three criteria in respect of the Maintenance of Pins. Our Japan Legal Adviser is of the opinion that the Maintenance of Pins carried out in respect of our Group’s pachinko hall operations (including maintenance on the angles of the pins): (i) does not constitute a “change” in a game machine (whether major or minor) that requires prior approval of or subsequent notice to the Public Safety Commission under the Amusement Business Law; and (ii) is in full compliance with the Amusement Business Law and the Enforcement Ordinance.

There is no issue of any maintenance of pins with respect to pachislot machines as the pachislot machines do not have pins or any other components maintained by the operator. A customer wins bonus pachislot tokens if the images on the reels form a winning combination. The amount of pay-outs for a particular winning combination may differ from machine to machine, as each pachislot machine has adjustable pay-out settings. These settings are designed and pre-set solely by the machine manufacturer, come in-built into the machine and

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can only be adjusted by the operator. All of the available pay-out settings made by the machine manufacturers must fall within the range required under the Enforcement Ordinance. If such pay-out setting were out of the range required under the Enforcement Ordinance, relevant pachislot machines would not be able to pass the examination on specifications required under the Amusement Business Law.

Consistent with industry practice, our Group regularly adjusts these pay-out settings of its pachislot machines in order to improve the financial performance of its halls. Such adjustments of pay-out settings for its pachislot machines are in full compliance with the Amusement Business Law and the Enforcement Ordinance.

Trading used machines

The licence, approval or permit requirements under Japan law and regulations for dealing in second-hand pachinko and pachislot machines are limited to a permit for dealing in second-hand goods under the Used Goods Dealer Act (古物営業法). This permit is issued by the Prefectural Public Safety Commission.

It is also customary for dealers of machines to register as such with the Japan Amusement-Related Business Association (日本遊技関連事業協会), and to obtain a registration certificate. Without this registration certificate, pachinko hall operators will refuse to deal with such unregistered dealer.

Playing costs, prize offerings and prize value

The Amusement Business Law and the Enforcement Ordinance require that the prizes should be equivalent in value to the number of balls or tokens obtained through playing pachinko or pachislot machine, and that in order to satisfy the wide variety of customers' needs, pachinko halls should provide as many kinds of goods as possible from those considered to be used in the everyday lives of customers. The Enforcement Ordinance also requires that the value of a prize should be no more than ¥9,600 (before consumption tax) (¥10,368 after consumption tax).

Membership systems

Per customer's application, most of the pachinko halls of our Group can issue a membership card to such customer, which can manage the balance of the number of balls belonging to the customer. Article 23, Paragraph 1, Item 4 of the Amusement Business Law prohibits pachinko hall operators from issuing written documentation indicating the number of pachinko balls or pachislot tokens being held for a customer. Our Japan Legal Adviser is of the view that the issuance of the membership card by our Group does not violate this prohibition, because the membership card does not indicate or contain the information on the balance of number of balls at all, and only the pachinko hall issuing the membership card can manage such balance. Item 15.9(2) of the ABL Circular states that issuance of the membership card is permitted if the hall manages the numbers of pachinko balls or pachislot tokens and the membership card does not contain the information regarding the number of balls or tokens.

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Operating hours and other restrictions

The Amusement Business Law restricts pachinko hall opening hours to the period from 6:00 a.m. to 12:00 a.m. However, each prefecture is permitted to impose more stringent limits on operating hours and such additional restrictions are common. In Tokyo, for example, halls are prohibited from operating between 11:00 p.m. and 10:00 a.m. of the following day.

In addition, customers are forbidden from taking pachinko balls or pachislot tokens from the pachinko halls and therefore are deemed to “rent” the balls or tokens with which they play pachinko or pachislot.

Environmental regulations

Pursuant to the Amusement Business Law and local regulations, a Licence Holder must conduct business in such a way that no noise or vibrations (limited to voices of people and other noises and vibrations in relation to business operation) exceed the limits specified by prefectural ordinances in the area surrounding the place of business.

The Amusement Business Law prescribes the following noise limits:

| Regional | Numerical Value | | |
|--|------------------------|------------------------|---------------------------|
| | Daytime ⁽¹⁾ | Evening ⁽²⁾ | Late Night ⁽³⁾ |
| (i) In areas specified by a particular prefecture in a prefectural ordinance as necessary to be especially quiet due to condensed housing or other similar areas | 55 decibels | 50 decibels | 45 decibels |
| (ii) In areas specified by a particular prefecture in a prefectural ordinance as necessary not to have extreme noise due to condensed stores and other similar areas | 65 decibels | 60 decibels | 55 decibels |
| (iii) Areas other than the areas in (i) and (ii) above . . . | 60 decibels | 55 decibels | 50 decibels |

Notes:

(1) “Daytime” refers to 6:00 a.m. until 6:00 p.m.

(2) “Evening” refers to 6:00 p.m. until 12:00 a.m.

(3) “Late Night” refers to 12:00 a.m. until 6:00 a.m.

Also, under the Amusement Business Law, each pachinko hall must have the necessary equipment to maintain illumination in each hall at more than 10 Lux.

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Advertising and promotion regulations

Article 16 of the Amusement Business Law provides that the amusement business operators including pachinko hall operators shall not put advertisement at and around the place of operation in a way which may negatively affect the clean and good surrounding amusement environment. No criminal sanction is provided for the violation of Article 16 of the Amusement Business Law.

Article 4, Paragraph 2, Item 1 of the Amusement Business Law and Article 7 of the Enforcement Ordinance set forth the technical standard for the facilities of pachinko halls, which includes prohibition from installation of pictures, advertisements, decorations and other facilities which may negatively affect good public moral and the clean amusement environment at the pachinko hall. In addition, Article 12 of the Amusement Business Law requires pachinko hall operators to maintain compliance with such technical standard of pachinko halls. Although there are no criminal sanctions for the violation of Article 12 of the Amusement Business Law, violation of the regulation is subject to administrative orders.

The Police Advertisement Circular states that when an advertisement of pachinko halls “suggests that there are activities at the pachinko hall which may significantly provoke excitement for gambling, or that there are activities at the pachinko hall which may violate the Amusement Business Law”, then such advertisement is in violation of Articles 12 and 16 of the Amusement Business Law.

Prohibition on minors

Customers of pachinko halls must be at least 18 years of age. The Amusement Business Law provides that the Licence Holder must post a sign at the entrance to the place of business prohibiting entry by those under the age of 18. The sign must be posted so as to be easily seen by the public.

Building and construction regulations

If a Licence Holder adds to the structure, makes structural changes or undertakes any other construction or changes to the facilities of the place of business, it must obtain prior permission from the Prefectural Public Safety Commission, with the exception of some specified minor changes.

Examples of structural or equipment modifications that require permission include extensive repairs to the place of business, changes to the location of guest rooms or floor space, and changes to the facilities such as adding walls or Japanese-style sliding doors to partition the interior of the place of business.

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We must comply with the Building Construction Standard Act of Japan (Act No. 201 of 1950), which requires any entity that constructs, substantially repairs or remodels, whether by itself or through a third-party contractor, any building that is larger than a certain scale or that is located in certain designated areas to obtain a certificate of prior confirmation for the planned construction, repair or remodelling as well as a certificate of completion thereof from an inspector appointed by the local authorities.

We must also comply with the City Planning Act of Japan (Act No. 105 of 1968), which designates areas where certain usage is not allowed. No Operating Licence will be granted unless the pachinko hall is located in an area where it is permitted under the City Planning Act.

ANTI-MONEY LAUNDERING

The AML laws in Japan do not impose any specific obligations on pachinko hall operators. Unlike casino gaming, where customers purchase casino chips that have little or no intrinsic value but have high face values and the potential to win or lose substantial sums in a short period of time, pachinko presents the opportunity over a relatively long period of time to win G-prizes that have a limited intrinsic value. The inherent mechanical limitations on pachinko ball and pachislot token dispensers render it extremely difficult for a pachinko customer to obtain the number of pachinko balls or pachislot tokens necessary to redeem a significant amount of G-prizes in a short period of time as a ball or token dispenser can only release about 750 balls or 600 tokens per minute. Thus, a customer seeking to launder even an insignificant amount of cash would need to spend at least several hours exchanging the cash into balls or tokens in addition to a considerably longer period of time putting such balls or tokens into play in a machine.

Furthermore, we do not allow customers to exchange balls or tokens into prizes without first putting them into play in the machines and we have put in place internal policies and internal control measures to prevent customers from violating this requirement. Our hall staff closely monitors the number of balls and tokens rented, and the number of balls and tokens played in each of the machines. Any irregularities in such numbers are closely followed up by hall staff. Surveillance cameras are also installed in the pachinko hall, and hall staff patrol the pachinko hall during its operating hours in order to detect any suspicious activity. Thus, it would be inefficient and highly impractical to engage in money laundering activities through pachinko or pachislot. For more information on our anti-money laundering procedures, please refer to the paragraph headed “Internal controls on money laundering” under the section headed “Internal Controls and Anti-Money Laundering” of this prospectus.

LABOUR PROTECTION

The Industrial Safety and Health Act (労働安全衛生法) of Japan (Act No. 57 of 1972) provides standards for employers regarding the health and safety of employees including the employer’s responsibilities and plans for accident prevention in the workplace. An employer with more than 50 employees per workplace must take reasonable measures to prevent workplace accidents, and must also make efforts to protect employees from the risk of passive smoking.

APPLICABLE LAWS AND REGULATIONS

Anti-smoking

Under the Health Promotion Act (健康増進法) of Japan (Act No. 103 of 2002), a person who manages a facility that is used by large numbers of people must endeavour to take necessary measures to prevent passive smoking in the facility. As a facility used by many people, a pachinko hall is deemed to fall within the scope of this provision. Also, certain provisions under the Industrial Safety and Health Act (労働安全衛生法) of Japan (Act No. 57 of 1972) provide that an employer must endeavour to take appropriate measures to prevent passive smoking in the workplace as appropriate based on the circumstances of the relevant employer and workplace. In furtherance of these provisions, the Ministry of Health, Labour and Welfare has issued circulars recommending specific measures to promote preventative measures against passive smoking in the workplace. The foregoing laws and circulars do not impose a definitive legal obligation on facility operators to take specific actions with respect to preventing passive smoking other than to “endeavour” towards this aim. As such, there are no penalties or sanctions for failing to take specific measures. In addition to the nationwide laws mentioned above, there are a variety of laws and regulations currently in effect or under consideration at the local and prefectural levels aimed at restricting smoking. Generally, these local anti-smoking laws provide exemptions from their application for certain establishments such as bars, restaurants and pachinko halls.

PERSONAL INFORMATION PROTECTION

Act on the Protection of Personal Information (個人情報保護に関する法律) of Japan (Act No.57 of 2003) requires that a Japanese business operator handling personal information must limit the use of personal information to the stated purpose and to properly manage the personal information in their possession, and forbids it from providing personal information to third parties without the consent of the individual.

INTELLECTUAL PROPERTY REGULATIONS

In Japan, patents are protected by the Patent Act and the Utility Model Act (実用新案法) of Japan (Act No.123 of 1959). Designs are protected by the Design Act (意匠法) of Japan (Act No.125 of 1959), and trademarks by the Trademark Act (商標法) (Act No.127 of 1959). We must comply with these, in addition to various international treaties Japan has entered into, to maintain our intellectual property rights.

THREE PARTY SYSTEM

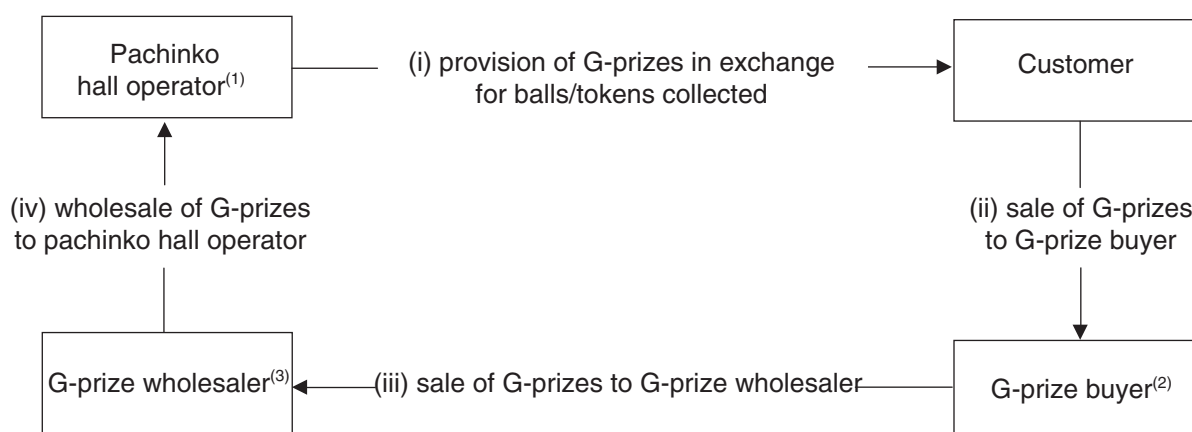
Overview

Under the Amusement Business Law, pachinko hall operators must not be involved in the exchange of prizes for cash or securities, or repurchase from customers the prizes provided to them with cash or securities. Further, the Third Party Local Regulations established by prefectural governments also prohibit pachinko hall operators from causing third parties to repurchase G-prizes from customers. Please refer to the paragraph headed “Amusement Business Law and Third Party Local Regulations” under the section headed “Applicable Laws and Regulations” of this prospectus for details. In order to ensure compliance with these restrictions, we operate our pachinko halls in accordance with an established industry practice commonly referred to as the “Three Party System”, which has been widely adopted by sizeable pachinko hall operators in Japan (including those listed on the Stock Exchange).

The Three Party System is an industry practice widely adopted by a majority of, if not all, pachinko hall operators of size and has been recognised by the Japan Government as an effective means to ensure compliance with the Penal Code, Amusement Business Law, Third Party Local Regulations and other relevant laws and regulations in Japan. In November 2016, the Japan Government has, in a written response to the questioning statements raised by a member of the House of Representatives of Japan, addressed to the Diet Session and the public in Japan that (i) after customers obtain G-prizes from pachinko hall operators, the Japan Government is aware that they might sell such G-prizes to third parties instead of to pachinko hall operators; (ii) pachinko hall operators, because of their potential ability to stimulate gambling spirit in their customers, are regulated under the Amusement Business Law, and the Japan Government believes that their business operations within the regulated scope are not crimes as defined under the Penal Code; (iii) with regard to pachinko halls operated within the framework regulated under the Amusement Business Law, the Japan Government thinks that they are adequately operated in compliance with the provisions stipulated under the relevant laws and regulations and their operations are not crimes stipulated under the Penal Code; and (iv) the Japan Government thinks that the act of purchasing G-prizes, which pachinko hall operators provide to customers in connection with business operations, by a third party does not directly violate the Amusement Business Law. However, the Japan Government thinks that in case where a third party is substantially identical to the pachinko hall operator, it violates the Amusement Business Law and it is a crime stipulated under the Penal Code.

Parties under the Three Party System

The Three Party System can be illustrated as follows:



THREE PARTY SYSTEM

Notes:

- (1) **Pachinko hall operators.** They operate pachinko halls where customers can play pachinko and pachislot games and exchange their balls or tokens for prizes, such as G-prizes. The pachinko hall operators purchase G-prizes from the G-prize wholesalers.
- (2) **G-prize buyers.** These are typically companies or sole proprietorships. Pachinko customers can sell their G-prizes (which they obtained from pachinko halls) to pachinko G-prize buyers for cash. G-prize buyers will then sell these G-prizes to the G-prize wholesalers.
- (3) **G-prize wholesalers.** These are typically companies. They purchase G-prizes from the G-prize buyers, and then sell them to pachinko hall operators.

Under the Three Party System, the transactions between (i) a G-prize buyer and pachinko customers; (ii) a G-prize buyer and a G-prize wholesaler; and (iii) a G-prize wholesaler and a pachinko hall operator, are independent from each other. A customer, who plays pachinko and/or pachislot games at a pachinko hall, may exchange pachinko balls or pachislot tokens for G-prizes from the pachinko hall operator. The customer may sell such G-prizes to a G-prize buyer for cash close to the cost of the G-prizes. The G-prize buyer in turn sells such G-prizes to a G-prize wholesaler. After purchasing the G-prizes from a G-prize buyer, the G-prize wholesaler may commingle such G-prizes with those purchased from other G-prize buyers or sources such as manufacturers of G-prizes, and then resell those G-prizes to various pachinko halls.

The incentive for each party to participate in the Three Party System is the income earned by the relevant party from trading of the G-prizes. The following sets out the common methods for determining the transaction price of G-prizes between G-prize buyers and G-prize wholesalers, and between G-prize wholesalers and pachinko hall operators, respectively:

- (i) fixed monthly commission to be paid by pachinko hall operators to G-prize wholesalers, and then by G-prize wholesalers to G-prize buyers; or
- (ii) commission corresponding to the volume of transaction to be paid by the pachinko hall operators to G-prize wholesalers, and then by G-prize wholesalers to G-prize buyers.

The arrangement of the commission provided in items (i) and (ii) above shall be construed to be a price adjustment of sales price, which is valid under Japan laws, and does not negate the interpretation that the transactions amongst pachinko hall operators, G-prize wholesalers and G-prize buyers constitute sale and purchase. As at the Latest Practicable Date, our Group had adopted the fixed monthly commission method with our G-prize wholesalers.

Independence under the Three Party System

As mentioned above, pachinko hall operators are prohibited from repurchasing G-prizes with cash or securities from their customers or causing third parties to repurchase G-prizes from their customers. Under the Three Party System, if the G-prize buyers and the G-prize wholesalers are independent from the pachinko hall operators, the provision of G-prizes to the customers and repurchase of G-prizes from the G-prize wholesalers by the pachinko hall

THREE PARTY SYSTEM

operators will not be regarded as “repurchase” of prizes from customers by the pachinko hall operator. Whilst there is no law, regulation, court case, formal or informal guideline in Japan directly addressing the criteria of whether a G-prize buyer or G-prize wholesaler is independent, the pachinko hall operators have, with reference to the comments and magazine articles of the National Police Agency and other authoritative materials and in consultation with industry peers and legal experts, come up with certain factors to ascertain the independence of a pachinko hall operator from a G-prize buyer or G-prize wholesaler (the “**Dependent Party Test**”), details of which are set out as follows:

- (i) neither a G-prize wholesaler nor a pachinko hall operator may have the ability to exercise control over the other, whether directly or indirectly, through (a) any equity holding or capital relationship or connection between them; (b) any relationship or connection between the personnel of them; or (c) any contract or other agreement between them;
- (ii) neither a pachinko hall operator nor a G-prize buyer may have the ability to exercise control over the other, whether directly or indirectly, through (a) any equity holding or capital relationship or connection between them; (b) any relationship or connection between the personnel of them; or (c) any contract or other agreement between them;
- (iii) G-prizes to be purchased are of market value; and
- (iv) G-prizes are not directly returned from the G-prize buyer to the pachinko hall operator.

Each of the factors above must be satisfied in order to comply with the requirements of the Third Party Local Regulations. It is not strictly necessary for the G-prize buyers and G-prize wholesalers to be unrelated to each other. The existence of relationship or connection between them will not render the operations of a pachinko hall illegal under the Third Party Local Regulations, if the pachinko hall operator remains independent from both the G-prize buyer and the G-prize wholesaler.

Agreements between parties under the Three Party System

Under the Three Party System, the pachinko hall operators, the G-prize wholesalers and the G-prize buyers may separately enter into the following agreements:

Agreements between pachinko hall operators and G-prize wholesalers

The pachinko hall operators and the G-prize wholesalers in general enter into (i) purchase agreements for G-prizes; and (ii) where applicable, lease agreements for lease of parcel of land where the pachinko halls are located.

THREE PARTY SYSTEM

Agreements between G-prize wholesalers and G-prize buyers

To the best of our Directors' knowledge, G-prize wholesalers and G-prize buyers typically also enter into: (i) purchase agreements for G-prizes; and (ii) where applicable, lease agreements for a portion of the same parcel of land leased by the pachinko hall operators to the G-prize wholesalers. The lease agreements allow the G-prize buyers to establish a presence on the property leased by the G-prize wholesalers from the pachinko hall operators, where customers may sell their G-prizes for cash. According to Yano Research, these arrangements between G-prize wholesalers and G-prize buyers are not uncommon in the pachinko industry.

Our three parties arrangement

We currently purchase G-prizes from five G-prize wholesalers, who in turn engaged their G-prize buyers. Set out below are the salient terms of the agreements relating to our Three Party System.

Agreements between us and G-prize wholesalers

We generally enter into purchase agreements with our G-prize wholesalers. For some of our G-prize wholesalers, we have also entered into lease agreements for the parcel of land where our pachinko halls are located. As at the Latest Practicable Date, for one of our G-prize wholesalers, we also entered into general prize supply agreements and agreements for vending machines.

Purchase agreements for G-prizes. We enter into a master continuous purchase and supply agreement with each G-prize wholesaler, and also generally memorandum as ancillary agreement to such master agreement which will include the amendments to the master agreement (such as the change in the price of the G-prize). The following table sets forth typical principal terms of the purchase agreements:

| | |
|---|--|
| Term | Five to seven years |
| Renewal | Automatically renew on the same terms |
| Commission | Ranging from 0.2% to 2.0% on the price of G-prize according to the types of the G-prize purchased |
| Payment method | Cash |
| Return and exchange of defective merchandise | Yes |
| Conditions of termination | The parties may terminate the agreements, amongst other things, upon one month prior notice or when the other party fails to comply with the agreement |

THREE PARTY SYSTEM

In general, we agree on a fixed monthly commission with our G-prize wholesalers. Upon each delivery of G-prizes, we settled part of the commission according to the volume of G-prizes delivered. In the event that we fail to meet the fixed monthly commission, we shall pay the shortfall between the fixed monthly commission and the amount paid. On the other hand, if the amount paid exceeds the pre-determined monthly commission, the G-prize wholesalers shall refund the commission exceeding the pre-determined monthly commission to us.

Lease agreements. We enter into lease agreements with some of our G-prize wholesalers. Under these lease agreements, the G-prize wholesalers may not, without our prior approval, transfer the lease right of the premises, or rearrange or renovate the existing premises. These leases generally last for a term of one year to seven years and may be automatically renewed unless terminated by either party. We or the G-prize wholesalers may terminate the agreement upon any breach by the other party of any provisions of the agreement.

Agreements for miscellaneous goods/services. For one G-prize wholesaler who also engages in food and beverage distribution business, we also enter into agreements for purchase of general prizes and the use of vending machines.

According to our Japan Legal Adviser, the above agreements that we have entered into with our G-prize wholesalers do not contravene the Amusement Business Law and the Third Party Local Regulations as these arrangements do not affect our independence. During the Track Record Period and up to the Latest Practicable Date, there was no breach of these agreements.

Legal opinion of our Japan Legal Adviser

Our Japan Legal Adviser advised us that the transactions and arrangements adopted by our Group in accordance with the Three Party System as detailed in the section headed “Three Party System” of this prospectus follow industry practice and do not violate any applicable laws and regulations in Japan during the Track Record Period and until the Latest Practicable Date.

Our past arrangement related to the Three Party System

Directorship with a past G-prize wholesaler

In June 2015, our Group terminated the contracts with four G-prize wholesalers in the Kyushu region (the “**Previous G-Prize Wholesalers**”, each a “**Previous G-Prize Wholesaler**”) and engaged a more sizeable G-prize wholesaler. Mr. Katsumitsu Yamamoto, the founder of our Group and member of our senior management, was one of the eight directors of one of these Previous G-Prize Wholesalers (the “**G-Prize Wholesaler A**”) until May 2014. Save for an insignificant amount of monthly directors fee, Mr. Katsumitsu Yamamoto had not received any other kind of remuneration from G-prize Wholesaler A.

THREE PARTY SYSTEM

In addition, the nephew of Mr. Katsumitsu Yamamoto also acted as a director of G-Prize Wholesaler A. He is also a representative director of a pachinko hall operator in Nagasaki City. Our Group had no business relationships with Mr. Katsumitsu Yamamoto's nephew and the pachinko hall operated by him. Except for Mr. Katsumitsu Yamamoto and his nephew, our Group has no past or present relationship or connection with the remaining six directors of G-Prize Wholesaler A.

Based on the confirmation of Mr. Katsumitsu Yamamoto by oath, he believed that his appointment as a director of G-Prize Wholesaler A primarily resulted from the personal reliance of the G-prize Wholesaler A then representative director of on his social standing in the pachinko hall operator's society in Nagasaki City, including his prior chairmanship of an association of pachinko hall operators in Nagasaki City (the "**Association**"). Mr. Katsumitsu Yamamoto also confirmed by oath that (i) he had no family relationship or connection or at any point in time entered into any business or financial transaction with the shareholders of G-Prize Wholesaler A; (ii) he had never held any shareholding or other ownership interests in G-Prize Wholesaler A; (iii) to his best knowledge, no person (including members of the Board of Directors) owns any shares in G-Prize Wholesaler A in trust for him and/or his close associates; and (iv) to his best knowledge, none of his close associates had ever held any shareholding or other ownership interests in G-Prize Wholesaler A, or has any past or present family relationships or connection, or at any point in time entered into any business or financial transactions, with G-Prize Wholesaler A.

Further, between 1994 and 2014, a number of directors of G-Prize Wholesaler A, including Mr. Katsumitsu Yamamoto, had been or were chairman of the Association, and were also members of senior management of other pachinko hall operators in Nagasaki City.

Legal opinion

Our Japan Legal Adviser advised us that the appointment of Mr. Katsumitsu Yamamoto as a director of G-Prize Wholesaler A did not affect the legality of our Group's pachinko hall operations on the basis that:

- (i) G-Prize Wholesaler A had a total of eight directors and also sold G-prizes to other pachinko hall operators in addition to our Group;
- (ii) Mr. Katsumitsu Yamamoto was merely a director, and not a representative director, of G-Prize Wholesaler A, with no substantial influence on G-Prize Wholesaler A;
- (iii) there was no operational relationship between the pachinko halls operated by the nephew of Mr. Katsumitsu Yamamoto and the pachinko halls operated by us;
- (iv) agreements were entered into between our Group and G-Prize Wholesaler A in our ordinary course of business for purchase of G-prize by our Group from G-Prize Wholesaler A; and
- (v) there was no agreement or understanding between our Group and G-Prize Wholesaler A that would afford our Group actual or effective control over G-Prize Wholesaler A.

THREE PARTY SYSTEM

Based on the circumstances described above, and the fact that there is no statute which prohibits a G-prize wholesaler to appoint directors who are also officers of a pachinko hall operator, our Japan Legal Adviser advised us that our pachinko hall operations during the Track Record Period were legal under the Three Party System despite Mr. Katsumitsu Yamamoto's past directorship in G-Prize Wholesaler A.

Further, as disclosed in the paragraph headed "Administrative orders" under the section headed "Applicable Laws and Regulations" of this prospectus, violation of the Third Party Local Regulations will be subject to the administrative order imposed by the Public Safety Commission, and there is certain degree of discretion by the Public Safety Commission and the police on the administrative order. Given that the contract between G-Prize Wholesaler A and our Group had already been terminated, and that our Group as well as other pachinko hall operators in the Nagasaki prefecture had never been given any administrative orders, cautions, warnings or concern by the police, our Japan Legal Adviser was of the view that it was virtually impossible for the police and the Public Safety Commission to take any actions on the past relationship between G-Prize Wholesaler A and our Group.

Relationship with a past G-prize buyer and a subcontractor of the past G-prize buyer

The Previous G-prize Wholesalers had engaged a G-prize buyer (the "**G-prize buyer T**"). We provided funds to G-prize buyer T in 2005 (the "**Initial Funds**"). In April 2005, G-prize buyer T was replaced by another G-prize buyer (the "**G-prize buyer S**") and became its subcontractor. G-prize buyer S conducted G-prize buying business and had G-prize buying booths located in the vicinity of our pachinko halls in the Nagasaki prefecture. G-prize buyer S was also the G-prize wholesaler for two pachinko halls of our Group in Tokyo. In June 2007, G-prize buyer T underwent a corporate split into two entities, whereby the subcontracting arrangement with the G-prize buyer S was replaced by one of such entities (the "**Subcontractor E**"), whose representative director is the former brother-in-law of Mr. Yamamoto, our Chairman and Executive Director. Further, Mr. Yamamoto's former mother-in-law was a shareholder of G-prize buyer T and Subcontractor E. Up until June 2015, Subcontractor E further subcontracted the G-prize buying business to individuals.

Since 2005, we had provided additional funds to G-prize buyer T and Subcontractor E, on an ad-hoc basis to address their urgent working capital needs (the "**Subsequent Funds**", together with the Initial Funds, the "**Funds**"). The maximum aggregate amount of the Funds provided by our Group during the said period was ¥188,472,000. The Funds had been partially repaid to our Group on an ad-hoc basis until such funds were fully repaid in 2015.

In June 2015, our Group terminated the contracts with the Previous G-prize Wholesalers who were substituted by a more sizeable G-prize wholesaler. Our Group paid approximately ¥105 million to the Previous G-prize Wholesalers to buy their remaining G-prize inventory at termination, which was calculated based on the fair market price of the remaining G-prizes.

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The Previous G-prize Wholesalers in turn terminated their contracts with G-prize buyer S with a payment to buy all G-prizes from G-prize buyer S, such payment was further settled between G-prize buyer S and Subcontractor E pursuant to their contracts. Subcontractor E then repaid all the outstanding Funds to us.

Legal opinion

Our Japan Legal Adviser was of the view that our Group had no control over G-prize buyer T and Subcontractor E as they were under the control of G-prize buyer S through subcontracting agreements based on the following reasons:

- (i) G-prize buyer S did not have any capital, personal and financial relationship with us;
- (ii) G-prize buyer S engaged G-prize buyer T and Subcontractor E at its own discretion;
- (iii) G-prize buyer S was taking its own business risks as the G-prize buyer and prime contractor;
- (iv) all business risks of such G-prize buying business were borne by G-prize buyers and its subcontractors G-prize buyer T and Subcontractor E only;
- (v) G-prize purchased by the G-prize buyer S from customers playing at our pachinko halls were sold to the Previous G-prize Wholesalers, and our Group did not purchase G-prize directly from the G-prize buyer S;
- (vi) the Funds were for meeting the ad-hoc funding needs of G-prize buyer T and Subcontractor E;
- (vii) there was written contract between G-prize buyer S and Subcontractor E with fair trade terms between independent parties;
- (viii) G-prize buyer T and Subcontractor E had not been involved in any negotiation on the prices and other terms and conditions of sales and purchase of the G-prize between G-prize buyer S and the Previous G-prize Wholesalers and between our Group and the Previous G-prize Wholesalers; and
- (ix) Subcontractor E had returned the Funds to our Group.

Our Japan Legal Adviser advised us that (i) G-prize buyer S was not a nominee of G-prize buyer T or Subcontractor E; (ii) such subcontracting arrangements between G-prize buyer S and G-prize buyer T and between G-prize buyer S and Subcontractor E should not be regarded as means to illegally circumvent any applicable laws and regulations in Japan; and (iii) our Group, G-prize buyer S, G-Prize buyer T, Subcontractor E and the Previous G-prize

THREE PARTY SYSTEM

Wholesalers remained independent of each other. Accordingly, G-prize buyer S was independent from our Group under the Dependent Party Test and the subcontracting arrangements of the G-prize buying business described above do not affect this analysis.

Lease agreements with a past G-prize buyer

During the Track Record Period, K's Properties entered into lease agreements with a past G-prize buyer for certain premises on the parcel of land where the relevant pachinko hall was located, which allowed such G-prize buyer to establish a presence on the property leased from K's Properties where customers may sell their G-prizes for cash. The term of these leases were for a period of five years which could be renewed automatically. These lease agreements, which were in the form of a standard lease, did not contain a termination clause which enabled the lessor to terminate the lease at its discretion. These lease agreements had already been terminated and there had been no breach of these agreements by each party. As at the Latest Practicable Date, our Group did not have any lease agreement with any G-prize buyers. To the best of our Directors' knowledge, some G-prize buyers enter into lease agreements for premises within close proximity to our pachinko halls directly with the relevant landlords.

According to Yano Research, these arrangements between pachinko hall operators and G-prize buyers are not uncommon in the pachinko industry. According to our Japan Legal Adviser, these lease agreements did not impair our independence.

Save for the above, we have no other arrangements, relationships or agreements with the G-prize buyers. We have no ability to exercise control, whether directly or indirectly, over G-prize buyers, and vice versa, through (i) any equity holding or capital relationship or connection, (ii) any relationship or connection between personnel, or (iii) any contract or other agreement.

Our internal control procedures to ensure our independence

Procedures before selecting G-prize wholesaler

We have an internal policy and procedures in place for the selection of our G-prize wholesalers. Our compliance department handles and oversees this selection and the background check process. Our G-prize wholesalers are selected based on the transparency of their operations, inventory control capabilities and availability of supplies. In June 2015, following the industry trend in engaging larger and more well-established G-prize wholesalers, our Group terminated the contracts with four of our G-prize wholesalers who were substituted by a more sizeable G-prize wholesaler. Our Directors believe that such modification is beneficial to the development of our Group as the more sizeable wholesaler is able to provide a standard service across prefectures which in turn can facilitate our business expansion particularly in regions where we have no presence yet. For details, please refer to the paragraph headed "G-prize wholesaler" under the section head "Business" of this prospectus.

THREE PARTY SYSTEM

Before engaging a G-prize wholesaler, we will conduct background checks, which focus on (i) independence; and (ii) anti-social forces.

We conduct anti-social forces checks on potential counterparties through a database provided by an independent search agent. We also, to the extent possible, inspect the commercial registers of our G-prize wholesalers to cross-check their directors to review their independence from us. If it is found that any of the potential G-prize wholesalers belongs to or is related to any anti-social forces, or is not independent from us, we will not engage that G-prize wholesaler. In our agreements with G-prize wholesalers, we generally require G-prize wholesalers to deliver written declarations stating that they, including their shareholders and directors, are independent from the G-prize buyers whom they engaged.

We also carry out regular background checks on each G-prize wholesaler with whom we conduct business. Such background checks include inspecting the commercial registers of our G-prize wholesalers to cross-check their directors in order to ensure their independence from us. We also currently, and will continue to, engage a third party corporate credit research and database service provider to conduct credit checks on our G-prize wholesalers.

We will also request our G-prize wholesalers to conduct regular background checks against any G-prize buyers engaged by them to review any independence issues under the Three Party System. We will also require any new G-prize wholesalers to be engaged by us to adopt the same ongoing independence controls that apply to our existing G-prize wholesalers.

Independence confirmation

We have obtained written confirmations from all our current G-prize wholesalers regarding their independence, based on criteria stricter than those set out in the Dependent Party Test, from: (i) us; and (ii) any G-prize buyers engaged by them who have G-prize buying shops near our halls. These confirmations cover the following matters:

- a complete and accurate list of all G-prize buyers engaged by them who have G-prize buying shops near our halls;
- to the best of their knowledge, the content of the confirmations issued by such G-prize buyers (as described below) to our G-prize wholesalers is true and accurate;
- written undertakings to conduct their own regular background checks against any G-prize buyers engaged by them in order to monitor any independence issues under the Third Party Systems, and if these G-prize wholesalers become aware of any independence issues, they will inform us and resolve such issues immediately in order to ensure compliance with the Three Party System;

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- written undertakings to report to us in a timely manner any change in their shareholding structure and composition of their board of directors, or if they become aware of any change in the shareholding structure or composition of the board of directors of any G-prize buyers engaged by them or any other matters that may affect their independence or the independence of such G-prize buyers under the Three Party System; and
- to the best of their knowledge, they are not aware that any such G-prize buyers are anti-social forces, or are or will be involved in any actions or activities using, or jointly associated with, any anti-social forces. Further, neither they nor any of their representatives, directors, statutory auditors, executive officers or shareholders are member of anti-social forces, or are or will be involved in any actions or activities using, or jointly associated with, any anti-social forces.

Our G-Prize Wholesalers have obtained written confirmations from all their current G-prize buyers regarding their independence, based on criteria stricter than those set out in the Dependent Party Test, from: (i) us; and (ii) any G-prize wholesalers engaged by us. These confirmations cover the following matters:

- neither they nor any of their representatives, directors, statutory auditors, executive officers or shareholders are anti-social forces, or are or will be involved in any actions or activities using, or jointly associated with, any anti-social forces;
- to the best of their knowledge, they are not aware that any such G-prize wholesalers are members of anti-social forces, or are or will be involved in any actions or activities using, or jointly associated with, any anti-social forces; and
- they have undertaken to the G-prize wholesalers that they shall report to such G-prize wholesalers in a timely manner any change in their shareholding structure or composition of board of directors or any other matters that may affect their independence under the Three Party System.

We have also obtained through our current G-prize wholesalers a list of the shareholders of the relevant G-prize buyers engaged by them. We will require our G-prize wholesalers to re-issue, and to request their G-prize buyers to re-issue, these confirmations every year.

Other procedures

In addition, we have also adopted the following internal control procedures to ensure the independence of our pachinko halls from each of our G-prize wholesalers and G-prize buyers engaged by them:

- we regularly obtain from each of our G-prize wholesalers a list of the shareholders (or ultimate owners) and directors of both themselves and the G-prize buyers engaged by them;

THREE PARTY SYSTEM

- we annually obtain commercial registers of all our G-prize wholesalers and the G-prize buyers engaged by them, if necessary, to review the composition of their board of directors;
- we engage independent search agents to perform annual searches on the shareholding structure and list of directors for all of our G-prize wholesalers and G-prize buyers engaged by them, if necessary;
- we require our Directors and senior management to confirm that they are independent from our G-prize wholesalers and the G-prize buyers engaged by such G-prize wholesalers (based on the criteria set out above), and to notify us immediately if they become aware of any potential independence issues;
- we will provide training on the Three Party System to our employees on a regular basis to ensure compliance with our internal criteria and to prevent them from unknowingly establishing a relationship with G-prize wholesalers or G-prize buyers engaged by G-prize wholesalers. For example, all our Directors and senior management have attended trainings conducted by our Japan Legal Adviser on the legal, regulatory and practice requirements under the Penal Code, the Amusement Business Law and the Third Party Local Regulations, including the independence requirements under the Three Party System;
- we require that none of our management, Directors or staff are engaged in the G-prize buying business; and
- as our pachinko hall operations are monitored by the Prefectural Public Safety Commission in each relevant prefecture, in order to prevent any conflicts of interest that might otherwise arise and for better corporate governance, none of our Directors or senior management has been, or is, a police officer in Japan and we require them to confirm the same to us.

Legality of our pachinko hall operations and the Three Party System

Our Japan Legal Adviser, having conducted due diligence described below and having reviewed the relevant court cases, governmental statements and practices, advised us that:

- the National Police Agency has never taken any action against the legality of the pachinko industry, as a whole, under the Penal Code, the Amusement Business Law, the Third Party Local Regulations or otherwise;
- as long as our pachinko hall operations hold valid operating licences and the business is operated in accordance with the Amusement Business Law and prevailing standard industry practices in the pachinko industry, and the independence factors described above are satisfied, our pachinko hall operations will not violate (i) the prohibition of gambling under the Penal Code; (ii) Article 23 of the Amusement Business Law; and (iii) the Third Party Local Regulations; and

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- as at the Latest Practicable Date, we are not, and have not been, in any material breach of the Penal Code, the Amusement Business Law, the Third Party Local Regulations or any conditions set out under the operating licences of our halls.

Due diligence conducted by our Japan Legal Adviser and the Sponsor

In relation to the above, our Japan Legal Adviser advised us that we have been in compliance with the independence requirements under the Three Party System. Our Japan Legal Adviser, after conducting due diligence as described below, has confirmed that each of our pachinko halls is independent, as evaluated under the factors listed in the paragraph headed “Independence under the Three Party System” in this section, from each of our current and past G-prize wholesalers and G-prize buyers (engaged by such G-prize wholesalers) during the Track Record Period.

Our Japan Legal Adviser and the Sponsor have conducted the following due diligence to the extent reasonably possible and practicable regarding our independence from each of our G-prize wholesalers and the G-prize buyers engaged by them:

- obtained written independence confirmations from all of our G-prize wholesalers and the written confirmations issued to our G-prize wholesalers from all of the G-prize buyers engaged by them;
- interviewed all our current and past G-prize wholesalers and G-prize buyers (except for three past G-prize wholesalers^(Note)) during the Track Record Period (through their legal representative, a director or other responsible management personnel), regarding, amongst others, their relationships with our Group and also the G-prize wholesalers/G-prize buyers (engaged by them), ultimately to confirm their independence from each such party;
- obtained and reviewed the list of the Group’s representatives, directors, statutory auditors, executive officers and shareholders through our Group’s commercial registers and share registers, and conducted searches through an independent search agent to check for any overlapping of directors and shareholders between our Group and all current and past G-prize wholesalers and G-prize buyers during the Track Record Period;
- reviewed all agreements between us and our G-prize wholesalers during the Track Record Period, namely purchase agreements for G-prizes, lease agreements and purchase agreements for miscellaneous goods and services;

Note:

Interviews were not conducted with three past G-prize wholesalers, as they declined to be interviewed by the Sponsor and our Japan Legal Adviser. Their engagements were terminated in June 2015.

THREE PARTY SYSTEM

- reviewed all agreements between us and our G-prize buyers during the Track Record Period, namely the lease agreements;
- interviewed all our Directors and senior management regarding, amongst others, their understanding of the relevant legal, regulatory and practice requirements (including the independence under the Three Party System), and their relationship(s) with our G-prize wholesalers and also the G-prize buyers (engaged by our G-prize wholesalers), ultimately to confirm our Group's and their independence from each such party;
- our Japan Legal Adviser hosted training sessions for all our Directors and senior management on the legal, regulatory and practice requirements under the Penal Code, the Amusement Business Law and the Third Party Local Regulations, including the independence requirements under the Three Party System;
- obtained confirmations from our Directors and senior management regarding, amongst others, their attendance at the aforementioned training sessions and understanding of the relevant legal, regulatory and practice requirements (including the independence requirements under the Three Party System) explained at such training sessions; and
- obtained confirmations from our Company, Directors, Shareholders and senior management regarding, amongst others, our Group's and their independence from each of our G-prize wholesalers and the G-prize buyers engaged by such G-prize wholesalers.

BUSINESS

OVERVIEW

Our Group is a pachinko hall operator in Japan. Customers come to our halls to play pachinko and pachislot games, one of the most popular forms of entertainment for adults in Japan. Pachinko has a long history as a leisure activity in Japan. In spite of a continuous market contraction since 2005, pachinko remains as the largest contributor of Japan's entertainment industry and accounted for approximately 46.9% of the Japanese entertainment market in 2015 in terms of market share (the total gross pay-ins of the pachinko industry over the total revenue of Japan's entertainment industry).

We opened our first pachinko hall in Nagasaki in 1968, in which our headquarters has since been located. Building on our success in the Kyushu region, we expanded into the Kanto region in 2003, the Kansai region in 2012 and the Chugoku region in 2016. We intend to further expand our geographic coverage and eventually become a nationwide pachinko hall operator in Japan. As at the Latest Practicable Date, we were a Mid-sized Pachinko Hall Operator with 18 pachinko halls, out of which 12 are in the Kyushu region, four in the Kanto region and one each in the Kansai region and the Chugoku region.

As mentioned in the section headed "Industry Overview" of this prospectus, contraction of the pachinko industry since 2005 has resulted in challenging market conditions for pachinko hall operators, especially Small-sized Pachinko Hall Operators, leading to a general decline in the number of Small-sized Pachinko Hall Operators in the industry from 2010 to 2015. Such development, coupled with the high fragmentation of the industry, has presented consolidation opportunities for larger players. In this connection, for example, our Group had capitalised on such opportunities in 2012 through the acquisition of a hall in the Kansai region. Within one year under our management, the gross pay-ins and revenue of the acquired hall for the six months ended 30 September 2013 compared with the same period in 2012 had increased by approximately 36.4% and 34.2%, respectively. Going forward, our Group will continue to explore expansion opportunities via acquisition as well as organic growth.

COMPETITIVE STRENGTHS

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

We are able to successfully operate different types of pachinko halls

Our Group has successfully operated different types of pachinko halls, including both urban and suburban pachinko halls of various sizes. Such experience, together with our established operating structure and practices, strong management team (as further elaborated below) and financial resources, puts our Group in good stead to capitalise on the consolidation opportunities mentioned above. In addition, our ability to develop and execute winning strategies for different types of halls enables us to pursue a wider range of opportunities than pachinko hall operators who only focus on certain type of pachinko halls.

BUSINESS

We are able to maintain and/or increase customer traffic by securing the latest machines through our well established relationship with machine suppliers

Along with our long operating history, we have established close relationships with a number of machine suppliers, which we believe is vital to the success of our business. During the Track Record Period, we have maintained close business relationships with around 60 machine suppliers, and in respect of our top five machine suppliers during the Track Record Period, we have on average over ten years of business relationships with them.

Our Directors believe that the close and established relationships with machine suppliers enable us to acquire new machine models which we believe are appealing to our customers upon their release. Such relationships also keep us abreast of the latest development in the industry and enable us to introduce the latest models of machines to our customers as they become available.

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

Our business execution, management and strategic directions are undertaken by our Executive Directors and senior management, who collectively possess expertise across sales, corporate affairs, financial control and general management functions in pachinko hall operations. Our Executive Directors and our senior management have an average of over 22 years of experience in pachinko hall and have considerable experience and knowledge in their respective areas of responsibilities. Their respective network and reputation in the industry also facilitate our Group's future expansion.

Please refer to the section headed "Directors, Senior Management and Employees" of this prospectus for more details.

BUSINESS STRATEGIES

Building on our key strengths, we aim to continue to strengthen our market position and further expand our business by pursuing the following strategies:

Strategically expand our pachinko hall operations through establishing new or acquiring pachinko halls

We aim to capture a greater share of the pachinko industry by actively pursuing expansion opportunities through establishing new or acquiring pachinko halls in desirable locations as consolidation opportunities arise. We intend to establish our halls in locations convenient and close to our potential customers. Since 31 October 2016 and up to the Latest Practicable Date, we had opened our first hall in the Chugoku region and planned to enhance our position in Nagasaki by establishing another major hall during the year ending 30 June 2018. For details of the hall opening plan, please refer to the paragraph headed "New hall development" under the section headed "Future Plans and Proposed Use of Proceeds" of this

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prospectus. As at the Latest Practicable Date, save as disclosed in the paragraph headed “New hall development” under the section headed “Future Plans and Proposed Use of Proceeds” of this prospectus, we had not identified any other suitable acquisition targets and currently intend to continue looking for acquisition opportunities after the Listing.

To enhance our customer experience and thereby customer traffic

Throughout our 48-year operating history, we have placed a significant focus on customer experience thereby enhancing recurring visits. To achieve this, we conduct analysis on customer preferences and acquire machines aiming to generate the most interests from customers and hence higher customer traffic. From our experience, factors affecting customer preference include machine themes, jackpot probability, jackpot size, playing costs, machines’ pay-out ratio and G-prize mark-up.

Furthermore, our Group has been committed to provide a refreshing and spacious environment to our customers and renovate our existing pachinko halls from time to time. In this regard, our Group intends to use part of the net proceeds from Share Offer to renovate and enhance facilities of our existing pachinko halls. For further details, please refer to the paragraph headed “Use of proceeds” under the section headed “Future Plans and Proposed Use of Proceeds” of this prospectus. We will also continue to improve the quality of our customer services by providing training to our staff, an important factor in retaining customer loyalty. Such dedication to our customers plays an essential role in differentiating ourselves from our competitors.

OUTLOOK AND SUSTAINABILITY

As discussed in the section headed “Industry Overview” of this prospectus, the pachinko industry in Japan has been subject to a continuous market contraction since 2005 and faces intense competition from other forms of entertainments in Japan. In spite of these negative market drivers, the pachinko industry continues to be of substantial market size with the total gross pay-ins being approximately ¥23 trillion in 2015, and remains as the largest contributor to the entertainment market in Japan, accounting for approximately 46.9% of Japan’s entertainment market in 2015 in terms of market share (the total gross pay-ins of the pachinko industry against the total revenue of Japan’s entertainment industry). With a long history of well-established industry practices such as the Three Party System and other voluntary industry regulations, the pachinko industry has experienced numerous economic cycles and market fluctuations, but has all along been able to sustain and adapt to these challenging market conditions.

To address the aforementioned negative market conditions, key stakeholders of the pachinko industry have launched industry-wide efforts to maintain the popularity of pachinko and pachislot. These include the Amended Voluntary Regulations initiated by the machine

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manufacturers which aimed to reduce the jackpot size and pay-out ratio of machines, thereby lessening the social stigma of pachinko as a form of gaming and widening the demographics of the customer population. We believe that our Group will continue to benefit from these industry-wide efforts.

Pachinko hall operators have also each adopted different commercial strategies to adapt to the changing market conditions. In respect of our Group, given our advantageous position as a Mid-sized Pachinko Hall Operator, we will continue to capitalise on the market consolidation opportunities brought about by (i) the challenging market conditions and absorbing the market share of Small-sized Pachinko Hall Operators; and (ii) the highly fragmented nature of the industry to achieve economies of scale and growth in market share. In particular, our expansion strategy involves establishing new or acquiring pachinko halls in desirable locations convenient and close to our potential customers. Our Group's successful experience in operating different types of pachinko halls, including both urban and suburban pachinko halls of various sizes, together with our established operating structure and practices, strong management team and financial resources also enable us to identify and venture into areas where other competitors do not have a strong presence and thereby able to gain a first mover advantage.

In addition, in response to the reduced customer traffic brought about by the Amended Voluntary Regulations and their related announcements, which according to the Yano Report will fade out, our Group, in adopting our fundamental multi-strategy approach of enhancing customer experience, attempted to enhance our appeal to customers by adjusting the composition of machine mix at each of our pachinko halls in accordance with their respective competitive landscape and customer preferences. Taking this into consideration, we adopted the following measures at our halls during the Track Record Period in accordance with the individual circumstances of each hall:

- Our Group maintained a higher proportion of low playing cost machines, the popularity of which increased due to the prevailing customer preferences during the Track Record Period and the impacts of the Amended Voluntary Regulations and their related announcements. This was implemented in particular in the Kyushu region, where our Group has a strong hold, solid customer base and established brand names and corporate image. Also, according to the Yano Report, the pachinko playing population in the Kyushu region has a lower disposable income than other cosmopolitan areas in Japan and a higher preference for low playing cost machines.
- Subsequent to the Amended Voluntary Regulations, we have re-positioned three of our halls with a higher proportion of low playing cost machines to cater for the surrounding customer preferences.
- In Tokyo prefecture in the Kanto region, which has a younger population and higher disposable income, we have maintained a higher ratio of pachislot machines and high playing cost machines.
- In our hall in the Kansai region, a higher ratio of high playing cost machines has been maintained to cater to the pachinko playing population's higher disposable income and customer preferences.

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As a result of the measures above and given that a substantial portion of our halls are located in the Kyushu region, over 60.0% of our pachinko machines were low playing cost machines during the Track Record Period, and the proportion of low playing cost machines increased over the Track Record Period, as discussed in the section headed “Financial Information” of this prospectus. Correspondingly, the proportion of low playing cost machines’ contribution to our gross pay-ins and revenue had also increased over the Track Record Period, as demonstrated in the tables below:

Contribution to gross pay-ins

| | For the year ended 30 June | | | For the four months ended 31 October | |
|-----------------------------|----------------------------|--------------|--------------|---|--------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | % of total gross pay-ins | | | | |
| Pachinko. | | | | | |
| High playing cost | 25.8% | 24.8% | 20.5% | 23.6% | 17.9% |
| Low playing cost. | 17.6% | 19.4% | 22.3% | 21.0% | 24.3% |
| | <u>43.4%</u> | <u>44.2%</u> | <u>42.8%</u> | <u>44.6%</u> | <u>42.2%</u> |
| Pachislot. | | | | | |
| High playing cost | 45.6% | 43.3% | 42.6% | 41.6% | 42.2% |
| Low playing cost. | 11.0% | 12.5% | 14.6% | 13.8% | 15.6% |
| | <u>56.6%</u> | <u>55.8%</u> | <u>57.2%</u> | <u>55.4%</u> | <u>57.8%</u> |

Contribution to revenue

| | For the year ended 30 June | | | For the four months ended 31 October | |
|-----------------------------|----------------------------|--------------|--------------|---|--------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | % of revenue | | | | |
| Pachinko. | | | | | |
| High playing cost | 28.4% | 29.0% | 22.9% | 27.1% | 16.8% |
| Low playing cost. | 25.1% | 26.6% | 26.9% | 27.1% | 29.6% |
| | <u>53.5%</u> | <u>55.6%</u> | <u>49.8%</u> | <u>54.2%</u> | <u>46.4%</u> |
| Pachislot. | | | | | |
| High playing cost | 35.4% | 32.8% | 36.0% | 33.2% | 36.6% |
| Low playing cost. | 11.1% | 11.6% | 14.2% | 12.6% | 17.0% |
| | <u>46.5%</u> | <u>44.4%</u> | <u>50.2%</u> | <u>45.8%</u> | <u>53.6%</u> |

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In addition, as part of our effort to sustain our long term business prospects and also to counter Japan's ageing population, we have taken additional measures to increase our appeal to the younger population who accounted for over 70% of our members during the Track Record Period. As shown in the table headed "Age distribution of pachinko/pachislot players" under the section headed "Industry Overview" of this prospectus, pachislot machines are more popular amongst the younger players. In particular, our halls in the Kanto region (which has a younger population) have a higher ratio of pachislot machines. We have also shifted part of our advertising effort from traditional paper media to digital platforms, which helps us to reach out to younger customers and at the same time reduces our advertising expenses.

The effectiveness of our business strategies are demonstrated in our actual results of operations in January and February 2017, during which our rate of revenue decline has seen a slowdown compared to the year ended 30 June 2016 and the four months ended 31 October 2016, primarily due to the opening of the new hall in Chugoku region (the "**Chugoku Hall**") and the gradual lessening of the impact from the Amended Voluntary Regulations and their related announcements. In particular, four of our pachinko halls have on average achieved double digit positive revenue growth for the four months ended 28 February 2017 compared to the corresponding period in the previous year. In addition, during the three years ended 30 June 2016, our business operations have been increasingly profitable with an improving adjusted profit margin (without taking into account the Listing expenses and the net income tax expenses related to the Reorganisation). Our Directors are of the view that our profitability and the ability to adapt to challenging market conditions are key and critical to the sustainability of our business. With the increasing number of machines following the opening of our first hall in the Chugoku region, the Chugoku Hall, and our hall to be opened in the Nagasaki City (the "**Nagasaki Hall**") as well as future expansion after the Listing, our Group will continue to replicate our successful business strategies across our pachinko hall network and continue to operate a sustainable pachinko hall operations in the future.

Whilst we may not be able to pursue expansion at a scale and rate comparable to our larger competitors, we believe that our experience of successful operations of various types of pachinko halls, our established operating structure, practice and strong management team, coupled with the net proceeds from the Share Offer and our enhanced corporate and branding profile following the Listing, will enable us to pursue our expansion strategy and thereby maintain a sustainable scale of operations amidst intense competition and challenging market conditions.

SOURCES OF REVENUE

Revenue from our pachinko hall operations

Our pachinko halls provide a venue for customers to play two types of recreational arcade games: (i) pachinko; and (ii) pachislot. We have pachinko machines with playing costs ranging from ¥0.5 to ¥4.31 and pachislot machines with playing costs ranging from ¥2 to ¥21.28. For details on how these games are played, please refer to the section headed "Overview of Pachinko and Pachislot Operations" of this prospectus.

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Our revenue consists of: (i) revenue from our pachinko and pachislot business, which represents gross pay-ins less gross pay-outs; (ii) vending machine income; (iii) property rental; and (iv) revenue from other operations. The table below shows our revenue during the Track Record Period:

| | Year ended 30 June | | | | | | Four months ended 31 October | | | |
|---|--------------------|--------------|---------------|--------------|---------------|--------------|---------------------------------|--------------|--------------|--------------|
| | 2014 | | 2015 | | 2016 | | 2015 | | 2016 | |
| | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % |
| Revenue | | | | | | | | | | |
| Gross pay-ins ⁽¹⁾ | 57,827 | — | 51,001 | — | 42,988 | — | 16,465 | — | 12,610 | — |
| Less: Gross pay-outs ⁽²⁾ | (45,324) | — | (40,209) | — | (33,311) | — | (12,990) | — | (9,698) | — |
| Revenue from pachinko and pachislot business ⁽³⁾ | 12,503 | 96.3 | 10,792 | 96.0 | 9,677 | 95.8 | 3,475 | 96.0 | 2,912 | 95.0 |
| Vending machine income | 170 | 1.3 | 156 | 1.4 | 147 | 1.5 | 52 | 1.4 | 48 | 1.6 |
| Property rental | 280 | 2.2 | 260 | 2.3 | 265 | 2.6 | 89 | 2.5 | 105 | 3.4 |
| Revenue from other operations | 37 | 0.2 | 37 | 0.3 | 9 | 0.1 | 5 | 0.1 | — | — |
| | <u>12,990</u> | <u>100.0</u> | <u>11,245</u> | <u>100.0</u> | <u>10,098</u> | <u>100.0</u> | <u>3,621</u> | <u>100.0</u> | <u>3,065</u> | <u>100.0</u> |

Notes:

(1) Represents the amount received from customers for renting pachinko balls and pachislot tokens.

(2) Represents the aggregate cost of G-prizes and general prizes exchanged by customers.

(3) Represents the gross pay-ins less gross pay-outs.

OUR PACHINKO HALLS

Our halls

The majority of our halls have a mix of pachinko and pachislot machines, whilst some only have pachislot machines, depending on the customer preference in the area. Some typical characteristics of our halls are set out below:

- offering a mix of low and high playing cost machines or just low playing cost machines;
- offering both G-prizes and general prizes (with a broad selection of over 500 types of general prizes); and
- providing free parking for customers playing in some of our halls.

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As at the Latest Practicable Date, we operated 18 pachinko halls in Japan, mainly in the Kyushu region. The table below shows a breakdown of the number of our halls by area in Japan as at the Latest Practicable Date:

| | Number of operating halls |
|--|--------------------------------------|
| Kyushu region | |
| Nagasaki | 10 |
| Fukuoka | 1 |
| Saga | 1 |
| Other regions (including Kanto, Kansai and Chugoku regions) | |
| Tokyo..... | 2 |
| Kanagawa | 2 |
| Hyogo | 1 |
| Yamaguchi | 1 |
| | 18 |

Regarding revenue contribution, for the three years ended 30 June 2016 and the four months ended 31 October 2016, our top five pachinko halls contributed approximately 54.0%, 56.4%, 56.7% and 58.2% of the revenue from our pachinko and pachislot business, respectively.

During the Track Record Period and up to the Latest Practicable Date, we closed two halls in April and September 2014 respectively, and opened a new hall in December 2016. The table below shows the movement in the number of our pachinko halls during the indicated periods:

| | Year ended 30 June | | | Four months ended 31 October 2016 | From 1 November 2016 to the Latest Practicable Date |
|---|---------------------------|------------------|-------------|--|--|
| | 2014 | 2015 | 2016 | 2016 | 2016 |
| Halls at the beginning of the period . | 19 | 18 | 17 | 17 | 17 |
| Halls opened during the period | — | — | — | — | 1 |
| Halls closed down during the period. | 1 ⁽¹⁾ | 1 ⁽²⁾ | — | — | — |
| Halls at the end of the period | 18 | 17 | 17 | 17 | 18 |

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Notes:

- (1) *This hall was sold to a competitor due to the maturity of the related car park lease and its poor performance.*
- (2) *This small-sized hall was located near another larger-sized hall under our operation. In light of the prevailing competitive landscape in the vicinity, we decided not to renew the lease of this small-sized hall when it matured.*
- (3) *When determining whether to close down a pachinko hall, we will consider (i) the future profitability of the pachinko hall; (ii) the competition the pachinko hall faces in its vicinity; (iii) the cost of closing down the pachinko hall e.g. any penalty arising from early termination of the lease; and (iv) the size of the pachinko playing population in its vicinity.*

Our brands

The table below shows a breakdown of our brands with the number of corresponding halls as at the Latest Practicable Date:

| Brand | Number of operating halls |
|----------------------------|---------------------------------|
| “Big Apple.” | 6 |
| “K’s Plaza” | 5 |
| “Big Apple” | 4 |
| “Big Apple. YOUPARK” | 2 |
| “Monaco” | 1 |
| | 18 |

During the course of our business development, we have established five brands, namely, “Monaco”, “K’s Plaza”, “Big Apple”, “Big Apple.” and “Big Apple. YOUPARK”. Please refer to the paragraph headed “Intellectual property” in this section for details of the intellectual property rights relating to our brands. Our first pachinko hall has been operating under the brand “Monaco” since its establishment in 1968. In 1984, Mr. Yamamoto institutionalised our pachinko hall operations, whereby we adopted a multi-hall operation and management strategy. Accordingly, we have established pachinko halls under the brands “K’s Plaza”, “Big Apple”, “Big Apple.” and “Big Apple. Youpark” to cater to the customer preferences and counter

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the competition in the area. We shall continue such strategy going forward and may establish new brands where necessary. The following images depict our pachinko halls under different brands:



K's Plaza



Monaco



Big Apple



Big Apple. YOUPARK



Big Apple.

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Composition of our pachinko and pachislot machines

The following table sets forth the breakdown of the number of our pachinko and pachislot machines by playing costs and regions for the dates indicated:

| | As at 30 June | | | As at 31 October | | | As at the Latest Practicable Date | | |
|---|---------------|----------------|---------------------------|------------------|----------------|---------------------------|-----------------------------------|----------------|---------------------------|
| | 2014 | | | 2015 | | | 2016 | | |
| | % | Number of hall | Average machines per hall | % | Number of hall | Average machines per hall | % | Number of hall | Average machines per hall |
| Kyushu region | | | | | | | | | |
| Pachinko machines ⁽¹⁾ | | | | | | | | | |
| High playing cost ⁽²⁾ | 722 | 4 | 181 | 802 | 5 | 160 | 629 | 4 | 157 |
| Low playing cost ⁽³⁾ | 2,274 | 8 | 284 | 2,194 | 8 | 274 | 2,367 | 9 | 263 |
| | | | | | | | | | |
| Pachislot machines ⁽¹⁾ | | | | | | | | | |
| High playing cost ⁽⁴⁾ | 1,000 | 5 | 200 | 901 | 5 | 180 | 877 | 5 | 178 |
| Low playing cost ⁽⁵⁾ | 1,228 | 8 | 154 | 1,327 | 11 | 121 | 1,351 | 11 | 122 |
| | 5,224 | 100.0 | | 5,224 | 100.0 | | 5,224 | 100.0 | |
| Regions other than Kyushu region | | | | | | | | | |
| Pachinko machines ⁽¹⁾ | | | | | | | | | |
| High playing cost ⁽²⁾ | 1,134 | 5 | 227 | 1,052 | 5 | 210 | 680 | 3 | 228 |
| Low playing cost ⁽³⁾ | 784 | 4 | 196 | 784 | 4 | 196 | 1,033 | 4 | 256 |
| | | | | | | | | | |
| Pachislot machines ⁽¹⁾ | | | | | | | | | |
| High playing cost ⁽⁴⁾ | 1,375 | 5 | 275 | 1,264 | 5 | 253 | 1,140 | 4 | 285 |
| Low playing cost ⁽⁵⁾ | 494 | 5 | 99 | 559 | 5 | 112 | 652 | 5 | 130 |
| | 3,787 | 100.0 | | 3,659 | 100.0 | | 3,515 | 100.0 | |
| | 9,011 | | 501 | 8,863 | | 523 | 8,739 | | 513 |
| | | | | | | | | | 9,360 |

Notes:

- ⁽¹⁾ The playing costs of our pachinko machines range from ¥0.5 to ¥4.31 (including consumption tax), while the playing costs of our pachislot machines range from ¥2 to ¥21.28 (including consumption tax). Our Japan Legal Adviser has confirmed that such playing costs are in compliance with the Amusement Business Law and the Enforcement Ordinance.
- ⁽²⁾ Comprises pachinko machines with playing costs of ¥4 per ball (including consumption tax) or above.
- ⁽³⁾ Comprises pachinko machines with playing costs below ¥4 per ball (including consumption tax).
- ⁽⁴⁾ Comprises pachislot machines with playing costs of ¥20 per token (including consumption tax) or above.
- ⁽⁵⁾ Comprises pachislot machines with playing costs below ¥20 per token (including consumption tax).

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During the Track Record Period, our Group rebalanced the composition of the machines on a continuous basis in response to the latest market conditions and customer preferences. In particular, our Group's proportion of low playing cost machines (both pachinko and pachislot machines) gradually increased during the Track Record Period, which is in line with our approach adopted in response to the general market trend as further elaborated in the paragraph headed "Outlook and sustainability" in this section. Further, the proportion of pachislot machines (both low and high playing cost machines) had been on an increasing trend during the Track Record Period, which is also in line with our effort to sustain our long term business prospects as discussed in the paragraph headed "Outlook and sustainability" in this section.

As at the Latest Practicable Date, when compared to 31 October 2016, our Group recorded a slightly lower proportion of both low playing cost machines and pachislot machines, primarily due to the opening of the Chugoku Hall in December 2016, which aims to attract customers with preference for high playing cost machines and pachinko machines (as further elaborated below). As explained under the paragraphs headed "To enhance our customer experience and thereby customer traffic" and "Outlook and sustainability" in this section, it is our Group's strategy to establish new pachinko halls in desirable locations and to enhance customer experience and recurring visits through conducting analysis on customer preference in the surrounding area, so as to acquire machines that generate most customers' interests. In this regard, as the pachinko playing population in the surrounding area of the Chugoku Hall has, in general, a higher disposable income and a preference for pachinko machines, the respective proportion of high playing cost machines and pachinko machines is higher in this hall when compared to our Group's overall level.

While ensuring full and consistent compliance with the required ranges of pay-out ratios under applicable laws and regulations, we also determine our target pay-out ratio from a commercial standpoint mainly based on: (i) our understanding of local customers preferences; (ii) the cost structure of our halls; and (iii) the competitive landscape in the vicinity of each of our halls. Ultimately, our commercial aim is to have mixture of machines with different specifications and to adjust the pay-out setting (for pachislot machines) or maintain the pins (for pachinko machines) in such a way that maximises our revenue from pachinko and pachislot business whilst complying with applicable laws. For example, we believe customers who prefer low playing cost machines are generally more attracted to the entertainment element of pachinko and pachislot machines, which means they are less sensitive to changes in pay-out ratio and are more prepared to accept a lower pay-out ratio. On the other hand, we believe customers who prefer high playing cost machines are generally more attracted to the chance element of pachinko and pachislot (to win a larger amount of prizes), which means they are more sensitive to the changes in pay-out ratio and expect a higher pay-out ratio. Taking into account the factors mentioned above including different target customers in different areas, majority of our machines at the pachinko halls located in the Kyushu Region are low playing costs machines, whilst the proportions of high and low playing costs machines are more balanced for the pachinko halls located at regions other than Kyushu Region.

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Utilisation rate

The following table sets forth the utilisation rate of our pachinko and pachislot machines in our halls for the periods indicated:

Pachinko machines^(Note)

| | Year ended 30 June | | | Four months ended 31 October | |
|------------------------|--------------------|-------------|-------------|---------------------------------|-------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | % | % | % | % | % |
| High playing cost..... | 17.2 | 14.8 | 12.5 | 14.1 | 13.5 |
| Low playing cost..... | 27.2 | 27.2 | 24.4 | 26.3 | 22.9 |
| Overall | 23.2 | 22.3 | 19.9 | 21.6 | 20.2 |

Pachislot machines^(Note)

| | Year ended 30 June | | | Four months ended 31 October | |
|------------------------|--------------------|-------------|-------------|---------------------------------|-------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | % | % | % | % | % |
| High playing cost..... | 29.5 | 26.5 | 27.2 | 28.2 | 25.6 |
| Low playing cost..... | 32.4 | 31.5 | 29.1 | 31.1 | 28.0 |
| Overall | 29.6 | 28.8 | 28.1 | 29.8 | 26.9 |

Note:

Represents the average number of balls or tokens played per day, divided by the maximum number of balls or tokens allowed to be played under the machine settings per day. The maximum number of balls or tokens allowed to be played under the machine settings per day is defined as the maximum number of balls or tokens allowed to be played under the machine settings per hour (i.e. 6,000 balls or 2,634 tokens) multiplied by the number of operating hours per day (i.e. 12.9 hours).

During the Track Record Period, the utilisation rate had been on a decreasing trend due to the decrease in number of customers. The decrease in number of customers is in line with the industry trend as mentioned in the paragraph headed “Pachinko players” under the section headed “Industry Overview” of this prospectus.

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Revenue margin for low and high playing cost machines

The table below sets out the revenue margin of our pachinko and pachislot machines in our halls during the Track Record Period.

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|------|------|---------------------------------|------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | % | % | % | % | % |
| Pachinko machines | 26.6 | 26.7 | 26.2 | 25.6 | 25.4 |
| High playing cost | 23.8 | 24.7 | 25.1 | 24.3 | 21.6 |
| Low playing cost | 30.8 | 29.1 | 27.1 | 27.2 | 28.2 |
| Pachislot machines | 17.8 | 16.9 | 19.8 | 17.5 | 21.4 |
| High playing cost | 16.8 | 16.0 | 19.0 | 16.9 | 20.0 |
| Low playing cost | 21.9 | 19.7 | 22.1 | 19.2 | 25.1 |
| Overall revenue margin for our Group | 21.6 | 21.2 | 22.5 | 21.1 | 23.1 |

Revenue margin for our pachinko and pachislot business represented our revenue from pachinko and pachislot business divided by gross pay-ins, which was mainly affected by (i) the pay-out ratios; (ii) the G-prize mark-ups; and (iii) the mix of our pachinko and pachislot machines. Our overall revenue margin was on an increasing trend from 30 June 2015, which was in line with the G-prize mark-up imposed. For detailed analysis on the trend of revenue margin, please refer to the paragraph headed “Revenue margin” under the section headed “Financial Information” of this prospectus.

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Machines purchased and sold

The table below shows the number of machines (i) as at the beginning of each financial year/period; (ii) purchased and sold during the relevant financial year/period; and (iii) as at the end of each financial year/period.

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|---------------|---------------|---------------------------------|-------------------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| Number of machines as at the beginning of the financial year/period | | | | | |
| Installed in the hall | 9,363 | 9,011 | 8,883 | 8,883 | 8,739 |
| At the warehouse. | 1,068 | 1,698 | 1,664 | 1,664 | 3,575 |
| Subtotal | 10,431 | 10,709 | 10,547 | 10,547 | 12,314 |
| Add: Number of machines purchased/rented during the financial year/period | 16,994 | 13,013 | 9,911 | 3,991 | 3,399 |
| Less: Number of machines disposed of during the year/period | | | | | |
| Sold at second-hand market. . . | 13,071 | 10,242 | 4,673 | 1,889 | 1,920 |
| Traded-in | 3,645 | 2,933 | 3,471 | 1,249 | 1,452 |
| Subtotal | 16,716 | 13,175 | 8,144 | 3,138 | 3,372 |
| Number of machines as at the end of the financial year/period | | | | | |
| Installed in the hall | 9,011 | 8,883 | 8,739 | 8,883 | 9,384 ^(Note) |
| At the warehouse. | 1,698 | 1,664 | 3,575 | 2,517 | 2,957 |
| Subtotal | 10,709 | 10,547 | 12,314 | 11,400 | 12,341 |

Note:

Out of 9,384 machines, 660 machines (including used machines of our Group and inexpensive second-hand machines rented from the market) were installed in the Chugoku Hall as at 31 October 2016 for the purpose of obtaining hall operating licence. Such machines were fully expensed on or before 31 October 2016 upon installation in accordance with our accounting policies. Out of these, 635 machines were replaced by new machines acquired after the Track Record Period and before the commencement of the Chugoku Hall's operations and were accordingly expensed upon installation. Please refer to the paragraph headed "Recent developments and outlook" under the section headed "Summary" of this prospectus for details.

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Machine turnover ratios

During the Track Record Period, the machine turnover ratios of our Group at national and regional levels are as follows:

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|-----------|-----------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | (annualised) | | | | |
| Kyushu Region . . . | 1.5 times | 1.1 times | 0.9 times | 1.1 times | 0.9 times |
| Kanto and Kansai Regions | 2.5 times | 2.0 times | 1.4 times | 1.7 times | 1.6 times |
| National | 1.9 times | 1.5 times | 1.1 times | 1.4 times | 1.2 times |

The turnover ratios of our pachinko and pachislot machines during the Track Record Period are as follows:

| | Year ended 30 June | | | Four months ended 31 October | |
|---------------------|--------------------|-----------|-----------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | (annualised) | | | | |
| Pachinko | 1.9 times | 1.5 times | 1.2 times | 1.5 times | 1.2 times |
| Pachislot | 1.9 times | 1.4 times | 1.1 times | 1.1 times | 1.1 times |

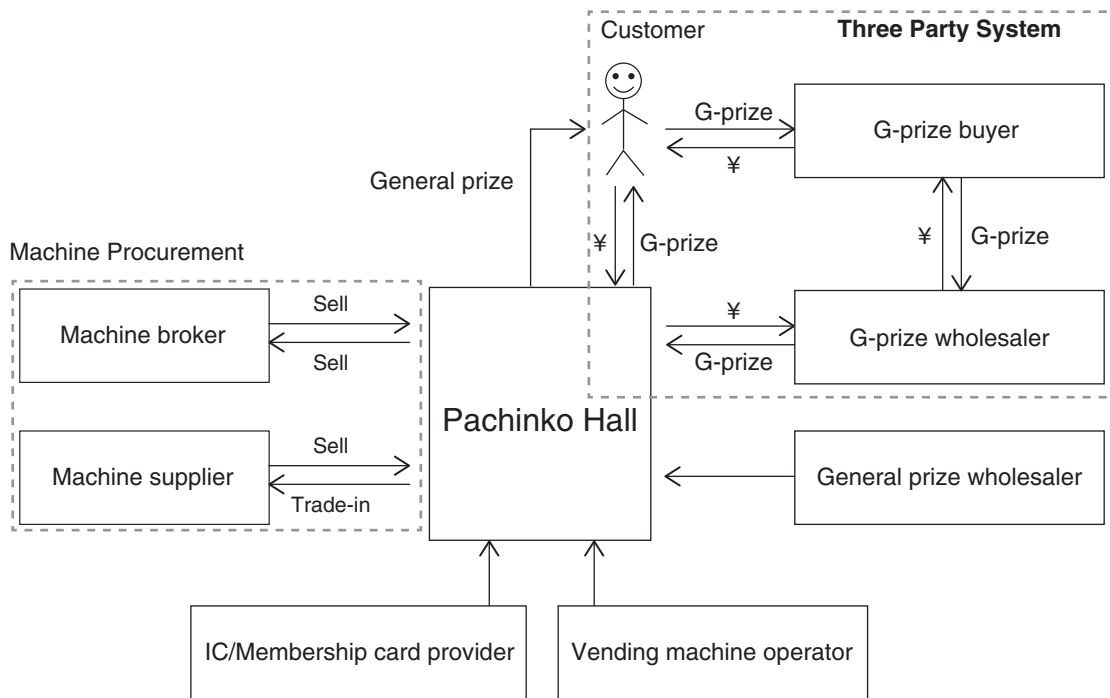
According to Yano Research and based on our Directors' industry information obtained from industry associations, business acquaintances and published financial information of our industry peers, during the Track Record Period, our Group generally had a higher machine turnover ratios than other industry peers (such as the other pachinko hall operators that are listed on the Stock Exchange) at both national and regional levels. Machine turnover ratio represents total number of pachinko and pachislot machines purchased during the relevant financial year divided by the number of machines installed as at the financial year end. As mentioned under the paragraph headed "Business strategies" in this section, our Group has been placing focus on the composition and features of our machines in order to attract higher customer traffic. Our Group conducts analysis on customer preferences and machines aiming to generate the most interests from the customers and hence higher customer traffic. This commercial strategy is also to an extent self-sufficient in that a higher machine turnover usually entails a higher income from scrap sales of machines (with the number of machines that can be installed in our pachinko halls being a defined number) and proceeds from the disposal in the second-hand market will then be used to fund the purchase of replacement machines.

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Our machine turnover ratio at each pachinko hall is generally determined based on the competitive landscape within the immediate vicinity instead of any specific geographic region. Generally, the more competition we have in a vicinity, the higher our machine turnover will be, in order for us to remain competitive by generating higher customers interests and traffic than our competitors. During the Track Record Period, our machine turnover ratio in the Kanto and Kansai regions were higher than our national average because most of our halls in those regions were located in the vicinity which has a steep competitive landscape. Based on our Directors' industry experience and knowledge, it is an industry norm for a pachinko hall to have a higher machine turnover ratio if it is located in a more competitive area.

PACHINKO HALL OPERATION

The flowchart below shows the parties involved in our business operation:



Customers

As a pachinko hall operator, we have a large and diversified customer base in the regions where we operate our halls. Due to the nature of our business, the vast majority of our customers are from the general public, and we do not rely on any single customer. Based on the regular customer surveys and analysis, we believe that our customers currently cover a relatively broad range of customers in terms of age demographic.

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Each of our halls targets different customers according to the demographic of their respective imminent vicinity. For example, our hall in the Akihabara district of Tokyo is strategised to attract younger customer population. Based on the customer data collected through our membership system, approximately 58.8% of our members were in the age group of 20s to 30s as at 30 June 2016.

G-prize

A G-prize is a decorative card with a small embedded piece of precious metal or coin-shaped precious metal pendant, and can be sold by pachinko players to independent G-prize buyers for cash. G-prizes make up virtually all of the value of prizes exchanged by our customers. The table below shows the value of G-prizes and general prizes exchanged by our customers during the Track Record Period:

| | Year ended 30 June | | | | | | Four months ended 31 October | | | |
|------------------------------------|--------------------|------------|---------------|------------|---------------|------------|---------------------------------|--------------|--------------|--------------|
| | 2014 | | 2015 | | 2016 | | 2015 | | 2016 | |
| | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % |
| G-prizes | 44,909 | 99.1 | 39,826 | 99.0 | 32,936 | 98.9 | 12,895 | 99.3 | 9,560 | 98.6 |
| General prizes | 397 | 0.9 | 340 | 0.8 | 325 | 1.0 | 107 | 0.8 | 115 | 1.2 |
| Others ^(Note) | 18 | 0.0 | 43 | 0.2 | 50 | 0.1 | (12) | (0.1) | 23 | 0.2 |
| Total | 45,324 | 100 | 40,209 | 100 | 33,311 | 100 | 12,990 | 100.0 | 9,698 | 100.0 |

Note:

Others mainly represent the movements of the balances of balls and tokens rented but not played by customers during the relevant year/period.

G-prize mark-up

The value of pachinko balls or pachislot tokens required to redeem G-prizes varies depending on location, competition from other pachinko hall operators in the vicinity and/or guidance provided by the local prefecture trade associations in the area where the relevant pachinko hall is located. In general, the value of pachinko balls or pachislot tokens required to redeem G-prizes corresponds to a mark-up over the price paid by us to our G-prize wholesalers for the G-prizes. Therefore, we realise a margin on G-prizes due to the G-prize mark-up, i.e. difference in the monetary value of the balls or tokens required to exchange a G-prize by our customers and our purchase price for such G-prize. The average G-prize mark-ups during the three years ended 30 June 2016 and the four months ended 31 October 2016 were approximately 3.0%, 2.2%, 6.6% and 13.6%, respectively. For the two years ended 30 June 2015, five halls and four halls have adopted G-prize mark-ups, respectively. For the year end 30 June 2016 and the four months ended 31 October 2016, all of our halls have adopted G-prize mark ups. Our Group commenced imposing G-prize mark-ups in response to

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the changing market conditions and industry practices. Such strategy was adopted together with other measures such as (i) rebalancing the composition of high playing cost and low playing cost pachinko and pachislot machines; and (ii) closure of certain pachinko halls in view of the local, prevailing competitive landscape. Different G-prize mark-ups were applied to different halls during the Track Record Period depending on factors such as customers preferences and sensitivity to mark-ups, competitors' practices, local regulations or any restrictions imposed by associations. For details of changes in the G-prize mark-up during the Track Record Period, please refer to the paragraph headed "Gross pay-outs" under the section headed "Financial Information" of this prospectus.

Our Japan Legal Adviser has confirmed that the aforementioned exchange of G-prizes and the G-prize mark-ups are legal and valid under applicable Japan laws and regulations. We strictly comply with the Amusement Business Law and its ancillary prefectural local regulations and we strictly do not exchange any pachinko balls or pachislot tokens with cash or securities at any of our halls.

G-prize procurement

Day-to-day G-prize procurement is handled by our hall staff at each individual hall. Their duties include:

- deciding the quantity of G-prizes to be purchased each day based on the inventory record;
- placing purchase orders and recording such orders in our prize management system, which is used for inventory management;
- inspecting the G-prizes delivered against the relevant purchase order;
- handling cash payments for the G-prizes;
- checking the balance of G-prizes and cash before opening and after closing of our halls; and
- counting and reconciling the number of G-prizes on a daily basis.

For information on our internal control measures relating to G-prize procurement, please refer to the paragraph headed "Internal controls relating to cash and G-prizes" under the section headed "Internal Controls and Anti-Money Laundering" of this prospectus.

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G-prize wholesaler

For the three years ended 30 June 2016 and the four months ended 31 October 2016, we engaged eight, eight, four and four G-prize wholesalers respectively. We currently purchase G-prize from five G-prize wholesalers with whom we have entered into purchase agreements. During the Track Record Period, there was no shortage or material delay in the supply of G-prize. For the two years ended 30 June 2015, our five largest G-prize wholesalers accounted for approximately 92.0% and 95.8% of our total purchases of G-prizes respectively. For the year ended 30 June 2016 and the four months ended 31 October 2016, we have engaged four G-prize wholesalers. During the Track Record Period, our single largest G-prize wholesaler accounted for approximately 24.1%, 42.6%, 55.3% and 57.8% of our total purchases of G-prizes respectively. To the best knowledge of our Directors, during the Track Record Period, our Group was not the sole customer of any of our G-prize wholesalers and therefore there was no basis suggesting that our Group had exercised control over them on the premise of their reliance on our Group.

The table below sets out further details of our top five G-prize wholesalers for the period indicated:

For the year ended 30 June 2014

| G-prize wholesaler | Year(s) of relationship as at the Latest Practicable Date | Transaction amount (¥ million) (tax excluded) | % of total |
|---|--|--|-------------------|
| G-prize wholesaler A | 11 ⁽³⁾ | 10,543 | 24.1 |
| G-prize wholesaler B | 13 | 10,244 | 23.5 |
| G-prize wholesaler C ⁽¹⁾ | 4 | 7,636 | 17.5 |
| G-prize wholesaler D | 1 ⁽³⁾ | 6,992 | 16.0 |
| G-prize wholesaler E ⁽¹⁾ | 10 | 4,767 | 10.9 |
| | | <u>40,182</u> | <u>92.0</u> |

For the year ended 30 June 2015

| G-prize wholesaler | Year(s) of relationship as at the Latest Practicable Date | Transaction amount (¥ million) (tax excluded) | % of total |
|---|--|--|-------------------|
| G-prize wholesaler D | 1 ⁽³⁾ | 16,500 | 42.6 |
| G-prize wholesaler B | 13 | 8,914 | 23.0 |
| G-prize wholesaler C ⁽¹⁾ | 4 | 6,216 | 16.1 |
| G-prize wholesaler E ⁽¹⁾ | 10 | 3,921 | 10.1 |
| G-prize wholesaler F | 3 ⁽³⁾ | 1,545 | 4.0 |
| | | <u>37,096</u> | <u>95.8</u> |

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For the year ended 30 June 2016

| G-prize wholesaler | Year(s) of relationship as at the Latest Practicable Date | Transaction amount (¥ million) (tax excluded) | % of total |
|--|--|--|-------------------|
| G-prize wholesaler G ⁽¹⁾⁽²⁾ | 1 | 17,592 | 55.3 |
| G-prize wholesaler B | 13 | 6,383 | 20.0 |
| G-prize wholesaler C ⁽¹⁾ | 4 | 4,682 | 14.7 |
| G-prize wholesaler E ⁽¹⁾ | 10 | 3,174 | 10.0 |
| | | <u>31,831</u> | <u>100.0</u> |

For the four months ended 31 October 2016

| G-prize wholesaler | Year(s) of relationship as at the Latest Practicable Date | Transaction amount (¥ million) (tax excluded) | % of total |
|--|--|--|-------------------|
| G-prize wholesaler G ⁽¹⁾⁽²⁾ | 1 | 4,992 | 57.8 |
| G-prize wholesaler B | 13 | 1,838 | 21.3 |
| G-prize wholesaler C ⁽¹⁾ | 4 | 1,366 | 15.8 |
| G-prize wholesaler E ⁽¹⁾ | 10 | 438 | 5.1 |
| | | <u>8,634</u> | <u>100.0</u> |

Notes:

- (1) *G-prize Wholesaler C, E and G are limited companies within the same group.*
- (2) *G-prize Wholesaler G has also been our general prize supplier over 13 years.*
- (3) *We terminated our relationship with G-prize wholesaler A, D and F during the Track Record Period. The years of relationship in respect of these G-prize wholesalers represent our years of relationship before our respective terminations with each of them.*

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In order to facilitate our pachinko hall expansion, we terminated the agreements with four previous G-prize Wholesalers in the Kyushu region during the year ended 30 June 2015, and engaged a more sizeable G-prize wholesaler with national coverage to supply G-prizes to our Group. Such transition is expected to be beneficial to our Group as this sizeable G-prize wholesaler has better capability to supply G-prizes to the Group in terms of capacity as well as geographic coverage. Further, through our engagement with such sizeable G-prize wholesaler, we are also able to elevate our position to be amongst larger pachinko hall operators who typically cooperate with more sizeable G-prize wholesalers.

During the year ended 30 June 2016 and the four months ended 31 October 2016, the transaction amounts with the group comprising G-prize wholesalers C, E and G made up approximately 80.0% and 78.7% of the total amount of G-prize purchased from our G-prize wholesalers. Having considered (i) the G-prize wholesale market is highly fragmented with numerous market players who are readily available to take up the role of G-prize wholesaler for our Group; and (ii) the sizeable operational scale, long established credibility as well as business reputation and history of the group comprising G-prize wholesalers C, E and G, our Directors are of the view, and the Sponsor concurs, that there is no concern on reliance on a major supplier.

For some of our G-prize wholesalers, we have also entered into lease agreements for the parcel of land where our pachinko halls are located. Such G-prize wholesalers then further sub-leased the parcel of land to the G-prize buyers engaged by them. Such arrangement enables the G-prize buyers to establish a presence on the property leased by the G-prize wholesalers from our Group, where customers may sell G-prizes conveniently. For one of our G-prize wholesalers, we have also entered into general prize supply agreements and agreements for vending machines. For details of above agreements, please refer to the paragraph headed “Agreements between us and G-prize wholesalers” under the section headed “Three Party System” of this prospectus.

All of our existing and previous G-prize wholesalers are Independent Third Parties. Save as disclosed in the paragraph headed “Directorship with a past G-prize wholesaler” under the section headed “Three Party System” of this prospectus, none of us, our subsidiaries, Directors, senior management or any of their associates has ever had any other interest in or other relationship (including family, trust or employment relationships) with any of our existing and previous G-prize wholesalers.

General prize

General prizes are typically daily goods sold in convenience stores, such as food and snacks, household goods, drinks (including liquor), cigarettes and toys. Our pachinko halls offer a selection of more than 500 types of general prizes, and the number and variety of general prizes in each pachinko hall are based on the size of the hall. The dominant category of our general prizes on offer is food and snacks.

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We determine the value of pachinko balls or pachislot tokens required to redeem general prizes mainly with reference to the suggested retail prices of those general prizes from the suppliers. We realise a margin on general prizes i.e. the monetary value of the number of balls or tokens required to exchange a general prize less our purchase price for such general prize. During the three years ended 30 June 2016 and the four months ended 31 October 2016, the average general prize mark-ups were approximately 29.5%, 30.0%, 29.7% and 26.7%, respectively. Our Directors have confirmed that there was no material change in our general prize mark-ups during the Track Record Period and up to the Latest Practicable Date. Our Japan Legal Adviser has confirmed that such general prize mark-ups are legal and valid under applicable Japan laws and regulations.

General prize supplier

Our general prize suppliers are selected based on the types of products and the purchase prices. In addition, we conduct anti-social forces checks through an independent search agent. If it is found that any of a potential general prize supplier's representatives, officers, executive officers or main shareholders belongs to or is related to any anti-social forces, we do not engage such entity.

We enter into continuous purchase agreements with some of our general prize suppliers, pursuant to which we place orders based on our inventory needs. These purchase agreements are typically valid for one year, and are automatically renewed annually. Payments to our general prize suppliers are typically made in the month following delivery.

During the Track Record Period and up to the Latest Practicable Date, we purchased our general prizes from more than 25 general prize suppliers. During the Track Record Period, there was no shortage nor material delay in the supply of general prizes. The staff at each pachinko hall have discretion selecting over the types of general prizes offered in each individual hall, while the purchase order must be approved by the hall managers.

For the three years ended 30 June 2016 and the four months ended 31 October 2016, our five largest general prize suppliers together made up approximately ¥264 million, ¥224 million, ¥222 million and ¥82 million purchases of general prizes by our Group, representing approximately 66.8%, 66.2%, 68.6% and 70.2% of our total purchases of general prizes, respectively; while our single largest general prize supplier made up approximately ¥92 million, ¥85 million, ¥86 million and ¥31 million purchases of general prizes by our Group, representing approximately 23.3%, 25.0%, 26.5% and 27.0% of our total purchases of general prizes, respectively.

All of our general prize suppliers are Independent Third Parties. None of our Directors, their close associates or any person who, to the knowledge of our Directors, owns more than 5.0% of our issued share capital or of any of our subsidiaries, had any interest in any of our five largest general prize suppliers during the Track Record Period.

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Machines

Machine procurement

Machine procurement is very important to our business as having an optimal mix of machines is critical for maintaining and increasing customer traffic at our pachinko halls. We do not manufacture any of our pachinko or pachislot machines. Instead, we regularly purchase pachinko and pachislot machines, or replace older machines in our halls, in order to boost customer traffic and to keep up with changing customers preferences and market trends.

Based on our market analysis and understanding obtained from machine suppliers, we strive to select machines that are popular in the market and suit customers preferences in the location of our halls. We purchase mostly new pachinko and pachislot machines, which are typically more popular than older models, so as to increase customer traffic. We also rotate and reallocate machines amongst our pachinko halls as appropriate depending on the market trends and local customers preferences.

We also purchase second-hand machines from machine brokers. This is because there are certain types of machines that remain popular for a relatively long time and continue to attract customers, but however, machine suppliers typically only sell new machines of such types with a limited supply and for a limited time, after which the production of such machines may discontinue. To deal in pachinko and pachislot machines, machine brokers are required to obtain a permit for dealing in second-hand goods under the Used Goods Dealer Act. This permit is issued by the Prefectural Public Safety Commission* (都道府県公安委員会). During the Track Record Period, all the machine brokers which our Group dealt with had such a permit.

In line with our Group's strategy of enhancing customer experience, we regularly review our machine composition and make appropriate adjustments by replacing older machines with popular and/or latest machines. To facilitate such strategy, we sell the machines to be replaced in the second-hand market and utilise such proceeds to help fund the procurement of the popular and/or latest machines. Such proceeds have been accounted for as income from scrap sales of used pachinko machines in the Accountant's Report set out in Appendix I to this prospectus. For the three years ended 30 June 2016 and the four months ended 31 October 2016, we generated approximately ¥1,265 million, ¥1,097 million, ¥735 million and ¥226 million, respectively, from the scrap sales of used pachinko machines. For details, please refer to the paragraph headed "Other income" under the section headed "Financial Information" of this prospectus.

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The table below shows a breakdown of the total cost and number of pachinko and pachislot machines purchased from machine suppliers and machine brokers during the Track Record Period:

| | Year ended 30 June | | | | | | For the four months ended 31 October | |
|-------------------------------------|--|--------------|---------------|--------------|--------------|--------------|--------------------------------------|--------------|
| | 2014 | | 2015 | | 2016 | | 2016 | |
| | ¥million | % | ¥million | % | ¥million | % | ¥million | % |
| Cost of machine | | | | | | | | |
| New | 5,518 | 96.5 | 4,331 | 96.3 | 3,093 | 92.9 | 1,083 | 89.5 |
| Second-hand | 106 | 1.9 | 91 | 2.0 | 155 | 4.7 | 96 | 8.0 |
| Installation cost | 95 | 1.6 | 77 | 1.7 | 82 | 2.4 | 31 | 2.5 |
| | <u>5,719</u> | <u>100.0</u> | <u>4,499</u> | <u>100.0</u> | <u>3,330</u> | <u>100.0</u> | <u>1,210</u> | <u>100.0</u> |
| | (number of machines, except for percentage) | | | | | | | |
| | | % | | % | | % | | % |
| Number of machines purchased | | | | | | | | |
| New | 16,296 | 95.9 | 12,519 | 96.2 | 8,797 | 88.8 | 3,000 | 88.3 |
| Second-hand | 698 | 4.1 | 494 | 3.8 | 1,114 | 11.2 | 399 | 11.7 |
| | <u>16,994</u> | <u>100.0</u> | <u>13,013</u> | <u>100.0</u> | <u>9,911</u> | <u>100.0</u> | <u>3,399</u> | <u>100.0</u> |

Our marketing department together with our machine team are responsible for the machine procurement. The procurement of machines is initiated when there are new machines released by the machines suppliers. When a machine supplier releases new machines, relevant information is posted on our internal workflow and email system (the “Cybozu”) by our machine team. Through Cybozu, the hall managers propose the number of machines to be purchased and the marketing manager approves the purchase. The game machine team then proceeds with the purchase.

We source second-hand pachinko and pachislot machines from machine brokers pursuant to purchase contracts that we enter into with them. We inspect the quality of machines sourced by each broker and request detailed quotations each time we make a purchase.

Machine suppliers

Our machine team maintains a list of approved machine suppliers based on the transparency of their operations, inventory control capabilities and availability of supplies. By only purchasing machines from suppliers that submit their machine prototypes for testing by the Security Communications Association, our pachinko and pachislot machines all had

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certificates demonstrating compliance with those tests and had passed all inspections conducted by the relevant Prefectural Public Safety Commission during the Track Record Period. We generally settle our payments in full with our machine suppliers within two months following the date of purchase of the machines. Our machine purchase agreements require the contracting parties to comply with the Amusement Business Law. In addition, pursuant to these agreements, we generally agree that we are not in violation of the laws regarding adjustment or remodelling of machines and that we shall permit the Amusement Industrial Soundness Promotion Organisation (遊技産業健全化推進機構), a third party self-regulatory organisation in Japan, to inspect our machines.

For the three years ended 30 June 2016 and the four months ended 31 October 2016, our five largest machine suppliers together made up approximately ¥3,077 million, ¥1,971 million, ¥1,905 million and ¥862 million purchases of machines by our Group, representing, approximately 54.9%, 45.0%, 57.0% and 71.1% of our total purchases of machines respectively, while our single largest machine supplier made up approximately ¥791 million, ¥503 million, ¥502 million and ¥229 million purchases of machines by our Group, representing approximately 14.1%, 11.5%, 15.0% and 18.8% of our total purchases of machines respectively.

As at the Latest Practicable Date, we had sourced our machines from approximately 60 machine suppliers and established on average over ten years of business relationships with our top five machine suppliers during the Track Record Period. All of our five largest machine suppliers are Independent Third Parties. None of our Directors, their close associates or any person who, to the knowledge of our Directors, owns more than 5.0% of our issued share capital or of any of our subsidiaries, had any interest in any of our five largest machine suppliers during the Track Record Period.

The table below sets out our further details of our top five machine suppliers for the period indicated:

For the year ended 30 June 2014

| Machine supplier | Years of relationship as at the Latest Practicable Date | Transaction amount (¥ million) | % of total |
|------------------------------|--|---|-------------------|
| Machine supplier A | 11 | 791 | 14.1 |
| Machine supplier B | 11 | 694 | 12.4 |
| Machine supplier C | 11 | 691 | 12.3 |
| Machine supplier D | 11 | 454 | 8.1 |
| Machine supplier E | 11 | 447 | 8.0 |
| | | <u>3,077</u> | <u>54.9</u> |

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For the year ended 30 June 2015

| Machine supplier | Years of relationship as at the Latest Practicable Date | Transaction amount (¥ million) | % of total |
|--------------------------|--|---|-------------------|
| Machine supplier A | 11 | 503 | 11.5 |
| Machine supplier D | 11 | 420 | 9.6 |
| Machine supplier B | 11 | 395 | 9.0 |
| Machine supplier F | 10 | 376 | 8.6 |
| Machine supplier E | 11 | <u>277</u> | <u>6.3</u> |
| | | <u>1,971</u> | <u>45.0</u> |

For the year ended 30 June 2016

| Machine supplier | Years of relationship as at the Latest Practicable Date | Transaction amount (¥ million) | % of total |
|--------------------------|--|---|-------------------|
| Machine supplier D | 11 | 502 | 15.0 |
| Machine supplier A | 11 | 452 | 13.5 |
| Machine supplier C | 11 | 406 | 12.2 |
| Machine supplier B | 11 | 293 | 8.8 |
| Machine supplier G | 11 | <u>252</u> | <u>7.5</u> |
| | | <u>1,905</u> | <u>57.0</u> |

For the four months ended 31 October 2016

| Machine supplier | Years of relationship as at the Latest Practicable Date | Transaction amount (¥ million) | % of total |
|--------------------------|--|---|-------------------|
| Machine supplier C | 11 | 229 | 18.8 |
| Machine supplier B | 11 | 211 | 17.4 |
| Machine supplier F | 10 | 190 | 15.7 |
| Machine supplier D | 11 | 167 | 13.8 |
| Machine supplier A | 11 | <u>65</u> | <u>5.4</u> |
| | | <u>862</u> | <u>71.1</u> |

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Ancillary services — vending machines

Pursuant to the service agreements with vending machine operators, we have installed vending machines provided by such operators at our halls to sell drinks and food, and we share a certain portion of income generated by the vending machines. The installation period ranges from one year to five years which will be automatically renewed on the same terms, unless otherwise.

During the Track Record Period, for certain service agreements, we received a lump-sum payment at the beginning of the contract period which was approximately the same amount as an agreed sales quantity multiplied by a pre-determined price. If we fail to meet the agreed sales quantity upon expiry of the service agreement, we shall return the difference between the lump sum amount received and the actual cumulative sales quantity multiplied by the pre-determined price. In the event that the actual cumulative sales quantity exceeds the agreed sales quantity, the service agreement shall mature. The parties shall then enter into a new service agreement. We also have the right to terminate the service agreements by giving advance notice. For other service agreements, we share approximately 10.0% to 54.1% of the gross proceeds. The gross proceeds will generally be paid to our Group through bank transfer in the following month.

Our revenues from the vending machines amounted to approximately ¥170 million, ¥156 million, ¥147 million and ¥48 million for the three years ended 30 June 2016 and the four months ended 31 October 2016, representing approximately 1.3%, 1.4%, 1.5% and 1.6% of our revenues for the corresponding periods, respectively. To the best knowledge of our Directors, all of our vending machine operators are Independent Third Parties.

Hall monitoring and management

For details of the hall monitoring and management, please refer to the section headed “Internal Controls and Anti-money Laundering” of this prospectus.

MARKETING AND ADVERTISING

We conduct advertising and promotion activities to support our pachinko hall operations. Our marketing department designs and conducts the advertising and promotion activities taking into account the target customers and the number of pachinko halls operating in each region. To centralise our marketing, advertising and human resources management functions, we acquired the remaining 60.0% of the issued shares in each of Aratoru and Adward in June 2015 from Mr. Satoshi Maeda who had operated and managed Aratoru and Adward to primarily provide marketing and advertising services to our Group during the Track Record Period.

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We advertise through print media and radio commercials, newspaper advertisements and inserts, internet advertising and direct mails. We use signboards outside our halls, advertisements in the newspapers or magazines, print flyers and/or other promotion activities to target various groups of customers to raise their awareness of our pachinko and pachislot games and attract them to visit our halls.

We also conduct analysis on customers preferences and acquire machines with the aim to generate most interests from customers and hence higher customer traffic. Please refer to the paragraph headed “Business strategies” in this section for details.

For the three years ended 30 June 2016 and the four months ended 31 October 2016, we recorded approximately ¥628 million, ¥548 million, ¥446 million and ¥137 million expenses on marketing, advertising and promotional activities, representing approximately 5.1%, 5.0%, 4.7% and 4.2% of our total operating expenses, respectively.

Membership system

Since March 1997, we have implemented a voluntary membership system, which is designed to enhance customer loyalty and to attract recurring customers by providing them the convenience of carrying over any unused pachinko balls or pachislot tokens for their subsequent visits. Currently, 16 of our pachinko halls have implemented the membership system. As at the Latest Practicable Date, we had 66,609 members at our pachinko halls.

The key terms of our membership system are such that (i) any unused balls or tokens of a member can be stored in our information technology systems and be carried over for use at such member’s subsequent visits or directly for prize redemption; (ii) carried-over balls or tokens can only be used at the hall where such membership was registered; and (iii) membership may be aborted if the membership card has not been used for more than one year.

Each of our halls maintains its own register of members and each customer can only apply for one membership card per hall. To register as a member and to receive such membership card, a customer must provide an identification document such as driving licence to us. Members need to enter a password whenever they wish to use their membership card, thus, helping to ensure the non-transferability of any carried-over balls or tokens.

There are laws and regulations that apply to our membership system. Please refer to the paragraph headed “Membership systems” under the section headed “Applicable Laws and Regulations” of this prospectus for details. Any carried-over balls or tokens are strictly stored in our information technology system, whilst our membership cards simply serves to identify our members when they access the system to retrieve the personal information stored in our information technology system. Our Japan Legal Adviser has confirmed that our membership system and the collection of relevant personal data is in compliance with applicable Japan laws and regulations.

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Marketing compliance matters

In Japan, the Amusement Business Law requires a pachinko hall operating licence holder to advertise or promote business in such a way that it will not likely interfere with the peaceful and quiet surrounding of the place of business. Under the ABL Circular and the Police Advertisement Circular, the following methods of advertisement are likely to constitute an “interference with peaceful and quiet surroundings”:

- advertising or promoting the illegal maintenance and adjustments of pin angles, illegal alterations of pay-out probabilities or otherwise encouraging customers’ “passion for gambling”; or
- noise levels beyond prescribed limits in public areas.

Failure to comply with such restrictions may result in various administrative orders, the most severe one being a cancellation of the operating licence. In order to ensure our compliance with these regulations on advertising and promotional activities, we have adopted an internal guideline that strictly controls the choice of words allowed to be used in our advertising activities. Our marketing department monitors these activities. For information on regulation of the pachinko industry and its related advertising, please refer to the paragraph headed “Advertising and promotion regulations” under the section headed “Applicable Laws and Regulations” of this prospectus. Our Japan Legal Adviser has confirmed that, as at the Latest Practicable Date, our Group had complied with the applicable laws and regulations concerning such advertising-related activities in all material respects.

Competition

According to Yano Research, the pachinko business in Japan is fragmented, with 3,421 pachinko hall operators running 10,986 halls as at 31 December 2016. Further, according to Yano Research, as at 31 December 2016, amongst the 3,421 pachinko hall operators, more than 95.1% operate less than ten halls, and more than 50.0% operate only one hall. According to Yano Research, in terms of gross pay-ins in Japan, our Group ranked 74th out of the top 600 pachinko hall operators^(Note) in Japan for the year ended 31 December 2015; in terms of number of operating halls in Japan, our Group ranked 58th out of 3,421 pachinko hall operators as at 31 December 2016. Our major competitors are Large-sized Pachinko Hall Operators located near our halls. Please refer to the section headed “Industry Overview” of this prospectus for further information on this industry.

Note:

According to Yano Research, the ranking of the pachinko hall operator in terms of gross pay-ins is based on the top 600 pachinko hall operators out of the total number of pachinko hall operators as the pachinko industry is highly fragmented and the gross pay-ins of the smaller pachinko hall are not publicly available. Yano Research has confirmed that as the other pachinko hall operators are smaller than our Group, the unavailability of such information will not affect or distort the ranking of our Group.

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We also compete with other types of entertainment and gaming activities, including web-based gaming, potentially interactive gaming channels, and horse racing in Japan. We may also face competition from other gaming venues, particularly casinos if casino operations are legalised and actually established in Japan based on the Act Promoting Implementation of Specified Integrated Resort Areas ((Act No. 115 of 2016, the “**Integrated Resort Act**”). The Integrated Resort Act does not on its own legalise casino operations in Japan. It describes the necessary legislative measures that should be taken within approximately one year after the enforcement of the Integrated Resort Act (which is a non legally-binding period). As of the Latest Practicable Date, no legislative measures had been taken to this regard except for the establishment of a government agency to supervise the development progress of integrated resorts. According to various media coverage, the draft bill of the first legislation to be implemented in accordance with the Integrated Resort Act is expected to be available by mid-2017. In view of the time required for the bidding and selection processes of host cities, planning, construction and other steps needed for the resorts to begin operations, as well as the complexity of the legislative process, our Japan Legal Adviser advised us that it is the general conception in Japan that legalised casino operations will not begin prior to the 2020 Tokyo Olympics Games. Please refer to the paragraph headed “We face intense competition in the pachinko industry in Japan” under the section headed “Risk Factors” of this prospectus for more detail. We compete on the basis of variety and type of pachinko and pachislot games offered, types of prizes offered at our halls and customers preferences.

REGULATIONS AND LICENCES

Under the Amusement Business Law, we must obtain an operating licence from the relevant Prefectural Public Safety Commission prior to establishing a pachinko hall. Once granted, the operating licence will remain effective unless and until it is cancelled by the Prefectural Public Safety Commission pursuant to the Amusement Business Law. As at the Latest Practicable Date, we operated 18 pachinko halls and had obtained licences for all these halls. We are also subject to regular investigation by the relevant regulatory bodies regarding our licences and operations.

Our Japan Legal Adviser has confirmed that, save as disclosed in the paragraph headed “Historical compliance matters” in this section, during the Track Record Period and up to the Latest Practicable Date:

- (i) we had not been subject to any administrative proceedings and had not been imposed any fines or penalties by regulatory authorities;
- (ii) none of our Directors or senior management had been, or currently is, the subject of any regulatory inquiry or investigation in Japan;
- (iii) we had also been, and currently are, in compliance in all material respects with all applicable laws, rules and regulations;
- (iv) we had obtained and currently maintain all necessary approvals, certificates, permits or licences that are material to our operations;

BUSINESS

- (v) our Group was and currently is in compliance with the applicable laws and regulations and all conditions imposed on it under licences granted by the relevant Prefectural Public Safety Commission in all material respects;
- (vi) the Prefectural Public Safety Commission had not imposed any non-standard conditions on or cancelled any of the licences held by our Group;
- (vii) none of our pachinko hall operations had been suspended due to violation of the Amusement Business Law or other applicable laws and regulations; and
- (viii) save as disclosed in the paragraph headed “Legal proceedings” in this section, we had not been, and currently are not involved in any litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material adverse effect on our business, financial conditions or results of operations.

EMPLOYEES

For details of our employees, please refer to the section headed “Directors, Senior Management and Employees” of this prospectus.

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

Our business is subject to relevant Japan national and prefectural laws, ordinances and regulations regarding health, work safety, social and environmental matters.

Regarding environmental matters, the Amusement Business Law and the prefectural ordinances set out restrictions for pachinko hall operators on noise and vibration levels in the areas surrounding the pachinko halls. These specify the acceptable noise levels for certain areas and time periods of the day. Please refer to the paragraph headed “Environmental regulations” under the section headed “Applicable Laws and Regulations” of this prospectus for further information on laws regulating noise and vibration. Each pachinko hall shall also have equipment necessary to keep illumination in the hall not more than 10 lux.

To ensure compliance with such laws and regulations, we have appointed a manager in each hall to supervise and monitor our compliance and also our internal standards regarding such matters. Our Directors are of the view that the annual cost of compliance with applicable health, work safety, social and environmental laws, regulations and policies was not material during the Track Record Period and is also not expected to be material going forward.

During the Track Record Period and as at the Latest Practicable Date, (i) there had been no material violation of the health, work safety, social and environmental laws, rules and regulations applicable to our operations; (ii) all the required permits and environmental approvals for construction had been obtained; and (iii) there had been no claim or penalty imposed upon our Group as a result of violation of health, work safety, social and environmental laws, rules and regulations. Our Japan Legal Adviser is of the opinion that our Group had complied with all applicable Japan health, work safety, social and environmental laws, rules and regulations in material respects during the Track Record Period and up to the Latest Practicable Date.

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OTHER BUSINESS

Our primary business has always been our pachinko hall operations. Our revenue from pachinko hall operations constitutes almost all of our total revenue, accounting for approximately 97.6%, 97.4%, 97.3% and 96.6% of our total revenue for the three years ended 30 June 2016 and the four months ended 31 October 2016, respectively. Other than our core business, during the Track Record Period, we also had three ancillary businesses: (i) property rental business; (ii) household support services business; and (iii) consulting and advertising business.

Property rental business

Our revenue from property rental business, generally consists of rental income from car parks and offices. Such revenues for leasing of properties in the vicinity of our halls amounted to approximately ¥280 million, ¥260 million, ¥265 million and ¥105 million, representing approximately 2.2%, 2.3%, 2.6% and 3.4% of our revenues for the three years ended 30 June 2016 and the four months ended 31 October 2016, respectively. As our Group's property rental business is only an ancillary business, we have no intention to expand such operation.

Household support services business

On 17 May 2010, we (through Mercury Japan* (マーキュリーサービス株式会社), formerly known as K's Higashi Nihon* (株式会社ケイズ東日本) ("**Mercury**"), a subsidiary of our Group during the Track Record Period) entered into a franchise agreement with an Independent Third Party (the "**Franchisor**"), pursuant to which our Group were granted rights to use its trademarks and management system in operating household support services, such as house cleaning, air-conditioner cleaning and removal services. The material terms of this franchise agreement are as follows:

| | |
|---------|---|
| Parties | (1) Mercury (2) the Franchisor |
| Rights | The usage of the Franchisor's management systems and trademarks |
| Term | 5 years |
| Fee | (1) Joining fee : ¥2.5 million (2) Monthly fee <ul style="list-style-type: none">• Management guidance fee: ¥150,000 for an area covering 50,000 people• Usage of system: ¥50,000 (3) Deposit: ¥0.5 million |

BUSINESS

Our revenues from the household support services business amounted to approximately ¥13.4 million, ¥14.6 million, ¥9.5 million and nil for the three years ended 30 June 2016 and the four months ended 31 October 2016, representing approximately 0.1%, 0.1%, 0.1% and nil of our revenues for the three years ended 30 June 2016 and the four months ended 31 October 2016 respectively. When commencing such activities, our initial intention was to improve efficiency in terms of resources allocation for our internal cleaning functions performed in our pachinko halls. Given the limited financial benefits and to better concentrate on our core business of pachinko hall operations, we ceased engaging in such household support services business during the year ended 30 June 2016 to focus our resources on our pachinko hall operations.

Consulting and advertising business

Two of our subsidiaries, Aratoru and Adward, used to provide consulting, marketing and advertising services to third parties. Since June 2015, Aratoru and Adward have ceased to provide advertising services to third parties and have been responsible for advertising and promotion of our pachinko halls only. The revenues from the aforementioned consulting and advertising business amounted to approximately ¥25 million, ¥33 million, nil and nil for the three years ended 30 June 2016 and the four months ended 31 October 2016, respectively.

PROPERTIES AND FACILITIES

Overview of property interests

Our self-owned and leased property interests amount to a gross floor area of approximately 190,171 sq.m. in aggregate. Amongst these property interests, approximately 156,775 sq.m. are considered directly relevant to our operations as they comprise our pachinko halls and related supporting facilities such as parking lots, offices, warehouses, advertisement boards and staff accommodation areas (the “**Operational Premises**”). The remaining approximate 33,396 sq.m. are non-operational premises leased to third party tenants for various use and constitute property activities under the Listing Rules.

Operational premises

The majority of our self-owned and leased properties are used as Operational Premises, housing our pachinko halls and other supporting facilities. As at the Latest Practicable Date, we operated 18 halls in Japan. In addition to our pachinko halls, we have supporting facilities such as parking lots, offices, warehouses, staff accommodation areas and advertisement boards located within our Operational Premises to ensure efficient and smooth operation.

Our Operational Premises constitute non-property activities under the Listing Rules. Our Directors have confirmed that as at 31 October 2016, being the last day of the Track Record Period, no single property interest of ours that forms part of our non-property activities had a carrying amount of 15% or more of our total assets.

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We entered into a sale and purchase agreement with an Independent Third Party on 23 January 2017 pursuant to which we agreed to purchase all outstanding shares of a company which held a property in Nagasaki, completion of which took place in February 2017. For details of the acquisition, please refer to the paragraph headed “New hall development” under the section headed “Future Plans and Proposed Use of Proceeds” of this prospectus.

Property activities

Our non-operational premises are self-owned properties leased to third party tenants for various use such as restaurant operations, warehouses and apartments, all of which are not operated by our Group. Four of these premises have a carrying amount above 1.0% of our total assets and are valued by our Property Valuer as required under Rule 5.01A of the Listing Rules and we have voluntarily valued one additional premise as its carrying amount is close to 1.0% of our total assets. Please refer to Appendix IV to this prospectus for the full-text valuation report prepared by our Property Valuer on these properties. Save and except for these four premises, no single property interest of ours that constitute property activities under the Listing Rules has a carrying amount above 1.0% of our total assets and the total carrying amount of these non-valued premises does not exceed 10.0% of our total assets.

Further, our Directors have confirmed that save for the subject property interests in the valuation report prepared by Property Valuer, as at the Latest Practicable Date, no single property interest of ours was material to our Group’s total assets as a whole, and none of our property interests was individually material to us in terms of turnover contribution or rental expenses.

Self-owned properties

As at the Latest Practicable Date, approximately 63.7% of our Operational Premises in terms of gross floor area were self-owned properties. The table below sets forth a summary of our self-owned properties:

| Location | Usage | Approximate Gross Floor Area (sq.m.) ^(Note 1) |
|---|--|---|
| Operational Premises (non-property activities) | | |
| (1) Ohashimachi, Nagasaki-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 8,506 |
| (2) Sumiyoshimachi, Nagasaki-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 881 |
| (3) Miuracho, Sasebo-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 13,371 |

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| Location | Usage | Approximate Gross Floor Area (sq.m.) ^(Note) |
|---|---|---|
| (4) Kamikyomachi, Sasebo-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 192 |
| (5) Chokanda, Mikatsukicho, Ogi-shi, Saga-ken | Pachinko halls and supporting facilities | 4,529 |
| (6) Ozano, Dazaifu-shi, Fukuoka-ken | Pachinko halls and supporting facilities | 5,153 |
| (7) Furukomachi, Nagasaki-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 7,595 |
| (8) Nakazonomachi, Nagasaki-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 5,077 |
| (9) Tominohara 1-chome, Omura-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 14,755 |
| (10) Noguchicho Sakai, Kakogawa-shi, Hyogo-ken | Pachinko halls and supporting facilities | 28,907 |
| (11) Sumiyoshimachi, Nagasaki-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 1,195 |
| (12) Sumiyoshimachi, Nagasaki-shi, Nagasaki-ken | Supporting facilities | 97 |
| (13) Dejimamachi, Nagasaki-shi, Nagasaki-ken | Idle ^(Note 2) | 9,665 |
| <i>Non-operational premises (property activities)</i> | | |
| (14) Motomurago-Iwasaki, Togitsucho, Nishisonogigun, Nagasaki-ken | Leased to third party for commercial complex | 4,431 |
| (15) Motomurago-Tsugiishi, Togitsucho, Nishisonogigun, Nagasaki-ken | Leased to third party for commercial complex | 7,226 |
| | Idle land | 2,153 |
| (16) Tonocho, Sasebo-shi, Nagasaki-ken | Leased to third party for parking lot | 1,766 |
| (17) Sumiyoshimachi, Nagasaki-shi, Nagasaki-ken | Leased to third party for parking lot | 868 |
| | Leased to third party as apartments | 1,057 |

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| Location | Usage | Approximate Gross Floor Area (sq.m.) ^(Note) |
|---|---|---|
| (18) Tanakamachi, Nagasaki-shi, Nagasaki-ken | Leased to third party for parking lot and warehouse | 518 |
| | Leased to third party for parking lot and cafe | 2,416 |
| (19) Chitosemachi, Nagasaki-shi, Nagasaki-ken | Leased to third party for parking lot and condominium apartment site | 115 |
| (20) Chokanda, Mikatsukicho, Ogi-shi, Saga-ken | Leased to third party for shop use | 4,454 |
| (21) Ohashimachi, Nagasaki-shi, Nagasaki-ken | Leased to third party for shop use | 704 |
| | Leased to third party for shop use | 203 |
| (22) Hinamigo-Shinkai, Togitsucho, Nishisonogigun, Nagasaki-ken | Leased to third party for warehouse | 1,381 |
| (23) Momochihama 4-chome, Sawara-ku, Fukuoka-shi, Fukuoka-ken | Idle | 904 |

Note:

1. *The attributable interests of our Group in the properties listed above are 100%.*
2. *This property was acquired in January 2017 for the Nagasaki Hall, which is expected to open in third quarter of 2017. Please refer to the section headed "Future plans and use of proceeds" of this prospectus.*

According to our Japan Legal Adviser, there is no defect in the title for all the properties owned by our Group and that our subsidiaries are the registered owners of and have good and indefeasible title to the relevant properties, free and clear of any other registerable encumbrances except for certain mortgages and their current usage and usage during the Track Record Period are legally acceptable under the laws of Japan.

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Leased properties

As at the Latest Practicable Date, approximately 36.6% of our Operational Premises in terms of gross floor area were leased properties, which have lease terms ranging from one to 25 years with some of the leases to be automatically renewed upon expiry of the initial terms. The table below sets forth a summary of our leases in relation to our leased properties:

| Location | Usage | Approximate Gross Floor Area (sq.m.) ⁽¹⁾ | Expiry Date |
|---|---|--|--|
| Operational Premises (non-property activities) | | | |
| (1) Motofunamachi, Nagasaki-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 750 | December 2021 |
| (2) Sumiyoshimachi, Nagasaki-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 80 | June 2020 ⁽²⁾ |
| (3) Togitsucho, Nishisonogigun, Nagasaki-ken | Pachinko halls and supporting facilities | 267 | May 2017 ⁽²⁾ |
| (4) Shimanjicho, sasebo-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 6,835 | August 2040 |
| (5) Chokanda, Mikatsukicho, Ogi-shi, Saga-ken | Pachinko halls and supporting facilities | 6,956 | February 2020 ⁽²⁾ |
| (6) Furukomachi, Nagasaki-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 343 | March 2018 ⁽³⁾ ⁽⁶⁾ |
| (7) Tominohara 1-chome, Omura-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 4,408 | January 2026 ⁽²⁾ |
| (8) Noguchicho, Kakogawa-shi, Hyogo-ken | Pachinko halls and supporting facilities | 2,768 | December 2017 ⁽²⁾ |
| (9) Kamikyo Machi, Sasebo-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 2,691 | January 2022 ⁽²⁾ |
| (10) Ozano 2-chome, Dazaifu-shi, Fukuoka-ken | Pachinko halls and supporting facilities | 6,958 | July 2018 ⁽⁴⁾ |
| (11) Sumiyoshimachi, Nagasaki-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 102 | September 2019 ⁽²⁾ |
| | Pachinko halls and supporting facilities | 110 | November 2018 ⁽²⁾ |
| (12) Ofuna, Kamakura-shi, Kanagawa-ken | Pachinko halls and supporting facilities | 1,220 | August 2026 ⁽²⁾ |
| | Pachinko halls and supporting facilities | 79 | April 2020 ⁽²⁾ |
| (13) Nishi-kamata, Ota-ku, Tokyo | Pachinko halls and supporting facilities | 1,637 | December 2022 ⁽²⁾ |

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| Location | Usage | Approximate Gross Floor Area (sq.m.) ⁽¹⁾ | Expiry Date |
|---|--|--|--|
| (14) Nakahara-ku, Kawasaki-shi, Kanagawa-ken | Pachinko halls and supporting facilities | 639 | April 2018 ⁽²⁾ |
| | Pachinko halls and supporting facilities | 49 | June 2017 ⁽²⁾ and June 2018 ⁽²⁾ |
| | Pachinko halls and supporting facilities | 74 | October 2018 ⁽²⁾ |
| (15) Chiyoda-ku, Tokyo | Pachinko halls and supporting facilities | 1,907 | January 2018 ⁽²⁾ |
| | Pachinko halls and supporting facilities ⁽⁵⁾ | — | January 2018 ⁽²⁾ |
| (16) Togitsucho, Nishisonogigun, Nagasaki-ken | Pachinko halls and supporting facilities | 3,266 | December 2020 ⁽²⁾ |
| (17) Motofunamachi, Nagasaki-shi, Nagasaki-ken | Pachinko halls and supporting facilities | 8,187 | March 2027 |
| (18) Aza Kaisakuminami, Ooaza Kuriya, Shunan-shi, Yamaguchi-ken | Pachinko halls and supporting facilities | 7,526 | September 2041 |
| <i>Non-operational premises (property activities)</i> | | | |
| (19) Chokanda, Mikatsukicho, Ogi-shi, Saga-ken | Leased to third party for commercial complex | 4,604 | April 2031 ⁽²⁾ |
| (20) Nishi-kamata, Ota-ku, Tokyo | Leased to third party for commercial complex | 596 | December 2022 ⁽²⁾ |

Notes:

- (1) *The attributable leasehold interests of our Group in the properties listed above are 100%.*
- (2) *These are standard lease contracts which would be automatically renewed on existing terms unless the lessor has justifiable reasons for re-entry or increase in rent upon expiry of the lease contract.*
- (3) *This is a lease contract entered into with the government, which is expected to be renewed every year.*
- (4) *The Company is currently in the process of negotiating with the landlord for the renewal of lease contract.*
- (5) *The property is an advertisement board.*
- (6) *Some of our leased properties comprise multiple leases for different supporting facilities.*

BUSINESS

The following table reflects our type of property interests for our Operational Premises as at the Latest Practicable Date:

| | Number of pachinko halls | | |
|----------------------------|--------------------------|--------|--------------------------------------|
| | Self-owned | Leased | Partially owned and partially leased |
| Operational Premises | 2 | 7 | 10 |

The following table sets out the number of leases of Operational Premises which are going to expire within one year and beyond one year upon listing:

| | Number of leases | |
|----------------------------|------------------------------|------------------------------|
| | Within one year upon Listing | Beyond one year upon Listing |
| Operational Premises | 9 | 14 |

We either own or rent the lands on which our Operational Premises are located, and either lease or construct the buildings that house the pachinko hall operations. Under the Civil Code and the Land and Building Leases Act and in accordance with the terms of our lease agreements, while the lessors own the title of the lands we lease, we own the title of the premises we constructed on such lands. Our Japan Legal Adviser has confirmed that this arrangement of title ownership is in compliance with the Civil Code, the Land and Building Leases Act and all applicable laws and regulations in Japan.

We are required pursuant to the terms of our lease agreements to return the lands to the lessors in its original condition as a vacant site upon expiration or termination of the leases. Thus, if we do not renew such leases, we will be required to demolish the pachinko hall that we have constructed on the parcels of lands we have leased, as and when each such lease expires.

The lease contracts for our Operational Premises operated on the leased lands consist of two types, namely (i) fixed term lease contract and (ii) standard lease contract.

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

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The table below sets out the type of lease contracts for our leased Operational Premises:

| | Number of leases | |
|--------------------------------|------------------|----------|
| | Fixed term | Standard |
| Operational Premises | 5 | 18 |




As at the Latest Practicable Date, our Group had five fixed term leases. Amongst these leases, one of them involves our self-owned pachinko hall premise with the land lease expiring on July 2018. Our Directors estimate that the demolition costs of the pachinko hall will be around ¥32 million if we fail to renew the fixed term lease. During the Track Record Period, we had not failed to renew any of our lease agreements for pachinko hall sites. Please refer to the paragraph headed “We may not be able to renew leases for the use of existing pachinko halls, or to obtain desirable sites for the expansion of our operations, on satisfactory terms or at all. Such location may also become unattractive in the future” under the section headed “Risk Factors” of this prospectus for more information.

According to our Japan Legal Adviser, (i) the lease agreements to which any of our subsidiaries are parties thereto are fully valid and enforceable under the terms of the lease agreements in accordance with their respective terms under Japan laws; (ii) our subsidiaries have full and unrestricted rights to use such leased properties for the business conducted thereat; and (iii) their current usage and usage during the Track Record Period were legally acceptable under the laws of Japan. For the lease agreements which will expire in 2017, our Group currently intends to renew these agreements with the relevant landlords.

INTELLECTUAL PROPERTY

Our Group’s brand names, particularly our “Big Apple”, “Big Apple.”, “Big Apple. YOUPARK” and “K’s Plaza” brands, are valuable assets for our Company and its operations.

The trademarks registered or otherwise being applied for as at the Latest Practicable Date in relation to our brand names are set forth below:

| Brand Name | Trademark | Status | Expiry Date |
|--|---|------------------------|---------------|
| Big Apple |  | Registered | July 2018 |
| Big Apple. ^(note) | — | — | — |
| Big Apple. YOUPARK |  | Registered | November 2026 |
| |  | Registered | November 2026 |
| | <small>ユーパーク YOUPARK</small> | Application in process | — |
| | <small>ビッグアップル ドット ユーパーク BIGAPPLE. YOUPARK</small> | Application in process | — |
| K’s Plaza | <small>ケイズプラザ</small> | Registered | May 2024 |

Note: Our Directors have been advised that the registered trademark ^{ビッグアップル} BIGAPPLE gives legal protection to our use of “Big Apple.” at pachinko halls because the additional “.” will not be regarded as a discrete trademark under Japan laws. Based on this advice, our Directors believe it is not necessary to register “Big Apple.” as a separate trademark for our current use.

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Our Directors have also been advised that the word “*Monaco*” is too general and not descriptive enough to be accepted as a registered trademark because it is a name of a nation. Based on a trademark search conducted on the Latest Practicable Date, no other pachinko hall operator had registered “*Monaco*” as a name of a pachinko hall. In addition, as our Group has officially used the name “*Monaco*” since August 1968, we have a right to use the name without registering it as a trademark under the Trademark Act of Japan. Therefore, we continue to be entitled to use “*Monaco*” at our pachinko halls without a registered trademark under Japan laws and running a risk of being claimed for trademark infringement.

During the Track Record Period, no material claim or dispute was brought against us in relation to any infringement of trademarks, patents or other intellectual properties. Our Directors are also not aware of any use by any third party of our logos or brands and believe that there has been no infringement that would result in a significant impact on our business.

Please refer to the paragraph headed “Our material intellectual property rights” in Appendix VI to this prospectus for details of intellectual property rights that are material to our business.

INSURANCE

We believe that our insurance coverage is consistent with the industry standard and is adequate for our business operations.

We maintain fire insurance for our pachinko halls and operating properties from fire damage. We also maintain movable property insurance for third party physical injuries and property damage, as well as labour and health insurance for our employees. The insurance policies generally contain certain customary exclusions. We plan to purchase similar insurances for our future properties. 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, and our insurance coverage may not be adequate to cover all losses that may incur. Please refer to the paragraph headed “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” under the section headed “Risk Factors” of this prospectus for more information.

The aggregate premium of all of our insurance policies amounted to approximately ¥189 million, ¥155 million, ¥163 million and ¥70 million for the three years ended 30 June 2016 and the four months ended 31 October 2016 respectively. As the major aspects of our operations have been covered by insurance, we believe our Group has taken out adequate insurance in line with industry standards to cover our assets and employees. During the Track Record Period, there were no material insurance claims by our Group.

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LEGAL PROCEEDINGS

From time to time, we may be involved in legal proceedings or disputes in the ordinary course of our business that are common for our industry. These could be customer complaints, contract disputes with our suppliers and employees relating to minor employment disputes. Save as disclosed in the paragraphs below, during the Track Record Period and up to the Latest Practicable Date, we had not been involved in any legal proceedings.

As at the Latest Practicable Date, there was an outstanding claim in connection with a potential acquisition of a pachinko hall (the “**Hall**”) by Okura Japan (the “**Potential Acquisition**”). The owner of the Hall (the “**Operator**”) filed a petition in Japan claiming for damages for approximately ¥1,015 million (including claims for losses of sales from harmful rumours, reduction in future sale price and legal cost) on the grounds of fault in conclusion of a contract and illegal act of Okura Japan resulting from an unfair cancellation of negotiations for the Potential Acquisition by Okura Japan. Our Directors have been advised by a legal counsel engaged by us (the “**Local Counsel**”) that it is unlikely that our Group will be liable for the claim based on the following grounds: (i) it was uncertain whether the parties had entered into a close relationship under the principle of faith and trust or entered into a contract negotiation preparation stage as no basic agreement had been exchanged between the parties and there was no circumstance which could have raised the Operator’s expectations to the extent that it deserved to receive legal protection; (ii) Okura Japan continued the negotiation despite certain issues had been identified during the due diligence process and asked for a discount on the purchase price, but the parties could not agree on the purchase price before Okura Japan decided to suspend the plan for the Potential Acquisition; and (iii) there is no guarantee for entering into an agreement with the same terms negotiated before the implementation of the due diligence process. Even if Okura Japan is liable for the claim, Okura Japan should not be liable for paying any damages or the damages will be insignificant as it will be difficult for the Operator to prove the decrease in sales or the decrease in future sale price was attributable to the discontinuation of the Potential Acquisition. No provision in relation to this claim has been made by our Group as it is not probable that our Group will incur an outflow of economic resources as a result of this claims based on the legal advice it has received. Pursuant to the terms and conditions in the Deed of Indemnity, our Controlling Shareholder has undertaken to indemnify us in respect of any liabilities arising from the aforesaid claim. For details, please refer to the paragraph headed “Tax and other indemnity” in Appendix VI to this prospectus.

As at the Latest Practicable Date, save as disclosed above, we are not aware of any other current, pending or threatened litigation, claim of arbitration against our Group which could have material adverse impact on our financial conditions or results of operations.

HISTORICAL COMPLIANCE MATTERS

During the Track Record Period and up to the Latest Practicable Date, our Group inadvertently failed to comply with certain legal requirements under Japan laws.

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Summary of material non-compliance incidents

Details of the material non-compliance incidents are summarised below.

| Historical non-compliance incidents | Reasons for the non-compliance | Maximum legal consequences | Rectification actions taken |
|---|---|---|---|
| <i>Tax related</i> | | | |
| Late filing of returns of Tokyo Business Office Tax (defined below) by Okura Japan for the four years ended 31 March 2015 and the three months ended 30 June 2015. | Our accounting department had inadvertently mistaken that business premises leased by us in the Relevant Tokyo Areas (defined below) were not subject to the Tokyo Business Office Tax. | A maximum aggregate administrative fine of ¥500,000 may be imposed on us for the late filings. Delinquent charges of ¥664,900 and additional charges of ¥531,600 imposed on us, amounting to approximately ¥1.2 million in aggregate. Such amount has been settled with the relevant tax authority. | Returns of the Tokyo Business Office Tax for each of the Relevant Tokyo Business Office Tax Years (defined below) had been submitted to the relevant tax authority on 15 December 2015. As at the Latest Practicable Date, the tax authority had issued to Okura Japan, and we had fully paid and settled, the demand notes of approximately ¥10.6 million in aggregate, representing all Tokyo Business Office Tax payable by us for the Relevant Tokyo Business Office Tax Years, and approximately ¥1.2 million in aggregate, representing all delinquent charges and additional charges imposed on us by the relevant tax authority for the late filings. |
| Failure to include most of the balance of pachinko and pachislot machines owned by Okura Japan as at 1 January of each of the Relevant Fixed Asset Tax Years (defined below) in the returns of depreciable assets submitted to local tax authorities under the Local Tax Act (defined below). | Our accounting department had inadvertently mistaken that we were not required to treat our pachinko and pachislot machines as depreciable assets for the purpose of filing of returns of depreciable assets for the purpose of fixed asset tax assessment, as such machines were already treated as deferred tax assets under the corporate tax returns. | A maximum aggregate administrative fine of approximately ¥2.8 million may be imposed on us for the late filings. A maximum penalty of (i) imprisonment of one year and/or a criminal fine of ¥500,000 for submission of false returns of depreciable tax; (ii) imprisonment of five years and/or a criminal fine of the higher of ¥1,000,000 or the amount of tax evaded for tax evasion; and (iii) imprisonment of three years and/or criminal fine of the higher of ¥500,000 or the amount of tax evaded for tax evasion through failure to file correct returns of depreciable tax. | Returns of: (i) depreciable assets held by Okura Japan as at 1 January of 2015; and (ii) depreciable assets deemed to be held by Okura Japan as at 1 January of the remaining Relevant Fixed Asset Tax Years prepared in accordance with an approach agreed by the relevant tax authorities, had been submitted to such authorities before January 2016. As at the Latest Practicable Date, the relevant tax authorities had issued demand notes of, and we had fully paid and settled, approximately ¥22.2 million in aggregate, representing all fixed asset tax payable by us for the Relevant Fixed Asset Tax Years. |

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| Historical non-compliance incidents | Reasons for the non-compliance | Maximum legal consequences | Rectification actions taken |
|--|--|---|---|
| <i>Employee compensation related</i> | | | |
| Failure of the Relevant Employing Subsidiaries (defined below) to fully comply with certain requirements in the Labour Standard Law (defined below) in relation to (i) the payment of Fixed-sum Allowances (as defined below) instead of Statutory Premium Wages (as defined below); (ii) the keeping of accurate records of working hours of full-time employees in wage ledgers; and (iii) the compensation of full-time and part-time employees for their overtime and Late-night (defined below) work. | The omission was due to the unintended and inadvertent oversight of the relevant statutory obligations by our general administration affairs department. | <p>An aggregate maximum fine of ¥46.8 million under the Labour Standard Law may be imposed on us, the representative directors of our subsidiaries and/or our responsible personnel.</p> <p>The relevant authorities may also issue correction order to the Relevant Employing Subsidiaries to request for the rectification of such non-compliance incidents.</p> <p>The representative director or the personnel responsible for any such non-compliance incident may be subject to a maximum imprisonment of six months.</p> | Since July 2015, we had: (i) amended our rules and manuals of employment and wage payments to include specific provisions regarding the calculation and payment of the Fixed-sum Allowances as alternative compensation to the Statutory Premium Wages; (ii) taken specific measures to, going forward, precisely record the actual working hours of our full-time employees on wage ledgers and updated our payroll system and procedures to capture any shortfall of the Fixed-sum Allowances paid to our full-time employees versus the Statutory Premium Wages payable to them, and to settle such shortfall amount with them immediately at the end of each such payroll period; (iii) based on the time card information of the full-time employees, calculated the Statutory Premium Wages payable to each of our past and current full-time employees for the overtime work; and (iv) recalculated the aggregate amount of Statutory Premium Wages payable to each of our part-time employees for all Late-night work performed within 2014 and 2015, and had repaid to each relevant current or past part-time employee any shortfall amount in full in December 2015. |

Business office tax for Tokyo operations

Background

Pursuant to the Local Tax Act of Japan and the Tokyo Metropolitan Tax Ordinance (together the “**Relevant Tokyo Tax Laws**”), two of the pachinko halls operated by Okura Japan in Tokyo (the “**Two Tokyo Pachinko Halls**”) are subject to the assessment and payment of “business office tax” to contribute for the municipal costs associated with utility projects for maintenance and improvements of urban environment (the “**Tokyo Business Office Tax**”). Pursuant to the Relevant Tokyo Tax Laws, a corporate business owner must pay the Tokyo Business Office Tax (if any) within two months of the end of its financial year.

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Our accounting department had, in the past, misinterpreted the Relevant Tokyo Tax Laws in that the Two Tokyo Pachinko Halls operated on leased premises were not subject to Tokyo Business Office Tax. As such, Okura Japan had not submitted any returns of and paid any Tokyo Business Office Tax for the Two Tokyo Pachinko Halls historically.

Specific rectification measures

We received written notification from the Chiyoda Tax Office of Tokyo Metropolitan government (the “**Chiyoda Tax Office**”) on 11 December 2015 with respect to our outstanding Tokyo Business Office filings for the four years ended 31 March 2015, and the three months ended 30 June 2015, which comprise the then unexpired limitation period. Our Group responded promptly to such notification, and on 15 December 2015, we filed all such returns (the “**Submitted Tokyo Business Office Tax Returns**”) accordingly.

Maximum legal consequences and regulatory confirmation

Our Japan Legal Adviser advised us that in respect of the abovementioned late filings, the Chiyoda Tax Office may impose on us a maximum aggregate administrative fine of ¥500,000, delinquent charges of ¥664,900, and additional charges of ¥531,600, amounting to approximately ¥1.2 million in aggregate. Since our filing of the Submitted Tokyo Business Office Tax Returns, Chiyoda Tax Office had issued demand notes for the aforesaid amounts of delinquent and additional charges for our operations in Tokyo, which our Group had fully settled subsequently.

Up to the Latest Practicable Date, the Chiyoda Tax Office had not issued any demand notes to Okura Japan in respect of the administrative fines. Our Japan Legal Adviser had not ruled out the likelihood of the Chiyoda Tax Office imposing such administrative charges retrospectively. In December 2015, we verbally communicated with the Chiyoda Tax Office to explain the circumstances relating to Business Office Tax Non-compliance Incidents. We had sought confirmation from the Chiyoda Tax Office as to whether any penalties, fines or sanctions would be imposed on our Group. The Chiyoda Tax Office had declined to confirm such position in writing. Our Directors are of the view that we have already sought all necessary and possible regulatory approval of our rectification measures and confirmation of no further fines, penalties and sanctions.

Financial impact

In light of the rectification measures taken, the aforesaid advice of our Japan Legal Adviser, and the continued compliance by our Group of the Relevant Tokyo Tax Laws going forward, our Directors are of the view that the aforesaid non-compliance incident relating to Tokyo Business Office Tax will not result in any material financial impact on our Group.

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Provisions for Tokyo Business Office Tax recognised for the three years ended 30 June 2016 and the four months ended 31 October 2016 amounted to approximately ¥3 million, ¥3 million, ¥2 million, and ¥700,000, respectively. Save for the occurrence of any unforeseen developments, our Directors, as at the Latest Practicable Date, expect our Group to incur liabilities for Tokyo Business Office Tax for the year ending 30 June 2017 and upon Listing, in amounts similar to those that have been provided for during the Track Record Period.

Fixed asset tax on depreciable assets

Background

Pursuant to the Local Tax Act of Japan (the “**Local Tax Act**”), our pachinko and pachislot machines fall under the definition of depreciable assets for the purpose of the Local Tax Act. Okura Japan, being the owner of our pachinko and pachislot machines, is required to submit returns of depreciable assets with respect to its holding of such machines to the local tax authorities. Okura Japan had, historically, not included in filed returns of depreciable assets its pachinko and pachislot machines for the purpose of fixed asset tax assessment, except for those machines used in three specific pachinko halls (the “**Three Specific Halls**”).

We had, historically, been replacing the pachinko and pachislot machines used in our pachinko hall operations on average at least one time per year, and had treated these machines as deferred assets in terms of corporate tax return. Our accounting department had, in the past, misinterpreted that “depreciable assets” for the purpose of fixed asset tax assessment under the Local Tax Act only refer to the assets or properties which are used over several years, and inadvertently mistaken that pachinko and pachislot machines used in the pachinko hall operations were not regarded as depreciable assets for the purpose of fixed asset tax assessment. We had, historically included in filed returns of depreciable asset pachinko and pachislot machines for the Three Specific Halls at specific requests of the relevant local authorities, or for the purpose of maintaining a consistent practice established by the previous owner of the relevant halls.

During our audit for the Track Record Period in preparation for the Listing, and upon seeking legal advice from our Japan Legal Adviser, our management became aware in September 2015 that we were, and had remained, liable under the Local Tax Act to submit returns of depreciable assets in respect of our pachinko and pachislot machines held as at 1 January of each of 2011, 2012, 2013, 2014 and 2015 (the “**Relevant Fixed Asset Tax Years**”), being the years within the unexpired limitation period.

Books and records

We had kept proper books and records required for all other requirements under applicable laws, regulations and accounting standards and for the purpose of preparing its accounts, including accurate lists of the uninstalled pachinko and pachislot machines as at the end of each financial year as required under the relevant accounting standards, and proper records in respect of the purchase, installation and disposal of machines.

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However, we became aware of the aforesaid requirements under the Local Tax Act to file returns on our holding of pachinko and pachislot machines in December 2015, and we had not kept requisite lists of pachinko and pachislot machines held as at the particular date of “1 January” of each calendar year, which forms the books and records for the purpose of fulfilling such specific requirement in the Local Tax Act. Based on the accounting treatment adopted by our Group, we had only recorded our pachinko and pachislot machines as inventories with exact number and book value of such machines in our consolidated balance sheet only before installation. Such machines are expensed off in our consolidated income statement after installation. In addition, we had been operating a large number of pachinko and pachislot machines of above 8,000 units during the Relevant Fixed Asset Tax Years with frequent replacement. As such, it would be commercially impracticable and unduly burdensome to trace back and ascertain the exact list of the book value of the pachinko and pachislot machine we held as at 1 January of each of the Relevant Fixed Asset Tax Years, as it would require our management to review and manually reverse voluminous accounting entries in order to recategorise every expensed pachinko and pachislot machines to inventory for such period.

Specific rectification measures

We responded promptly to the aforesaid late filing incident by seeking immediate advice from our Japan Legal Adviser and tax accountant in December 2015. In late December 2015, we made submissions to the relevant tax authorities to explain the background to the aforesaid late filing incidents and the difficulty to trace back the exact list and ascertain the book value of the pachinko and pachislot machines we held as at 1 January of each of the Relevant Fixed Asset Tax Years. In these submissions, we asked such authorities to confirm acceptance of submission of the following alternative approach of assessment to discharge of our obligations under the Local Tax Act (the “**Agreed Approach**”) for the Relevant Fixed Asset Tax Years:

- Okura Japan to submit returns of depreciable assets with respect to pachinko and pachislot machines held as at 1 January 2015 for 2015; and
- Okura Japan to submit returns of depreciable assets with respect to pachinko and pachislot machines for 2011, 2012, 2013 and 2014, respectively, based on the pachinko and pachislot machines that were held by it as at each of 1 January of financial years of 2011, 2012, 2013 and 2014, respectively, and which had remained to form part of the pachinko and pachislot machines held by Okura Japan as at 1 January 2015.

Each of the relevant tax authorities had confirmed to us their acceptance of the Agreed Approach on a fully-informed basis in December 2015. Based on such Agreed Approach, in late December 2015, we submitted to the relevant authorities returns of depreciable assets in relation to the pachinko and pachislot machines held by us as at 1 January 2013, 2014 and 2015 (the “**Submitted Fixed Asset Tax Returns**”), as none of the pachinko and pachislot machines held by our Group as at 1 January 2015 was held by it on or prior to 1 January 2012. In January and February 2016, the relevant tax authorities issued demand notes to us for approximately ¥22.2 million in aggregate, which representing the fixed asset tax payable by us

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for the depreciable assets held or deemed to have been held by us as at 1 January for each of the Relevant Fixed Asset Tax Years based on the Agreed Approach. Our Directors confirmed that we had duly settled and paid the aforesaid approximately ¥22 million of fixed asset tax in February 2016 within the payment deadlines stipulated therein.

Maximum legal consequences and regulatory confirmation

Our Japan Legal Adviser advised us that the aforementioned late filings may result in the relevant authorities imposing on us: (i) a maximum aggregate administrative fine of approximately ¥2.8 million; and (ii) a maximum penalty of: (a) imprisonment of up to one year and/or a criminal fine of up to ¥500,000 for submission of false returns of depreciable tax; (b) imprisonment of up to five years and/or a criminal fine of up to the higher of ¥1 million or the amount of tax evaded for tax evasion; and (c) imprisonment of up to three years and/or criminal fine of up to the higher of ¥500,000 or the amount of tax evaded for failure to file returns of depreciable tax. As at the Latest Practicable Date, the Company had not been imposed of any of the above fines and penalties. Our Japan Legal Adviser had advised us that it is unlikely for the relevant tax authorities to impose the aforementioned fines and penalties on us.

In December 2015, we submitted explanation letters to and visited the relevant competent tax authorities to explain the circumstances relating to the aforementioned late filings. During these visits, we interviewed the relevant tax officers in the competent tax authorities and had sought confirmation from the tax authorities as to whether any penalties, fines or sanctions would be imposed on our Group. Two of the eight relevant tax authorities had verbally confirmed to our Japan Legal Adviser that no penalties, fines or sanctions would be imposed, and all of the tax authorities had declined to confirm such a position in writing. Given the aforesaid verbal response and the subsequent issue of demand notes by the authorities relating thereto without any demand for such fines and penalties, our Directors are of the view that we have already sought all necessary and possible regulatory approval of our rectification measures and confirmation on no further fines, penalties and sanctions.

Financial impact

In light of the rectification measures taken, the aforesaid advice of our Japan Legal Adviser and the continued compliance by our Group of the Local Tax Act going forward, our Directors are of the view that the aforementioned late filings will not result in any material financial impact on our Group.

The provisions for fixed asset tax for our operations, including but not limited to those in respect of the ownership of pachinko and pachislot machines, for the three years ended 30 June 2016 and the four months ended 31 October 2016, amounted to approximately ¥103 million, ¥101 million, ¥106 million, and nil respectively. Save for the occurrence of unforeseen developments and without taking into account any increase in ownership of fixed assets, including but not limited to pachinko and pachislot machines, that may result from acquisition or establishment of new pachinko halls, our Directors, as at the Latest Practicable Date, expect our Group to continue to incur fixed asset tax liabilities for the year ending 30 June 2017 and upon Listing in amounts that are similar to those that have been provided for during the Track Record Period.

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Employee compensation

Historically and during the Track Record Period, four of our subsidiaries, namely, Okura Japan, K's Holdings, EQU and K's Works (the "**Relevant Employing Subsidiaries**"), had acted as employers for our employees. The Relevant Employing Subsidiaries had been subject to the requirements under the Labour Standard Law of Japan (the "**Labour Standard Law**") but had failed to fully comply with certain provisions thereunder due to inadvertent oversight by our general administration affairs department.

Background

The Labour Standard Law provides, amongst other things, that:

- employees are entitled to premium wages (the "**Statutory Premium Wages**") for overtime work, work on holidays and work carried out between 22:00 and 5:00 ("**Late-night**");
- employers should maintain wage ledgers to accurately record the actual working hours of all employees; and
- Statutory Premium Wages for Late-night work shall be paid with the minimum rate of 1.5 times of base wages (the "**Late-night Minimum Premium Rate**").

In addition, our Japan Legal Adviser advised us that employers are allowed to pay fixed-sum allowances (the "**Fixed-sum Allowances**") as alternative compensation to Statutory Premium Wages provided that (i) it is clear that such Fixed-sum Allowances are paid as alternative compensation to the Statutory Premium Wages; and (ii) the amount of such Fixed-sum Allowances does not fall short of the minimum Statutory Premium Wages payable by employers under the Labour Standard Law. In the event of any shortfall amount, such amount should be made up and paid to the employees.

Full-time employees

Historically and during the Track Record Period, we had paid Fixed-Sum Allowances to our full-time employees for their overtime work, work on holidays and Late-night work. Considering that full-time employees are paid by way of fixed monthly salary for their work over standard working hours, we believed that it was not necessary to require such full-time employees to record accurate working hours in the time card system. Due to inadvertent oversight of the relevant provisions under the Labour Standard Law by our general administration affairs department, the Relevant Employing Subsidiaries:

- had not clearly stated in employment contracts and manuals that such Fixed-sum Allowance were paid as alternative compensation to the Statutory Premium Wages payable to our full-time employees (the "**Lack of Clear Provision for Alternative Compensation**");

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- had not recorded precisely actual working hours of our full-time employees in wage ledgers (the “**Lack of Accurate Wage Ledgers**”) as our Group did not require our full-time employees to accurately record their working hours in the time card system; and
- had failed to ensure the Fixed-sum Allowances paid to our full-time employees not to fall short of the Statutory Premium Wages payable to them under the Labour Standard Law based on the actual working hours (the “**Potential Inadequate Compensation for Full-time Employees**”).

Part-time employees

Historically and during the Track Record Period, we had kept wage ledgers to accurately record the actual working hours of our part-time employees and had compensated them according to overtime work, work on holiday and Late-night work by paying Statutory Premium Wages. However, due to inadvertent oversight, the Relevant Employing Subsidiaries had paid our part-time employees Statutory Premium Wages at a rate of 1.25 times of base wages for Late-night work, instead of 1.5 times as required by the Labour Standard Law (the “**Inadequate Payment of Statutory Premium Wages for Late-night Work**”).

Specific rectification measures

Full-time employees

Since July 2015, we have implemented, amongst others, the following rectification and enhanced internal control measures to address the Statutory Premium Wages requirements under the Labour Standard Law with respect to the work of our full-time employees:

- we amended our rules and manuals of employment and wage payments to include specific provisions regarding the calculation and payment of Fixed-sum Allowances as alternative compensation to Statutory Premium Wages (the “**Employment Related Amendments**”);
- we took measures to precisely record the actual working hours of our full-time employees on wage ledgers by requiring full-time employees to submit pre-approval form to supervisors for all claims of Statutory Premium Wages for overtime work; and
- we revised our payroll procedures to ascertain whether the Fixed-sum Allowance paid to each of our full-time employees for each relevant payroll period falls short of the Statutory Premium Wages payable to them based on their actual working hours, and to settle any shortfall amount, if any, with them immediately at the end of each payroll period.

Based on the time card information available, the amount of outstanding premium wages our past and current full-time employees might claim (the “**Assumed Outstanding Premium**”

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Wage Amounts") was estimated to be approximately ¥10 million for the period from March 2014 to July 2015, which comprised the then applicable unexpired limitation period. Our Group had, fully repaid and settled the Assumed Outstanding Premium Wage Amounts with each of the relevant past and current full-time employees as at the Latest Practicable Date.

Part-time employees

We have implemented the following rectification measures to address the Statutory Premium Wages requirements under the Labour Standard Law with respect to Late-night work performed by our part-time employees:

- we computed for each of our past and current part-time employees the aggregate amount of Statutory Premium Wages that fell short of the aggregate amount payable to him/her for all Late-night work performed within calendar years of 2014 and 2015, which comprise the then unexpired limitation period; and
- we had revised our payroll procedures since December 2015 to calculate our part-time employees' Statutory Premium Wages for Late-night work in accordance with Late-night Minimum Premium Rate under the Labour Standard Law.

In respect of the Statutory Premium Wages we paid to our part-time employees for Late-night work performed in calendar years of 2014 and 2015, an aggregate amount of ¥513,348 fell short of the total amount payable based on the Late-night Minimum Premium Rate. We fully repaid such shortfall amount to the relevant part-time employees in December 2015.

Maximum legal consequences and regulatory confirmation

Our Japan Legal Adviser advised us that in relation to the aforementioned inadequate employee compensation, the Labour Standard Supervisory Office, the regulatory authority in Japan responsible for enforcement matters relating to the Labour Standard Law (the "**LSSO**"), may impose on us, or the representative directors of our subsidiaries and/or our responsible personnel, an aggregate maximum fine of ¥46.8 million. The relevant representative director or the responsible personnel may be subject to a maximum imprisonment of six months. Our Japan Legal Adviser advised us that there is virtually no possibility of the LSSO imposing the aforesaid penalties against the Relevant Employing Subsidiaries, their respective representative directors, or other responsible personnel, in light of, amongst other things, our full rectification as detailed above.

As advised by our Japan Legal Adviser, amongst other things, LSSO does not have, and no competent authority in Japan has, the authority to confirm a company's compliance with the Labour Standard Law in any form. Accordingly, our Directors are of the view that seeking such confirmation from the LSSO is not appropriate or possible under the relevant laws and legal procedures in Japan. As such, we had not sought such confirmations.

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Financial impact

In view of the rectification measures taken, the advice of our Japan Legal Adviser and the continued compliance by our Group of the Labour Standard Law since December 2015, our Directors are of the view that the aforementioned inadequate employee compensation will not result in any material financial impact on our Group.

Our Group incurred staff costs of approximately ¥1,502 million, ¥1,758 million, ¥1,589 million and ¥592 million for the three years ended 30 June 2016 and the four months ended 31 October 2016, respectively. Save for the occurrence of any unforeseen developments and without taking into account any increase in staff costs that may result from the acquisition or establishment of new pachinko halls, our Directors, as at the Latest Practicable Date, expect our Group to incur expenses for employee compensation for the year ending 30 June 2017 and upon Listing in amounts that are similar to those that have been incurred in the year ended 30 June 2016.

No investigation

Our Directors confirmed that as at the Latest Practicable Date, and as far as our Directors are aware, there is no ongoing investigation by any relevant authorities with respect to any of the aforesaid non-compliance incidents.

Enhanced internal control measures

Our Directors confirmed that all non-compliance incidents were unintentional, and were primarily caused by insufficient advice sought and the lack of expertise with regard to the requirements under the applicable laws and regulations. Our Directors took each incident seriously. Since January 2016, we have put in place a number of internal control measures to prevent the recurrence of similar non-compliance incidents in the future, which include, amongst others, the measures detailed below.

General legal and regulatory compliance

- We have appointed Mr. Fumihide Hamada (“**Mr. Hamada**”), our compliance officer, to oversee our Group’s compliance with applicable Japan and Hong Kong laws and regulations, including tax laws and labour laws. Mr. Hamada has joined our Group since 2004, and had served various positions within our Group, including head of audit office, general manager, and representative director of various of our subsidiaries. Mr. Hamada has an abundance of knowledge relating to our operations and experience in managing our internal audit, contract and documentation review, organisational reform, and other general affairs, etc.
- Our Directors and senior management have attended training sessions in which they were given an overview of the key laws and regulations in Hong Kong and Japan that are applicable to our operations. We will continue to arrange trainings to be provided

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by our external legal advisers and/or other appropriate accredited institutions, to reinforce our management's awareness on applicable laws, particularly in respect of the tax obligations and employee compensation that may arise during the course of business of our Group.

Tax related obligations

- The members of senior management overseeing the accounting department had attended training provided by the independent tax accountant engaged by our Company (the "**Tax Accountant**") in relation to all local and national tax requirements applicable to our operations. Our Executive Directors had been informed, and confirmed their understanding of, such requirements.
- Our accounting department maintains a checklist of all tax reporting obligations and a log for all tax payment amounts and deadlines (the "**Tax Compliance Checklist**") for internal review and compliance monitoring.
- Our accounting department is required to prepare a compliance report on tax filing and payment against the Tax Compliance Checklist for annual review by the Audit Committee.

Overtime work recording and compensation related

- Our general administration affairs department maintains a checklist of key obligations of each member of our Group with respect to labour and employment law, including, but without limitation, employee compensation, occupational safety and employment related insurance (the "**Labour Law Compliance Checklist**"), for internal review and compliance monitoring.
- We will seek advice from Japan legal adviser to update the Labour Law Compliance Checklist on an annual basis.

Review of the IC Consultant

We engaged an internal control consultant (the "**IC Consultant**") to, amongst other things, consider and comment on the design, implementation and operating effectiveness of the control procedures of our Group by reviewing our policies and procedures, minutes, reports, organisational charts and other supporting documentation, and performing selected walk-throughs and tests of samples.

Based on their review, the IC Consultant provided recommendations to address weaknesses and deficiencies in our internal control system, including those that were related to the aforesaid non-compliance incidents. The review by the IC Consultant was performed between March and May 2015 with various follow-up reviews of the implementation status of recommended control measures for the noted observations performed between October and November 2015, in December 2015, March 2016 and December 2016. The IC Consultant did

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not have any further recommendation upon completion of the follow-up review in March 2016 and December 2016. Our Directors confirmed that all recommendations by the IC Consultant had been adopted as at the Latest Practicable Date and our rectification measures and enhanced internal policies set out above are consistent with the key findings of the IC Consultant's review process.

Based on the findings, recommendations and test results of the review process performed by the IC Consultant, and our adoption of such recommendations, our Directors consider that our enhanced internal policies and rectification measures are sufficient and effective.

Controlling Shareholder's indemnity

Subject to the terms and conditions in the Deed of Indemnity, the Controlling Shareholder has undertaken to indemnify us in respect of any liabilities and penalties arising from the aforesaid non-compliance incidents, save for any amount which have been provided for in the audited consolidated financial statements of our Group as set out in Appendix I to this prospectus. For details, please refer to the paragraph headed "Tax and other indemnity" in Appendix VI to this prospectus.

Directors' and Sponsor's view

Our Directors are of the view that we have taken all reasonable steps to establish an adequate internal control system to prevent future recurrence of the aforementioned non-compliance incidents. We have put in place internal control and risk management procedures to address various potential operational, financial and legal risks identified in relation to our operations, including but not limited to procurement, management, project management, connected party transaction controls, information disclosure controls, human resources management, information system management, taxation and other various financial control and monitor procedures. These risk management policies set forth procedures to identify, categorise, analyse, mitigate and monitor various risks. The procedures also set forth the relevant reporting hierarchy of risks identified in our operations. Our Board is responsible for overseeing our overall risk management.

After due consideration, our Directors are of the view, and the Sponsor concurs, that the various internal control measures adopted by our Group are adequate and effective to avoid recurrence of the aforementioned non-compliance incidents. Our Directors and the Sponsor consider that the abovementioned non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules and our Company's suitability for listing under Rule 8.04 of the Listing Rules. In arriving at their view, our Directors and the Sponsor have taken into consideration the following:

- the non-compliance incidents had arisen principally due to a misunderstanding of the relevant tax laws and labour laws by our finance, tax reporting and human resources management personnel and did not involve wilful misconduct, fraud, dishonesty or corruption on the part of our Directors;

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- our Directors have taken actions to promptly rectify the non-compliance incidents to the extent practicable and to strengthen our internal control system to prevent recurrence of such non-compliance incidents after being informed of the non-compliance incidents; and
- other than the non-compliance incidents, our Group has complied with the relevant tax laws and labour laws throughout the Track Record Period.

For further details in respect of our internal controls and procedures, please refer to the section headed “Internal Controls and Anti-Money Laundering” of this prospectus.

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

We employ internal controls and procedures designed to help ensure that our pachinko hall operations are conducted in a professional manner and in compliance with the Amusement Business Law as enforced by the National Public Safety Commission (国家公安委員会), all applicable laws and regulations in Japan as well as the Three Party System. Further, even though there are currently no specific obligations imposed on pachinko hall operators under the AML laws of Japan, we have voluntarily established various policies and procedures designed to identify and mitigate money-laundering activities in our pachinko hall operations. Our internal control measures enable us to detect irregularities and unusual activities or trends in the transactions that take place in our pachinko halls which, if detected, are reported to our Directors and senior management for investigation, remediation and, if necessary, reporting to the relevant authorities in Japan. In addition, our hall staff are trained to detect irregular customer activities, particularly those involving large amounts of cash. Money-laundering is difficult to carry out through pachinko because (i) the value of balls shot into the playing field is limited by regulations to ¥400 per minute; and (ii) pay-out ratios are also limited by regulations. Furthermore, as with all pachinko hall operators in Japan, we are subject to on-site supervision by the Prefectural Public Safety Commission (都道府県公安委員会). Please refer to the section headed “Applicable Laws and Regulations” of this prospectus for more information regarding the regulations to which we are subject.

Monitoring of pay-out ratio

The pachinko and pachislot machines we purchase are pre-programmed by the machine suppliers to comply with legal and technical specifications, such as pay-out ratios and probabilities of triggering certain modes of play (for example, “jackpot” mode for pachinko or “bonus rounds” for pachislot).

By collecting data from our machines through our hall computers, we are able to monitor the performance of our machines. In the event that we detect significant fluctuations in the data, we will use such data to locate the machines that are not performing properly and make the appropriate adjustments to maintain compliance.

INTERNAL CONTROLS RELATING TO PACHINKO HALL OPERATIONS

Our internal control framework

Our pachinko hall operations are subject to risks of losses resulting from employee or customer dishonesty. Minimising such risks requires a set of robust procedures that can control the authorisation, accountability and safekeeping of pachinko balls and tokens, cash as well as pachinko-related equipment, such as pachinko and pachislot machines. We have implemented control procedures designed to detect irregularities incurred during our daily operations, which include a surveillance system and an internal audit team responsible for hall operational audits as described below. Prevention and investigation of fraud and cheating in our pachinko halls are primarily carried out by our hall staff with the cooperation of our internal audit team. To ensure the integrity of operations and compliance with operational policies and procedures, our internal audit team operates independently from our hall operations units.

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

Fraud prevention and detection measures

We also have in place measures in our pachinko hall operations to detect potential fraud, cheating or counterfeiting activities. For instances, our pachinko and pachislot machines have mechanisms to detect and reject any counterfeit bank notes inserted, and our group has specially designed pachislot tokens. To ensure that no altered or counterfeit pachinko balls or pachislot tokens are brought into or taken out of our pachinko halls, the entrances of our pachinko halls are monitored by our hall staff supported by surveillance cameras.

Hall computer system

We have installed a computerised data processing system, generally known as the “hall computer”, in our pachinko halls. The system collects real-time information on the number of pachinko balls or pachislot tokens rented, played and paid out at each pachinko and pachislot machine. If any unusual activity of such real-time information is detected by the system, the system would record it and alert the hall management for a status check.

Our hall computer system captures data on the number of pachinko balls and pachislot tokens played and paid out at each machine. At the end of each day, our hall staff reconcile the opening balance of pachinko balls and pachislot tokens against the ending balance, which will be reviewed and approved by the hall manager and/or assistant hall manager. Should the discrepancies exceed the threshold which is determined taking in consideration the number of machines in the relevant hall, the hall manager and/or assistant hall manager would investigate and take remedial actions if necessary.

Anti-modification controls

The operations of our pachinko and pachislot machines are monitored through regular patrol of our hall staff as well as surveillance cameras. Also our hall computers can detect and prevent any attempts to tamper with the pin angle maintenance adjustments, pay-out setting adjustments or other illegal machine manipulations. Our hall operations staff are responsible for daily tasks relating to machine maintenance such as cleaning, and are prohibited from performing any maintenance on a machine that results in a modification of its systems, electronic components, or any other major changes affecting the machine function. Major machine adjustments can only be done by machine suppliers with the requisite certification from regulatory authorities and are subject to regulatory approval before they are made. However, hall managers or hall assistant managers are authorised to check and realign pin angles of pachinko machines in order to ensure continued compliance with relevant regulations.

We conduct regular maintenance for our pachinko and pachislot machines for the purpose of ensuring compliance with relevant regulations relating to the machines. For details of relevant regulations, please refer to the paragraph headed “Maintenance of pachinko and pachislot machines” under the section headed “Applicable Laws and Regulations” of this prospectus. As a result of such maintenance, the pay-out ratios of relevant machines may change within the regulatory limit.

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

i) ***Pachinko machines — pin angle maintenance***

Pin angles impact the distance between the ends of each pin, which in turn directly influences the likelihood that balls fall into the designated pockets which release bonus balls, trigger jackpots, or conversely, fall into the trap and become lost. Pin angles often shift during the normal course of play in a pachinko machine as the pachinko balls cascade down through and collide into the pins in the playing field, which may consequentially change the pay-out ratios of pachinko machines.

Since there are required ranges under law for pay-out ratios, we perform maintenance on the angle of the pins of our pachinko machines in order to ensure full and consistent compliance with such required ranges. For example, the number of balls that a pachinko machine may pay-out must be between 0.5 to 2.0 times the number of balls put into play over a continuous 10-hour period. Our Japan Legal Adviser advised us the three criteria that must be satisfied in respect of such pin angle maintenance: (i) such pin angle maintenance does not involve any bending or other modification of the shape of the pins; (ii) the purpose of such pin angle maintenance is to ensure compliance with the relevant required ranges and to maintain an average pay-out ratio for each pachinko machine that is in compliance with the relevant required ranges; and (iii) the pay-out ratio of the pachinko machine for which the maintenance of pins has been completed remains within the required range. Our Japan Legal Adviser has also advised us that: (i) provided that the above three criteria are satisfied, we may conduct such pin angle maintenance anytime; (ii) we have strictly complied with such criteria; and (iii) ultimately, the pin angle maintenances conducted by our Group are in full compliance with the Amusement Business Law and the Enforcement Ordinance. Please refer to the paragraph headed “Maintenance of pachinko and pachislot machines” under the section headed “Applicable Laws and Regulations” section of this prospectus for details on the required ranges for pay-out ratios of pachinko machines.

ii) ***Pachislot machines — adjustments of pay-out settings***

A customer wins bonus pachislot tokens if the images on the reels form a winning combination. The amount of pay-outs for a particular winning combination may differ from machine to machine. Each pachislot machine has adjustable pay-out settings. These settings are designed and preset solely by the machine supplier and can only be adjusted by our hall staff. There are a range of pay-out settings, all of which must fall within the range required under the Enforcement Ordinance. For example, the number of tokens that a pachislot machine may pay-out must be between 0.55 to 1.2 times the number of tokens put into play over 17,500 continuous plays. The machine suppliers must ensure the pay-out settings are in full compliance with these required ranges in order for the machine to pass the examination on specifications as required under the Amusement Business Law. Please refer to the section headed “Applicable Laws and Regulations” of this prospectus for details on the required ranges for pay-out ratios of pachislot machines.

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

Consistent with industry practice, we adjust these pay-out settings of our pachislot machines from time to time in order to improve the business performance of our halls. Our Japan Legal Adviser advised us that our adjustments of pay-out settings for our pachislot machines are in full compliance with the Amusement Business Law and the Enforcement Ordinance.

Hall operations staff and internal audit team

Our internal audit team has an average of more than seven years of work experience in the pachinko industry and is familiar with fraud detection. Our hall staff are required to regularly patrol the pachinko hall to monitor our machines and equipment for any alerts and errors, customer traffic inside the hall as well as certain customer behaviours that may be indicative of fraudulent acts, and to report any perceived irregularities to our hall managers.

Cooperation with police

We work closely with officers of the prefectural police agency. If a member of our staff identifies suspicious activity, that staff will first report such activity to the hall manager and we will report to the local police for further investigation when such activity may constitute a crime. Our pachinko halls will also cooperate with the other pachinko halls within the relevant operation area to alert and notify other halls of persons suspected of cheating or engaging in other suspicious or illegal activity. Our pachinko halls exchange surveillance photos of such persons internally to ensure that such persons are not allowed to enter into our pachinko halls.

Whistleblowing policy

Our staff could report any fraudulent activities to an external lawyer verbally through a “whistleblowing” telephone hotline or in writing. Our whistleblowing policy further requires such reporting when any officer or employee becomes aware of any act that falls within the range of reportable acts specified in our policy. Our compliance team who reports directly to our Risk Management Committee is responsible for handling all reports received and conducting the appropriate enquiries. Upon receipt of such reports, our compliance team will consolidate and escalate these cases to our Risk Management Committee which determines if further investigation is necessary. In case of necessity, our compliance team must then open an investigation file and notify the whistleblower of the results of the investigation and corrective measures taken or, if the investigation is discontinued, the reason for the discontinuation. A written report must be provided to our Risk Management Committee, which is then responsible for reporting to our Board of Directors. The identities of any whistleblowers are kept confidential and our policy protects any whistleblowers from retaliatory action by our Company. Our Board of Directors is, if required under the relevant laws and regulations in Japan, required to report any findings of irregularities and defrauds to the relevant authorities in Japan.

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

INTERNAL CONTROLS RELATING TO CASH AND G-PRIZES

Cash and G-prize handling measures

We employ stringent internal control measures with respect to the handling of cash and G-prizes in our pachinko halls. Such measures include the followings:

- Handling of significant amounts of cash and G-prizes is required to be done in the presence of at least two staff, who are either a hall manager, an assistant hall manager or the designated staff in charge of cash management, and such activity is recorded by our surveillance cameras. All significant amounts of cash for daily use are stored in the safe located in each of our pachinko halls which is only accessible by our hall managers, assistant hall managers and the designated staff in charge of cash management, while G-prizes are stored in the locked drawers at each hall counter or in the safe. A password together with a key is required to open the safe. The keys are held by the hall managers, while the password is held by a designated staff;
- Our hall staff will conduct an inventory check of cash and G-prizes after the close of business each day, regardless of whether the safe or locked hall counter drawers have been accessed during the day, and cross-check the total actual amount on hand against the daily system record which is updated to reflect all inventory movements of cash and G-prizes; and our hall managers or assistant hall managers or the designated staff in charge of cash management will review and approve the checking;
- Based on the inventory record, our hall managers or assistant hall managers determine the quantity of G-prizes to be purchased in order to replenish the G-prize inventory to an appropriate level. Purchase orders for G-prizes must be recorded in our prize management system, which is used for inventory management. Our hall managers or assistant hall managers are authorised to approve G-prize purchase orders;
- G-prizes are delivered in the presence of our hall managers, assistant hall managers or the designated staff in charge of G-prize management. Quantity of G-prizes delivered are cross-checked against purchase orders and the inventory records in our prize management system and are updated accordingly. The payment for such deliveries are also handled by authorised staff members;
- The staff in charge of cash management and our assistant hall managers carry out manual cash count which is recorded in our cash management report and sign off our daily hall reports at the close of each business day, subject to the ultimate approval of the hall managers. Our accounting department will review the cash management report on a daily basis; and

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

- Our headquarters performs a daily review of sales record as well as the amount of cash collected and reported by each hall. Reconciliation between the daily statements of cash collection provided by a security transportation company, who is an Independent Third Party, and the amount reported by each pachinko hall is performed on a monthly basis.

Cash management and collection guidelines

We contract with a security transportation company, being an Independent Third Party, for the collection of cash in excess of the amount necessary for daily operations as prescribed in the guidelines. Such excess cash is deposited into a secure safe that is located in each of our pachinko halls, which is only accessible for collection by our security transportation company. Upon deposit into the safe, a deposit slip is automatically generated, and risks of loss are transferred to our security transportation company. Our security transportation company collects cash from our safes on a regular basis ranging from daily to weekly (depending on the number of machines in the relevant hall), transports it to the bank and deposits the cash into our account. During the Track Record Period, we generally reconciled the amount collected by our security transportation company against the amount credited to our bank accounts on a weekly basis.

Financial statement reconciliation

Our accounting system, licensed by an independent third-party supplier, is used for accounts preparation. Our accounting department reconciles our cash balances with various records, including bank-in statements provided by the security transportation company and the amount of cash collected and reported by our pachinko halls. The accounting entries which record cash bank-ins are subject to approval from the designated personnel in our accounting department.

Prize management system

Our prize management system keeps up-to-date and accurate inventories of our G-prizes, including tracking transactions in which customers exchange pachinko balls or pachislot tokens for prizes. Daily reports are generated and reviewed by our hall managers in which irregularities such as abnormal increases in the volume of G-prizes being exchanged can be detected if any.

INTERNAL CONTROLS RELATING TO INFORMATION TECHNOLOGY SYSTEMS

Our information technology department supports several systems which are only accessible by authorised employees in order to ensure smooth and secure operations. To ensure the security of our information technology systems, we have implemented certain measures, such as:

- access rights to the various systems are assigned to employees based on their designated roles and responsibilities;

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

- our major systems, including our prize management system, membership system, hall computer system, accounting system as well as human resources and payroll system, are password-protected;
- to protect our information and ensure our continuous operation, we have a backup plan in place for critical systems and data. Full data backups are performed on a weekly basis.

INTERNAL CONTROLS ON MONEY LAUNDERING

Money laundering risks associated with our pachinko hall operations are inherently low due to the stringent regulations and machine limitations pertaining to the number of pachinko balls or pachislot tokens that can be played as well as won at our pachinko and pachislot machines at each play. Even though there are currently no specific obligations imposed on pachinko hall operators under the AML laws of Japan, we have voluntarily established various policies and procedures designed to identify and mitigate money laundering activities in our pachinko hall operations and avoid dealing in the proceeds of any offence. Such policies and procedures have been designed, implemented and are operating with reference to the Amusement Business Law and the guidance paper titled “International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation” issued by the Financial Action Task Force in 2012. In addition, the pachinko industry is regulated by the Amusement Business Law which requires the independence of the parties involved in the Three Party System being our Group as pachinko hall operator, our G-prize wholesalers and the G-prize buyers engaged by the G-prize wholesalers.

Our AML governance

Our Board of Directors is responsible for, amongst others, overseeing the overall management of compliance risks, including the review and approval of AML measures as well as remediation of any issues that arise.

Our Audit Committee is responsible for, amongst others, reviewing any internal control issues highlighted by our internal audit department and reporting such findings to our Board of Directors on a regular basis to highlight any deficiencies in our AML measures and internal control systems.

Our senior management is responsible for ensuring that there is a robust AML framework in place that commensurates with any risks present in the pachinko industry. Furthermore, they also ensure that such framework is operating effectively to facilitate the identification and mitigation of money laundering risks. Our AML framework covers systems, controls, policies and procedures across all key areas relevant to our operations. Our framework includes clear lines of escalation, transparent and accurate reporting and formalised risk management at both the entity and business unit level. This helps us make informed decisions as to whether pachinko hall transactions and customer relationships exceed our acceptable risk levels.

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

Our Risk Management Committee consists of 11 members and is headed by our Executive Director, Mr. Hamada. Our Risk Management Committee is responsible for, amongst others, identifying, assessing and mitigating the risks relating to our business, which include those pertaining to money laundering and compliance with the Three Party System. Our Risk Management Committee periodically reviews these risks as well as the results of our internal audit department's testing, and reports their findings to our Audit Committee.

Our internal audit department is required to ensure adequate supervision over key aspects relating to the prevention and detection of money laundering with respect to our operations. This includes: (i) an inspection on each pachinko hall at least once every two months; (ii) periodic reviews of our compliance framework and effectiveness of our AML measures; (iii) verification and testing of our compliance with AML measures; and (iv) reporting any findings to our Audit Committee.

Please refer to the section headed "Directors, Senior Management and Employees" of this prospectus for further details on the duties and responsibilities of our Board of Directors, Audit Committee and for information on the background and experience of Mr. Hamada.

Our AML operational controls

We have implemented the following controls to help detect and mitigate money laundering risks in our pachinko halls:

- appropriate due diligence procedures are conducted (including but not limited to background checks with respect to criminal records, employment history and financial information) and documented on our Directors, senior management, and hall management of our pachinko halls so as to, amongst other things, identify and avoid connections to anti-social forces and ensure high standards of integrity. Such procedures include screening of individuals by an independent search agent to identify high risk individuals. In addition, annual background checks are conducted on our G-prize wholesalers and the G-prize buyers engaged by the G-prize wholesaler, including their directors and shareholders, in order to identify and avoid any connections with anti-social forces;
- written representations are obtained on a periodic basis from the G-prize wholesalers confirming, amongst others, (i) their independence from us; (ii) their independence from the G-prize buyers with whom they conduct business; (iii) they and their representatives, statutory auditors, executive officer, shareholders and directors and also the G-prize buyers which they conduct business with do not have any connections with anti-social forces, or are, or will be involved in any actions or activities using, or jointly associate with, any anti-social forces; (iv) a complete and accurate list of all G-prize buyers engaged by them who have G-prize buying shops

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

near our halls, and the shareholders or ultimate owners of such G-prize buyers; (v) that they undertake to conduct their own regular background checks against any G-prize buyers engaged by them in order to monitor any potential independence issues under the Three Party System, and if there are any such issues, to inform us and resolve them immediately to ensure compliance with the Three Party System; and (vi) that they undertake to report to us in a timely manner any change in their shareholding structure and composition of their board of directors, or if they become aware of any change in the same of the G-prize buyers engaged by them or other matters that may affect their own or such G-prize buyers' independence under the Three Party System;

- written representations are obtained (through the relevant G-prize wholesaler) on a periodic basis from G-prize buyers confirming, amongst others: (i) their independence from us; (ii) their independence from the G-prize wholesalers engaged by us; (iii) that they and their representatives, directors, statutory auditors, executive officers or shareholders do not have any connections with anti-social forces, or are, or will be involved in any actions or activities using, or jointly associate with, any anti-social forces; (iv) that they are not aware of any of our G-prize wholesalers having connections with anti-social forces, or are, or will be involved in any actions or activities using, or jointly associate with, any anti-social forces; (v) they have undertaken to their G-prize wholesaler that they shall report to such G-prize wholesaler in a timely manner, any change in their shareholding structure or board of directors or any other matters that may affect their independence under the Three Party System; and (vi) G-prizes are only paid for using cash and not any other form of payment such as bank remittance or cheques;
- an independent search agent is engaged to provide enhanced due diligence information for any potentially suspicious customers or those customers with whom there is an intention to conduct transactions exceeding a predefined transaction threshold of ¥500,000;
- periodic transfer of pachinko hall managers is conducted in order to prevent development of illicit relationships, such as those involving bribery. Our general administration affairs department shall have control over personnel matters;
- we reinforce monitoring of suspicious activities of customers and periodic evaluation. Efforts shall be made to ensure the early detection and reporting of persons who intend to gain profit illicitly by conducting thorough checks on suspicious activities;
- there is continuous monitoring by the automated systems in place in our pachinko halls, including but not limited to, our prize management system, information technology system and hall computer system, as well as analysis of financial and operating data, which monitor and detect unusual fluctuations that may indicate suspicious activity;

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

- there is appropriate guidance in place to ensure the timeliness, appropriateness and quality of both internal reporting to our headquarters and external disclosure to the relevant authorities in Japan;
- in the event where suspicious activities are discovered upon conducting an exhaustive check of suspicious activities relating to anti-social forces and money laundering, our staff in charge of compliance will be promptly alerted in accordance with our emergency response flow. Our staff in charge of compliance shall share such information with our marketing department and the responsible Director, and implement appropriate responses when there is suspicion of money laundering;
- early detection of and response to abnormal values in our systems is also conducted. In particular, any act of exchanging pachinko balls or pachislot tokens for prizes without playing shall be investigated. Our hall staff perform regular monitoring on customers during operation hours to identify, amongst others, customers who exchange prizes without playing. Further, at the end of each day, our hall managers compare the ratio of the number of balls played to the number of balls rented at the pachinko hall, with historical figures. If abnormal values are detected, our hall manager will instruct hall staff to review surveillance camera footage of the day to identify any customers who exchanged prizes without playing. Hall staff will also pay special attention to customers on the next return to identify such suspicious activity. If the person engaged in such activity does not cease the relevant activity after being asked to do so, such act shall be immediately reported to the police. We may request such person to immediately leave the premises and refuse the exchange of balls or tokens earned without playing;
- data checks are also performed on gross pay-ins per machine and other business data every two hours during business hours to discover any rental of balls or tokens for purposes other than entertainment;
- moreover, at the end of each day, each hall must aggregate the number of pachinko balls and pachislot tokens rented to customers, used in play, collected or exchanged with prizes and check for any abnormalities. Any balls not played but exchanged into prizes will also be detected and the hall operations staff will need to report such instances to our headquarters. This aggregation serves as an aid in detecting abnormal pay-out status of prizes;
- employee trainings for the prevention of money laundering are conducted in compliance with our management manual, and education on anti-money laundering guidelines and other supplementary as well as updated information is conveyed through various training programs. This will help ensure that there is sufficient awareness from our staff on money laundering activities and risks;

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

- when a customer seeks to exchange more than ¥500,000 cash for pachinko balls or pachislot tokens, our hall managers or staff of a higher rank will (i) request for identification document; (ii) record the name and address of the relevant customer and the circumstance of the redeem request; and (iii) if there is any suspicious matter, track the relevant customer through his/her play history and the surveillance camera footage of the relevant customer. All such instances are reported to our headquarters;
- specifications of the pachinko machines as regulated by the Amusement Business Law, the Enforcement Ordinance and the enforcement regulations prescribed under the Amusement Business Law, which limit the possible pay-outs as follows, (i) for pachinko machines, it cannot release more than twice, or keep more than half, the number of pachinko balls played in a ten-hour period; and (ii) for pachislot machines, its pay-outs must be between 0.55 to 1.2 times the number of tokens played over 17,500 continuous plays; and
- our Board of Directors is required to report any actual or potential money laundering activity that has come to their attention through any internal communication channels or reporting mechanism described in this section to the relevant authorities in Japan.

In particular, as a result of the machine limitations set out above, some of which are required under Japan laws and regulations, money laundering through pachinko hall operations is rather difficult, especially as a lengthy period of time would be required to convert sizable sums of money into balls or tokens, and unusual activity in connection with play or failure to play will be observed and reported by our hall staff. Please refer to the section headed “Applicable Laws and Regulations” of this prospectus for details on the Japan laws and regulations relating to pachinko hall operations and machines.

PACHINKO TRUSTY BOARD

We are one of the members of the Pachinko Trusty-Board (一般社団法人パチンコ・トラスティ・ボード) (“PTB”), which is an organisation comprised of pachinko hall operators as well as third party professionals, such as lawyers, accountants and experts in business and corporate governance. The PTB’s monitor committee of third party professional members investigates and evaluates corporate governance and compliance of pachinko hall operators and provides recommended standards regarding management and operation of pachinko halls. We hope that our involvement with the PTB will help to raise corporate governance standards and industry standards for the operation of pachinko halls, in order to bolster a positive image of pachinko in the community.

INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

Through the work of its various committees of third party professionals and experts, the PTB has developed a set of pachinko hall accounting standards which is based on generally accepted corporate accounting practices in Japan while taking into consideration the environment and characteristics of pachinko hall operations. These standards propose methods for the treatment of pachinko ball deposits and IC cards, costs of pachinko hall operations, recording of gross pay-ins and other items unique to accounting in pachinko hall operations. PTB also has a set of evaluation standards covering governance, internal controls, legal compliance, labour and employee and internal audit issues. Our own internal control measures take into account concerns raised in the findings and suggested standards of the PTB's monitor committee.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our Board of Directors is the primary decision-making body of our Company, setting fundamental business strategies and policies for the management and operation of our business and monitoring their implementation.

Our Board currently consists of seven Directors, comprising four Executive Directors and three Independent Non-executive Directors.

The table below presents a summary in respect of the members of our Board:

| Name | Age | Current Position/ Title in our Group | Date of Joining our Group | Date of Appointment as a Director | Roles and Responsibilities |
|---|-----|--|---------------------------------|---|--|
| <i>Executive Directors</i> | | | | | |
| Katsuya YAMAMOTO (山本勝也) | 57 | Executive Director; Chairman of the Board; Chief Executive Officer of the Group | April 1984 | 16 June 2015 | Oversees general management and business development, and formulates business strategies and policies for the business management and operations |
| Fumihide HAMADA (濱田文秀) | 68 | Executive Director; general manager of Okura Japan | February 2004 | 27 April 2016 | Oversees administrative management |
| Yutaka KAGAWA (香川裕) | 39 | Executive Director; head of planning and development office of K's Holdings | April 2004 | 27 April 2016 | Oversees overall corporate planning and pachinko hall development |
| Toshiro OE (大江敏郎) | 57 | Executive Director; group manager of finance and accounting group of Okura Japan | September 2001 | 27 April 2016 | Oversees accounting and financial management |
| <i>Independent Non-executive Directors</i> | | | | | |
| Mitsuru ISHII (石井満) | 62 | Independent Non-executive Director | 10 April 2017 | 10 April 2017 | Provides independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standard of conduct |

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

| Name | Age | Current Position/ Title in our Group | Date of Joining our Group | Date of Appointment as a Director | Roles and Responsibilities |
|-----------------------------|-----|--|---------------------------------|---|--|
| Yuji MATSUZAKI (松崎裕治) | 50 | Independent Non-executive Director | 10 April 2017 | 10 April 2017 | Provides independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standard of conduct |
| Takamasa KAWASAKI (川崎貴聖) | 38 | Independent Non-executive Director | 10 April 2017 | 10 April 2017 | Provides independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standard of conduct |

Executive Directors

Mr. Katsuya YAMAMOTO (山本勝也)

Mr. Yamamoto, aged 57, is the Chief Executive Officer of our Company, an Executive Director and the Chairman of the Board. He was appointed as an Executive Director on 16 June 2015 and is primarily responsible for overseeing the general management and business development of our Group, and formulating business strategies and policies for our business management and operations.

Mr. Yamamoto is the son of Mr. Katsumitsu Yamamoto, our founder and a member of our senior management. Mr. Yamamoto founded our Group in 1984 by incorporating Okura Japan to operate a pachinko hall in Nagasaki and has been the Chairman of Okura Japan since June 2001. As at the Latest Practicable Date, Mr. Yamamoto is also a representative director of each of Okura Japan, K's Holdings, K's Properties, Aisen, Okura Nishinohon and Okura Kyushu.

Mr. Yamamoto has spent over 32 years operating and managing the pachinko hall business of our Group, during which he obtained extensive experience in the management and operation of pachinko halls, corporate governance, strategic planning, and financial management. For details relating to the key milestones of our Group, please refer to the paragraph headed "Business milestones" under the section headed "History and Development" of this prospectus.

Mr. Yamamoto graduated from Chuo University in Japan with a bachelor's degree in commerce in March 1982 and had since worked towards the establishment and development of Okura Japan.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Yamamoto is expected to hold 75% of the Shares immediately after the completion of the Share Offer and the Bonus Issue (but prior to exercise of any option that may be granted under the Share Option Scheme).

Mr. Fumihide HAMADA (濱田文秀)

Mr. Hamada, aged 68, was appointed as an Executive Director on 27 April 2016. Mr. Hamada has been a general manager of Okura Japan since August 2015 and was primarily responsible for overseeing the administrative management of the Group. He first joined our Group as the head of audit office of EQU in February 2004. He then served various positions in K's Works between April 2006 and August 2015, with his last position as the general manager and director of K's Works.

Prior to joining our Group, Mr. Hamada worked for Kyushu Bank, Ltd. between April 1971 and January 2004 and served various positions including branch manager in the Nagasaki area.

Mr. Hamada graduated from Kanagawa University in Japan with a bachelor's degree in economics in March 1971.

Mr. Yutaka KAGAWA (香川裕)

Mr. Kagawa, aged 39, was appointed as an Executive Director on 27 April 2016. Mr. Kagawa has been the head of planning and development office of K's Holdings since February 2014 and is primarily responsible for overall corporate planning including pachinko hall development. He was previously a manager of the general affairs team of K's Works from April 2012 to January 2014. Prior to that, he served various positions in Okura Japan between May 2007 and March 2012 with his last position as the managing executive officer. He also served as an exclusive member of business standardisation committee and head of system promotion team of EQU from April 2004 to April 2007.

Before joining our Group, Mr. Kagawa was a researcher at Toyoshinyaku Co., Ltd., a company engaged in manufacturing healthy food, from April 2002 to March 2003.

Mr. Kagawa graduated from Kyushu University in Japan with a bachelor's degree in agricultural chemistry in March 2000 and a master's degree in bioscience and biotechnology in March 2002.

Mr. Toshiro OE (大江敏郎)

Mr. Oe, aged 57, was appointed as an Executive Director on 27 April 2016. Mr. Oe has been the group manager of finance and accounting group of Okura Japan since May 2016 and was primarily responsible for overseeing the accounting and financial management of the Group. Mr. Oe first joined our Group as the chief of the finance section in EQU Limited

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Company in September 2001 and had then served in various positions. He worked in K's Works from October 2008 to August 2015 with his last position as a team leader of the accounting team. Prior to that, Mr. Oe worked in EQU between June 2002 and September 2008 with his last position as the head of finance department.

Prior to joining our Group, Mr. Oe worked in Hiroshi Yamashita Certified Tax Accountant Office between June 1991 and September 2001, and Ishii Certified Tax Accountant Office between October 1989 and October 1990.

Mr. Oe obtained a bachelor's degree in commerce in Chuo University in Japan in March 1982.

Independent Non-executive Directors

Mr. Mitsuru ISHII (石井満)

Mr. Ishii, aged 62, was appointed as an Independent Non-executive Director on 10 April 2017.

Mr. Ishii has been the representative director of Ishii Co., Ltd., a company engaged in restaurant management business, since April 1987, and the chairman and director of M Factory Co., Ltd., a company engaged in restaurant management business, since December 1999.

Mr. Ishii was elected as a leading role by Restaurant Industry Press Association for setting a trend of 'standing bar style restaurant', and was awarded with 'Restaurant Business Award 2005' by Restaurant Industry Press Association in October 2006.

Mr. Ishii graduated from Nihon University in Japan with a bachelor's degree in physical education in March 1977.

Mr. Yuji MATSUZAKI (松崎裕治)

Mr. Matsuzaki, aged 50, was appointed as an Independent Non-executive Director on 10 April 2017.

Mr. Matsuzaki has been the non-executive director of, Fukukuru Foods, Inc., a company engaged in restaurant business, since January 2014 and the representative director of Rokuji Sangaku Kyoudo Jigyo Corporation, a company involved in restaurant business, since April 2014. He has also been a representative director in Will Sourcing Co., Ltd., a company engaged in business consultancy services, since April 2011. From January 2002 to March 2011, he worked in Future Create Co., Ltd. (currently known as Tenpo Ryutsuu Net, Inc.), a company engaged in general business support for restaurant business, with his last position as a board director.

Mr. Matsuzaki obtained a bachelor's degree in political science and economics from Meiji University in Japan in March 1990.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Takamasa KAWASAKI (川崎貴聖)

Mr. Kawasaki, aged 38, was appointed as an Independent Non-executive Director on 10 April 2017.

He worked in Redhorse Corporation, a company engaged in selling souvenirs as well as travel goods with presence in Hong Kong and Taiwan, and listed on the Taiwan OTC Exchange, since August 2012. He is currently a director and the chief executive officer of Redhorse Corporation. He has also been a director in Redhorse Holdings Ltd., a company engaged in investment, since September 2013. He was the founder and has been the chairman of Odigo Hong Kong Ltd., a company engaged in information technology services, since July 2014. He joined the Japan office of Corporate Directions, Inc., a company engaged in consultancy business, as a project manager between February 2005 and March 2008, and was seconded to the China office between April 2008 and August 2011, initially as a general manager and then an associate partner. Mr. Kawasaki served as a senior accountant in KPMG AZSA LLC between June 2003 and December 2004.

Mr. Kawasaki obtained a bachelor's degree in agricultural structure and business management in University of Tokyo in Japan in March 2002, and a master's degree in business administration in the Hong Kong University of Science and Technology in Hong Kong in May 2013. Mr. Kawasaki is a member of the Japanese Institute of Certified Public Accountants since April 2005.

SENIOR MANAGEMENT

Our senior management comprises three members. The table below presents a summary in respect of the members of our senior management:

| Name | Age | Current Position/ Title in our Group | Date of Joining our Group | Roles and Responsibilities |
|----------------------------|-----|---|---------------------------------|--|
| Katsumitsu YAMAMOTO (山本勝光) | 91 | Representative director of Okura Japan, K's Properties, Okura Nishinohon and K's Holdings | April 1984 | Advises on strategic directions and business development |
| Satoshi MAEDA (前田諭志) | 37 | Marketing supervisor and representative director of Adward and Aratoru | October 2008 | Oversees marketing functions |
| Koji NAKAO (中尾浩二) | 46 | Manager of purchasing and head of information systems | February 2005 | Oversees purchasing functions |

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Katsumitsu YAMAMOTO (山本勝光)

Mr. Katsumitsu Yamamoto, aged 91, is the adviser of our Group, and is primarily responsible for advising our Group on its strategic directions and business development. Mr. Katsumitsu Yamamoto is the father of Mr. Yamamoto, our Chief Executive Officer, an Executive Director and our Chairman. Mr. Katsumitsu Yamamoto founded the business of our Group by establishing the first pachinko hall of our Group, Monaco Sumiyoshi Honten in Nagasaki in 1968.

Mr. Katsumitsu Yamamoto has been engaged in the pachinko hall industry over 40 years. Mr. Katsumitsu Yamamoto has been a representative director of Okura Japan from April 1984 to March 2000 and from June 2001 up to the Latest Practicable Date. He was the representative director of (i) EQU Limited Company from March 2005 to November 2015, (ii) Monaco Co., Ltd. from June 2007 to May 2015, (iii) Monaco Holdings Co., Ltd. from October 2008 to May 2015. Each of these companies had been merged with other subsidiaries of our Group as part of the Reorganisation. Mr. Katsumitsu Yamamoto had also been a representative director in each of EQU, Hoju Co., Ltd., KPA, Mercury Service Co., Ltd., K's Power Co., Ltd., and K's Value between December 2013 and the date on which until the respective company was merged with other subsidiaries and dissolved as part of the Reorganisation.

As at the Latest Practicable Date, Mr. Katsumitsu Yamamoto is a representative director of each of Okura Japan, K's Holdings, K's Properties, Aisen and Okura Nishinohon.

Mr. Satoshi MAEDA (前田諭志)

Mr. Maeda, aged 37, is the marketing supervisor of our Group, and is primarily responsible for managing the marketing functions of our Group.

He has been the marketing supervisor of our Group since April 2011 and was a general manager of Kanto marketing department of our Group between June 2007 and March 2011.

He is the founder and has been the representative director of each of Aratoru and Adward since February 2007 and October 2007, respectively, both of which became wholly-owned subsidiaries of our Company in June 2015. Mr. Maeda worked as a general manager of the sales department at Iwamoto Development Co., Ltd., a company involved in entertainment business, from March 2000 to May 2007.

Mr. Maeda graduated from Yokohama Senior High School in Japan in March 1998.

Mr. Koji NAKAO (中尾浩二)

Mr. Nakao, aged 46, is the manager of purchasing and the head of information systems, and is primarily responsible for managing the purchasing functions of our Group.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

He has been the manager of the purchasing group at the administration headquarters of Okura Japan since August 2015. He acted as a representative director in K's Works between October 2008 and August 2015. He worked in EQU, a subsidiary of our Group, with his last position as the manager of the general affairs team between February 2005 and September 2008.

Prior to joining our Group, he worked in Lumax Co., Ltd., a company engaged in entertainment business, between April 1994 and January 2005, as the manager of the food and beverage department.

Mr. Nakao graduated from Meiji University in Japan with a bachelor's degree in commerce in March 1994.

COMPANY SECRETARY

Pursuant to Rule 3.28 and Rule 8.17 of the Listing Rules, the secretary of our Company must be an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary. The Stock Exchange considers (a) an ordinary member of The Hong Kong Institute of Company Secretaries, (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong), or (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) as an acceptable academic or professional qualification.

We have appointed Mr. Man Yun Wah (文潤華) who satisfies the qualification requirements under Rules 3.28 and 8.17 of the Listing Rules, as our company secretary.

Company Secretary

Mr. Man Yun Wah (文潤華), aged 34, was appointed as our company secretary on 27 April 2016. He is the principal and head of corporate advisory division of Dominic K.F. Chan & Co and a director of RHT Corporate Advisory (HK) Limited.

Mr. Man has been an associate member of the Institute of Chartered Secretaries and Administrators and an associate member of the Hong Kong Institute of Company Secretaries since 2015.

Mr. Man obtained a bachelor's degree in business administration and management from University of Huddersfield in the United Kingdom through distance learning in March 2010 and a master's degree of corporate governance from The Open University of Hong Kong in November 2014.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Man has over seven years of experience in corporate services and has extensive experience servicing listed and private companies with their business in Hong Kong, PRC and overseas in areas of company secretarial services, corporate advisory, corporate administration and internal audit.

CORPORATE GOVERNANCE

Our Company intends to fully comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules, with the exception for code provision A.2.1 which requires the roles of chairman and chief executive to be different individuals.

Under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. For our Group, Mr. Yamamoto holds both of such positions. Mr. Yamamoto has been primarily responsible for overseeing the Group's general management and business development of the Group and for formulating business strategies and policies for our business management and operations since our Group was founded in 1984. Taking into account the continuation of management and the implementation of our business strategies, our Directors (including our Independent Non-executive Directors) consider it is most suitable for Mr. Yamamoto to hold both the positions of Chief Executive Officer and the Chairman of the Board, and the present arrangements are beneficial and in the interests of our Company and our Shareholders as a whole.

BOARD COMMITTEES

Our Board delegates certain responsibilities to our Audit Committee, Remuneration Committee and Nomination Committee. In accordance with the Listing Rules, our Articles and the relevant laws and regulations in Hong Kong and Japan, we have formed the following committees:

Audit Committee

We have established our Audit Committee in compliance with Rule 3.21 of the Listing Rules on 10 April 2017. Our Audit Committee consists of three members, namely Mr. Takamasa Kawasaki, Mr. Mitsuru Ishii and Mr. Yuji Matsuzaki. Mr. Kawasaki is the chairman of the Audit Committee. The primary duties of our Audit Committee are to assist our Board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

In addition, our Risk Management Committee was established as a sub-committee under our Audit Committee to, amongst others, identify, assess and mitigate the risks faced by our business, which include those pertaining to money laundering and compliance with the Three Party System. Our Risk Management Committee consists of 11 members including members

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

of our Board and senior management, and is headed by our Executive Director, Mr. Fumihide Hamada. For details on our Risk Management Committee, please refer to the paragraph headed “Whistleblowing policy” and “Our AML governance” under the section headed “Internal Controls and Anti-Money Laundering” of this prospectus.

Remuneration Committee

We established our Remuneration Committee in compliance with Rule 3.25 of the Listing Rules on 10 April 2017. Our Remuneration Committee consists of five members, namely Mr. Takamasa Kawasaki, Mr. Mitsuru Ishii, Mr. Yuji Matsuzaki, Mr. Yamamoto and Mr. Yutaka Kagawa. Mr. Takamasa Kawasaki is the chairman of our Remuneration Committee. The primary duties of our Remuneration Committee are to evaluate the performance of our Directors and senior management and determine the remuneration package of our Directors and members of our senior management.

Nomination Committee

We established our Nomination Committee in compliance with the Corporate Governance Code on 10 April 2017. Our Nomination Committee consists of five members, namely Mr. Yamamoto, Mr. Takamasa Kawasaki, Mr. Mitsuru Ishii, Mr. Yuji Matsuzaki and Mr. Yutaka Kagawa. Mr. Yamamoto is the chairman of our Nomination Committee. The primary duties of our Nomination Committee are to make recommendations to our Board on the appointment of our Directors and members of our senior management.

We have limited the number of Executive Director in each of our Remuneration Committee and Nomination Committee to two, representing a minority in each of these committees, as a means to enhance transparency and protection of independent Shareholders.

DIRECTOR’S INTEREST

Except as disclosed in this prospectus, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Director, members of senior management, substantial Shareholder or Controlling Shareholder of our Company as at the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies in the three years immediately prior to the date of this prospectus. Except as disclosed in this prospectus, none of the members of our senior management held any directorships in listed public companies in the three years prior to the date of this prospectus. As at the Latest Practicable Date, except as disclosed in this prospectus, none of our Directors has any interest in the Shares within the meaning of Part XV of the SFO.

Further, save as disclosed in this prospectus, there is no other matter with respect to our Directors that needs to be brought to the attention of our Shareholders and there is no information of our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Our Directors and members of our senior management receive compensation in the form of salaries, allowances, bonuses and other benefits-in-kind, including our contribution to the pension scheme. Our Remuneration Committee determines the salaries of our Directors and members of our senior management based on their qualifications, positions and seniority. Our Group will provide retirement benefits for certain family members of Mr. Yamamoto in recognition of their long-term contribution to our Group. Such benefits will be determined based on their expected final salaries upon retirement, their respective rank, and the number of years of service in our Group. As such, we have made provision for such benefits during the Track Record Period which have been expensed as employee benefit costs in accordance with our accounting policies. With regards to the provision made in recognition for the long term contribution from our Executive Director, Mr. Yamamoto, relevant amount will be reflected under the disclosure pertaining to "Directors' emoluments" in the notes to our Group's financial statements when the long term benefits become receivable by him (for example, upon his retirement). For details, please refer to note 27 in section II of the Accountant's Report contained in Appendix I to this prospectus.

The aggregate amounts of remuneration (including salaries, allowances, discretionary bonuses, other benefits and contributions to pension schemes) paid to our director for the three years ended 30 June 2016 and the four months ended 31 October 2016 were approximately ¥109 million, ¥110 million, ¥135 million and ¥42 million, respectively.

The aggregate amounts of remuneration (including salaries, allowances, discretionary bonuses, other benefits and contributions to pension schemes) paid to our five highest paid individuals for the three years ended 30 June 2016 and the four months ended 31 October 2016 were approximately ¥61 million, ¥223 million, ¥106 million and ¥35 million, respectively.

It is estimated that an aggregate amount of remuneration equivalent to approximately ¥126 million will be paid and granted to our Directors by us for the year ending 30 June 2017 under the arrangements in force on the date of this prospectus.

Save as disclosed in this prospectus, (i) no remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group; (ii) no compensation was paid to, or receivable by, our Directors or past Directors or the five highest paid individuals during the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group; and (iii) none of our Directors waived any emoluments during the same period.

Our policy concerning the remuneration of our Directors is that the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, performance and the time devoted to our business.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Except as disclosed in this prospectus, no Director has been paid in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a Director, or otherwise for service rendered by him in connection with the promotion or formation of our Company.

EMPLOYEES

As at the Latest Practicable Date, we had a total of 530 employees, almost all of who were based in Japan, and of whom 472 were stationed at our pachinko halls. The below table sets out a breakdown of the number of our employees by function as at the Latest Practicable Date:

| Function | Number of our employees as at the Latest Practicable Date |
|---|--|
| Management | 7 |
| Marketing | 11 |
| Hall management | 18 |
| Hall attendants | 448 |
| Procurement and advertisement | 21 |
| Finance and accounting | 10 |
| General affairs and human resources | 4 |
| Others | 11 |
| Total | <u>530</u> |

Our full-time employees may be relocated among our pachinko halls, while part-time employees are typically fixed to one particular hall. Full-time employees receive performance evaluations on a semi-annual basis. We enter into formal written employment contracts with all our full-time employees. Consistent with common practice in Japan, such employees are subject to working regulations which we establish and keep on file with the Labour Standards Inspection Office. These working regulations cover various matters, including but not limited to, hiring, compensation, annual vacation policy, duties of the employee and disciplinary measures.

We enter into individual employment contracts with our part-time or temporary staff. The employment contracts with our part-time or temporary staff set out terms and matters such as position, term of contract, status of contract renewal, work location, work hours, annual leave and that, whether social insurance or employment insurance is included is subject to the number of work hours per week.

Our staff costs include all salaries and benefits payable to all our employees and staff, including our Directors. Our staff costs during the Track Record Period accounted for approximately 12.1%, 16.2%, 16.7% and 18.2% of our total operating expenses for the three years ended 30 June 2016 and the four months ended 31 October 2016 respectively.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Save for the incidents disclosed in the paragraph headed “Historical compliance matters” under the section headed “Business” of this prospectus, during the Track Record Period, we had not experienced any other material labour dispute with our employees.

Recruitment

Our success, to a considerable extent, depends upon our ability to attract, motivate and retain a sufficient number of qualified employees. We believe high-quality customer service is a key attribute of our success. Our headquarters is responsible for hiring our full-time employees, while part-time employee recruitment is typically handled by our division manager depending on operational needs of specific halls.

We believe we are hiring high-quality employees in the market by offering competitive wages and benefits, and focusing training and internal promotion opportunities. We have adopted a variety of initiatives to facilitate recruitment of our staff, such as advertisements on magazines and internet website. We believe our continuous efforts will help us attract suitable personnel.

Training

For newly recruited employees, we prepare a series of trainings which mainly focus on pachinko hall operations and customer services. Upon new appointment and for every three years, as requested by the Public Safety Commission, each hall manager is required to attend the training course conducted by the Public Safety Commission.

COMPLIANCE ADVISER

We have appointed Quam Capital as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on the following circumstances:

- before the publication of any announcements, circulars or financial reports under any applicable laws, rules, codes and guidelines;
- where a transaction, which might be discloseable or being a notifiable or connected transaction under Chapter 13, 14 and/or 14A of the Listing Rules, is contemplated including share issues and share repurchases;
- where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry to us in respect of unusual price movement and trading volume or other issues under Rule 13.10 of the Listing Rules.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Pursuant to Rule 3A.24 of the Listing Rules, the compliance adviser will, when consulted by us in the circumstances set out in above, provide the following services:

- ensure we are properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines;
- accompany our Company to attend any meetings with the Stock Exchange, unless otherwise requested by the Stock Exchange;
- no less frequently than at the time of reviewing our financial reporting under Rule 3A.23(1) of the Listing Rules and upon the Company notifying the compliance adviser of a proposed change in the use of proceeds of the initial public offering under Rule 3A.23(3) of the Listing Rules, discuss the following (as appropriate) with us:
 - (a) our operating performance and financial condition with reference to our business objectives and use of proceeds as stated in this prospectus;
 - (b) compliance with the terms and conditions of any waivers granted by the Stock Exchange under the Listing Rules;
 - (c) whether any profit forecast or estimate in this prospectus will be or has been met by us and to advise us to notify the Stock Exchange and inform the public in a timely and appropriate manner; and
 - (d) compliance with any undertakings provided by us and our Directors at the time of the Listing, and, in the event of non-compliance, discuss the issue with the Board and make recommendations to our Board regarding appropriate remedial steps;
- if required by the Stock Exchange, deal with the Stock Exchange in respect of any or all matters listed in Rule 3A.23 of the Listing Rules;
- in relation to an application by us for a waiver from any of the requirements in Chapter 14A of the Listing Rules, advise us on our obligations and in particular the requirement to appoint an independent financial adviser; and
- assess the understanding of all new appointees to our Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed issuer, and, to the extent that the compliance adviser forms an opinion that the new appointees' understanding is inadequate, discuss the inadequacies with our Board and make recommendations to the our Board regarding appropriate remedial steps such as providing training to the new appointees.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Term

The terms of the appointment shall commence on the Listing Date and end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

Duties of our Company

Our Company shall fully comply with and discharge our responsibilities under the Listing Rules and other applicable laws, regulations and codes relating to securities and corporate governance that are applicable to our Company. During the term of the compliance adviser agreement, our Company must consult with and, if necessary, seek advice from Quam Capital on a timely basis under the circumstances as required in Rule 3A.23 of the Listing Rules.

Termination

The compliance adviser agreement can be terminated by either party upon giving the other party 30 days' written notice upon occurrence of certain events set out in the compliance adviser agreement entered into between Quam Capital and our Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

OVERVIEW

Immediately upon completion of the Share Offer (but without taking into account any option that may be granted under the Share Option Scheme), our Chairman will be interested in 75% of our total number of issued share capital. Our Chairman will continue to control more than 30% of our issued share capital upon Listing and will remain as our Controlling Shareholder under the Listing Rules. For further details of the background of the Controlling Shareholder, please refer to the section headed “Directors, Senior Management and Employees” of this prospectus.

Our Controlling Shareholder has confirmed that he does not have an interest in any business, apart from our business, which competes or is likely to compete, either directly or indirectly, with our business.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

Our Directors are satisfied that our Group can function, operate and carry on our business, and is financially and operationally, independent of our Controlling Shareholder and his close associates based on the following reasons:

(a) No competition and clear delineation of business

Our Directors, including our Independent Non-executive Directors, confirm that, none of our Controlling Shareholder, our Directors or any of their respective close associates have interests in any businesses other than our business which compete, or is likely to compete, either directly or indirectly, with our business and would require disclosure under Rule 8.10 of the Listing Rules.

(b) Independence of management and directorship

Our Company has a Board and members of senior management that function independently from our Controlling Shareholder and his close associates. Our Board comprises four Executive Directors and three Independent Non-executive Directors. Our senior management consists of three senior personnel. On the basis of the following reasons, our Directors believe that our Directors and members of our senior management are able to manage our business independently from our Controlling Shareholder:

- (i) with three Independent Non-executive Directors out of a total of seven Directors in our Board, there will be a sufficiently robust and independent voice within our Board to protect the interests of our independent Shareholders;
- (ii) the majority of our Executive Directors and the members of our senior management (excluding our Controlling Shareholder and his close associates) are full-time employees of our Group for the entire or substantially the entire Track Record Period, who are responsible for overseeing our administrative management, pachinko hall operations and development, accounting and financial management,

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

marketing functions and procurement management, as well as the daily implementation of our business strategies. This ensures the independence of the daily management and operations of our Group from those of our Controlling Shareholder and his close associates;

- (iii) instances of actual or potential conflict have been identified in accordance with Chapter 14A (Connected Transactions) of the Listing Rules and minimised pursuant to the undertakings given by the Controlling Shareholder in the Deed of Non-Competition;
- (iv) each of our Directors is aware of his fiduciary duties as a Director, which require, amongst other things, that he acts for the benefit and in the best interests of our Shareholders as a whole and does not allow any conflict between his duties as a Director and his personal interests to affect the performance of his duties as a Director;
- (v) there will be no continuing connected transaction between our Group and our Controlling Shareholder upon Listing. Any connected transactions between our Company and companies controlled by our Controlling Shareholder will be subject to the rules and regulations under the Listing Rules including rules requiring announcement, reporting and independent Shareholders' approval (where applicable);
- (vi) all of the businesses that are related to the operation of pachinko halls held by our Controlling Shareholder have been consolidated into our Group as part of our Reorganisation. Therefore, there is no competition that would adversely affect the management independence of our Group; and
- (vii) a number of corporate governance measures are in place to avoid any potential conflict of interests between our Company and our Controlling Shareholder, and to safeguard the interests of our independent Shareholders. Please refer to the paragraph headed "Corporate governance measures" in this section for details.

(c) **Operational independence**

Our Company makes business decisions independently. On the basis of the following reasons, our Directors consider that our Company will continue to be operationally independent of our Controlling Shareholder and his close associates:

- (i) our Company is not reliant on trademarks owned by our Controlling Shareholder, or other companies controlled by our Controlling Shareholder;
- (ii) our Group is the holder of all relevant licences material to the operation of our business and has sufficient capital, equipment and employees to operate our business independently;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

- (iii) our Company has our own administrative and corporate governance infrastructure (including our own accounting and general administration affairs departments);
- (iv) during the Track Record Period, there were transactions between our Group and our Controlling Shareholder and his close associates on terms which we believe are fair and reasonable. Our Directors confirm that all such transactions had been discontinued as at the Latest Practicable Date and upon Listing;
- (v) all external services and/or procurement required by our Company or our subsidiaries are provided by and, if needed, can be easily sourced from, Independent Third Parties; and
- (vi) our Company has established a set of internal control procedures to facilitate the effective operation of our business.

Based on the abovementioned arrangements, our Directors are of the view that our Company will be able to operate independently from our Controlling Shareholder and his close associates.

(d) Related-party transactions between our Group and entities controlled by our Controlling Shareholder

During the Track Record Period, our Controlling Shareholder and certain entities controlled by our Controlling Shareholder and his close associates entered into related party transactions with our Group on normal commercial terms. Such related party transactions are disclosed in Note 34 of the Accountant's Report as set out in Appendix I to this prospectus. Such transactions, if continued after the Listing, will constitute continuing connected transactions of our Company under the Listing Rules. Our Directors confirm that all related party transactions with our Controlling Shareholder and his close associates had been discontinued as at the Latest Practicable Date.

(e) Financial independence

Our Directors are of the view that our Group will be financially independent of our Controlling Shareholder and any of his close associates upon Listing. All loans, advances and balances due to and from our Controlling Shareholder and his close associates (for example, the shareholder loan) had been fully settled as at the Latest Practicable Date, and all share pledges and guarantees provided by our Controlling Shareholder and his close associates on our Group's borrowing had been released on 9 February 2016. In addition, we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third-party financing. Our Directors are satisfied that we are capable of conducting our business independently of our Controlling Shareholder (including his close associates) after our Company is listed on the Stock Exchange.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

DEED OF NON-COMPETITION

In order to avoid potential conflict of interests between our Controlling Shareholder and our Company, our Controlling Shareholder has entered into a deed of non-competition in favour of our Group on 10 April 2017 (the “**Deed of Non-competition**”), pursuant to which he unconditionally and irrevocably agrees, undertakes to and covenants with our Company (for itself and for the benefits of each other member of our Group) that he would not, and would procure that his close associates (other than any members of our Group) would not, directly or indirectly, either on his own account or in conjunction with or on behalf of any person, firm or company, amongst other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) any activity or business which competes or is likely to compete, directly or indirectly, with the business of operating pachinko halls in Japan by our Group as described in this prospectus and any other business from time to time conducted, carried on or contemplated to be carried on by any member of our Group or in which any member of our Group is engaged or has invested or which any member of our Group has otherwise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether undertaken directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement) (the “**Restricted Business**”).

Our Controlling Shareholder has further unconditionally and irrevocably agreed, undertaken to and covenanted with our Company to procure that any business investment or other commercial opportunity which directly or indirectly competes, or may lead to competition with the Restricted Business (the “**New Opportunities**”) given, identified or offered to it and/or any of his close associates (other than any members of our Group) (the “**Offeror**”) is first referred to us in the following manner:

- before entering into any definitive agreement or contract to acquire or taking any steps to establish or develop any New Opportunities, our Controlling Shareholder is required to, and shall procure his close associates (other than members of our Group) to, refer, or to procure the referral of, the New Opportunities to us, and shall give written notice to us of any New Opportunities containing all information reasonably necessary for us to consider whether (a) such New Opportunities would constitute competition with our core business, and (b) it is in the interest of our Group to pursue such New Opportunities, including but not limited to the nature of the New Opportunities and the details of the investment or acquisition costs (the “**Offer Notice**”); and
- the Offeror will be entitled to pursue the New Opportunities only if (i) the Offeror has received a notice from us declining the New Opportunities and confirming that such New Opportunities would not constitute competition with our core business; or (ii) the Offeror has not received such notice from us within 10 business days from our receipt of the Offer Notice. If there is a material change in the terms and conditions

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

of the New Opportunities pursued by the Offeror, the Offeror will refer the New Opportunities as so revised to us in the manner as set out above. Upon receipt of the Offer Notice, we shall seek opinions and decisions from our Independent Non-executive Directors who do not have a material interest in the matter as to whether (i) such New Opportunities would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunities.

In order to promote good corporate governance practices and to improve transparency, our Controlling Shareholder undertakes with our Company in the Deed of Non-Competition the following:

- to provide all information requested by our Company which is necessary for an annual review by our Independent Non-executive Directors of his compliance with the Deed of Non-Competition and the enforcement of the Deed of Non-Competition;
- to procure our Company to disclose decisions on matters reviewed by our Independent Non-executive Directors relating to the compliance and enforcement of the Deed of Non-Competition either through the annual report, or by way of announcement to the public; and
- to make an annual declaration on compliance with his undertaking under the Deed of Non-Competition in the annual reports of our Company as our Independent Non-executive Directors think fit and/or as required by the relevant requirements under the Listing Rules.

The aforesaid undertakings do not apply with respect to (i) the holding of or interests in the shares of any member of our Group, or (ii) the holding of or interests in shares of any company (other than members of our Group) whose shares are listed on the Stock Exchange or a stock exchange recognised by the Stock Exchange or the SFC provided that (a) the relevant Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated revenue or consolidated assets, as shown in that company's latest audited accounts, or (b) such holding of or interests in shares does not exceed 5% of the outstanding voting shares of the relevant company, provided that none of our Controlling Shareholder, or his close associates (other than members of our Group), whether acting singly or jointly, has any right to appoint a majority of the board of directors of such company and at any time there should exist at least another shareholder of such company (together, where appropriate, with his close associates) whose shareholdings in such company is more than the total number of shares held by our Controlling Shareholder in aggregate and/or his close associates in aggregate in such company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

The Deed of Non-Competition will take effect upon Listing and will lapse automatically (in respect of the relevant party) if (i) the Shares cease to be listed on the Stock Exchange or any other stock exchange recognised by the Stock Exchange or the SFC, (ii) our Company becomes wholly-owned by our Controlling Shareholder and/or his close associates (whether individually or collectively), or (iii) our Controlling Shareholder cease to be controlling shareholder (as defined in the Listing Rules) of our Company.

CORPORATE GOVERNANCE MEASURES

Our Company will further adopt the following measures to manage the conflict of interests arising from the possible competing business of our Controlling Shareholder and to safeguard the interests of our independent Shareholders:

- (a) in preparation for the Listing, our Company has amended our Articles to comply with the Listing Rules. In particular, our Articles provide that, except for certain exceptions permitted under the Listing Rules or by the Stock Exchange, a Director shall not vote on any Board resolution approving any contract in relation to which he has a material interest, nor shall such Director be counted in the quorum present at that meeting. Furthermore, a Director who holds directorship and/or senior management positions in any of the controlling shareholder of the Company or any of his close associates (other than our Company or any member of our Group) shall not vote on any Board resolution regarding any transactions proposed to be entered into between any member of our Group and any of the controlling shareholder of the Company or any of his close associates (other than our Company or any member of our Group), nor shall such Director be counted in the quorum present at such meeting;
- (b) we have appointed Quam Capital as our compliance adviser, which will provide advice and guidance to us with respect to compliance with the applicable laws and the Listing Rules, including but not limited to various requirements relating to Directors' duties and internal controls;
- (c) our Independent Non-executive Directors will review, at least on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholder;
- (d) our Controlling Shareholder has undertaken to provide all information necessary for the annual review by our Independent Non-executive Directors and the enforcement of the Deed of Non-Competition;
- (e) we will disclose decisions on matters reviewed by our Independent Non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition either through an annual report, or by way of announcement to the public;
- (f) our Controlling Shareholder will make an annual declaration of compliance with the Deed of Non-Competition in the annual reports of our Company;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

- (g) the management structure of our Group includes, among others, our Audit Committee, our Remuneration Committee and our Nomination Committee, the written rules of each of which will require them to be alert to potential conflict of interests and to formulate their proposals accordingly;
- (h) pursuant to the Corporate Governance Code set out in Appendix 14 of the Listing Rules, our Directors, including our Independent Non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's costs;
- (i) our Controlling Shareholder undertakes to keep us informed and shall procure his close associates to keep us informed, of New Opportunities and to provide all information reasonably required by the Independent Non-executive Directors to assist them in their consideration of any New Opportunity; and
- (j) our Independent Non-executive Directors will also review, on an annual basis, the implementation of the Deed of Non-competition and any decisions in relation to New Opportunities referred to us, and state their basis and reasons in our Company's annual reports.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Share Offer and the Bonus Issue and without taking into account any Shares which may be issued pursuant to the exercise of option that may be granted under Share Option Scheme, the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company and therefore will be regarded as substantial shareholders of our Company under the Listing Rules:

| Name of shareholder | Capacity/Nature of interest | As at the date of this prospectus | | Immediately following the completion of the Share Offer and the Bonus Issue | |
|--------------------------------|-----------------------------|-----------------------------------|------------------------|---|------------------------|
| | | Number of shares held | Approximate percentage | Number of shares held | Approximate percentage |
| Mr. Yamamoto ^(Note) | Beneficial interest | 8,000,000 | 100% | 375,000,000 | 75% |

Note: Mr. Yamamoto is an Executive Director, the Chief Executive Officer of the Company and the Chairman of the Board.

Save as disclosed in this prospectus, our Directors are not aware of any persons who will, immediately following completion of the Share Offer and the Bonus Issue (but without taking into account Shares to be issued pursuant to the exercise of any options that may be granted pursuant to the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances in the general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

As at the Latest Practicable Date, our Company had issued 8,000,000 Shares.

Without taking into account any options that may be granted under the Share Option Scheme, the number of Shares issued by our Company immediately upon completion of the Share Offer will be as follows:

Issued and to be issued:

| | |
|--------------------|--|
| 8,000,000 | Shares in issue immediately prior to the completion of the Share Offer and the Bonus Issue |
| 367,000,000 | Shares to be issued pursuant to Bonus Issue |
| 125,000,000 | Shares to be issued pursuant to the Share Offer (excluding any Shares which may be issued under any options that may be granted under the Share Option Scheme) |
| <u>500,000,000</u> | Total |

Assumptions

This table assumes the Share Offer has become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account of any Shares which may be allotted and issued or repurchased by our Company under the Issuing Mandate and Repurchase Mandate granted to our Board as referred to below or otherwise.

Ranking

The Offer Shares and the Shares that may be issued pursuant to any options to be granted under the Share Option Scheme shall rank *pari passu* with all existing Shares in issue on the date of the allotment and issue of such Shares, and in particular will be entitled to all dividends or other distributions declared, made or paid thereafter.

GENERAL MANDATE TO ISSUE SHARES

Our Board has been granted with the Issuing Mandate to allot, issue and deal in an aggregate number of Shares that is no more than the sum of:

- (a) 20% of the total number of Shares issued by our Company immediately upon completion of the Share Offer and the Bonus Issue (but prior to the exercise of any options that may be granted under the Share Option Scheme); and
- (b) the aggregate number of Shares repurchased by our Company, if any, under the Repurchase Mandate referred to below.

SHARE CAPITAL

The aggregate number of Shares which our Directors are authorised to allot and issue under the Issuing Mandate will not be reduced by the allotment and issue of Shares pursuant to (i) a rights issue; or (ii) any specific authority granted by our Shareholders in general meeting(s).

The Issuing Mandate will expire at the earliest of:

- (a) the conclusion of our Company's next annual general meeting unless by ordinary resolution at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (b) the expiration of the period within which our Company is required by the applicable law or our Articles to hold our next annual general meeting; or
- (c) when varied, revoked or renewed by a resolution of our Shareholders in a general meeting.

For further details of the Issuing Mandate, please refer to the paragraph headed "Resolutions in writing of our sole Shareholder passed on 10 April 2017" in Appendix VI to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Board has been granted with the Repurchase Mandate to exercise all the powers of our Company to repurchase an aggregate number of Shares that is no more than 10% of the total number of Shares issued by our Company immediately upon completion of the Share Offer and the Bonus Issue (but prior to the exercise of any options that may be granted under the Share Option Scheme).

The Repurchase Mandate only relates to repurchases made on the Stock Exchange, or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), subject to and in accordance with our Articles, all applicable laws and regulations, and the requirements of the Listing Rules and any other stock exchange on which our securities may be listed, as amended from time to time. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in the paragraph headed "Repurchase of our Shares" in Appendix VI to this prospectus.

The Repurchase Mandate will expire at the earliest of:

- (a) the conclusion of our Company's next annual general meeting unless by ordinary resolution at that meeting, the authority is renewed, either unconditionally or subject to conditions; or

SHARE CAPITAL

- (b) the expiration of the period within which our Company is required by the applicable law or our Articles to hold our next annual general meeting; or
- (c) when varied, revoked or renewed by a resolution of our Shareholders in a general meeting.

SHARE OPTION SCHEME

On 10 April 2017, we conditionally adopted the Share Option Scheme. Please refer to the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus for a summary of the principal terms of the Share Option Scheme.

FINANCIAL INFORMATION

Prospective investors should read this section in conjunction with our audited consolidated financial statements, including the notes thereto, as set out in the Accountant's Report contained in Appendix I to this prospectus. Our Group's consolidated financial statements have been prepared in accordance with the accounting policies which conform with IFRS and HKFRS. Prospective investors should read the entire Accountant's Report and not merely rely on the information contained in this section.

The following discussion and analysis contained certain forward-looking statements that reflect current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by our Group in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Group's expectations and projections depends on a number of risk and uncertainties over which our Group does not have control. For further information, prospective investors should refer to the section headed "Risk Factors" of this prospectus.

OVERVIEW

Our Group is a pachinko hall operator in Japan. Customers come to our halls to play pachinko and pachislot games, one of the most popular forms of entertainment for adults in Japan. In spite of a continuous market contraction since 2005, pachinko remains as the largest contributor of Japan's entertainment industry and accounted for approximately 46.9% of the Japanese entertainment market in 2015 in terms of market share (the total gross pay-ins of the pachinko industry against the total revenue of Japan's entertainment industry).

We opened our first pachinko hall in Nagasaki in 1968, in which our headquarters has since been located. Building on our success in the Kyushu region, we expanded into the Kanto region in 2003, the Kansai region in 2012 and the Chugoku region in 2016. We intend to further expand our geographical coverage and eventually become a nationwide pachinko hall operator in Japan. As at the Latest Practicable Date, we are a Mid-sized Pachinko Hall Operator with 18 pachinko halls, out of which 12 are in the Kyushu region, four in the Kanto region and one each in the Kansai region and the Chugoku region.

Our total revenue primarily consists of our revenue from pachinko and pachislot business, being the gross pay-ins net of gross pay-outs. For each of the three years ended 30 June 2016 and the four months ended 31 October 2015 and 2016, our total revenue was approximately ¥12,990 million, ¥11,245 million, ¥10,098 million, ¥3,621 million and ¥3,065 million, respectively, while our net profit for the respective years/periods was approximately ¥1,009 million, ¥582 million, ¥604 million, ¥108 million and ¥26 million, respectively.

FINANCIAL INFORMATION

FINANCIAL AND OPERATIONAL METRICS OF OUR BUSINESS

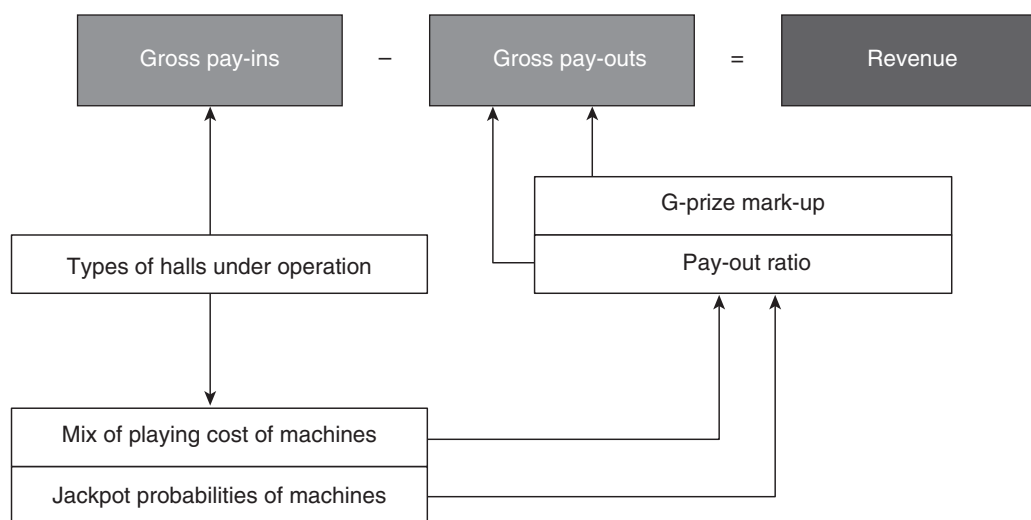
The followings are the financial and operational metrics that are key to understanding our results of operations:

| | <u>Financial and Operational Metrics</u> |
|---|---|
| Gross pay-ins | amount received from customers for pachinko balls and pachislot tokens rented to them |
| Gross pay-outs | aggregate costs of G-prizes and general prizes exchanged by customers ^(Note) |
| Revenue from pachinko and pachislot business | gross pay-ins net of gross pay-outs |
| Revenue from pachinko hall operation | revenue from pachinko and pachislot business together with revenue from vending machines |
| Revenue margin | revenue from pachinko and pachislot business divided by gross pay-ins |
| G-prize mark-up | difference in monetary value of the balls or tokens required to collect a G-prize and the cost of the G-prize |
| Pay-out ratio of each machine | total number of balls or tokens won divided by the total number of balls or tokens played |
| Jackpot probability of each machine | probability of hitting the jackpot to win a relatively large number of balls and tokens whilst in jackpot mode |
| Machine utilisation of each machine | number of balls or tokens played divided by the maximum number of balls or tokens allowed to be played under the machine settings per day |

Note: The amount of gross pay-outs in the consolidated financial information is subtracted from the opening balance of unutilised balls and tokens brought forward and added with the closing balance of unutilised balls and tokens at the period end.

FINANCIAL INFORMATION

The following chart illustrates the primary factors, as further elaborated below, that affect gross pay-ins, gross pay-outs and, hence, revenue.



The amount of gross pay-ins is affected by (i) the number of machines; (ii) the number of halls in operation; (iii) the number of customers; and (iv) the respective time spent by each customer playing the machines. In addition, the amount of gross pay-ins is affected by the types and composition of machines in the halls. Generally, for the same time spent, a low playing cost machine generates less gross pay-ins, assuming other factors being equal.

Gross pay-outs is to a large extent determined by pay-out ratios and G-prize mark-ups, such factors will also significantly influence revenue from pachinko and pachislot business. The pay-out ratio of our machines is determined by the machines specifications (which include jackpot probability and number of balls or tokens to be won from hitting a jackpot) as well as the relevant Japanese rules and regulations.

As stated above, jackpot probability is the probability, once a customer has entered the jackpot mode, of hitting the jackpot and receiving additional pachinko balls. The probability of winning a jackpot once a customer enters the jackpot mode is part of the built-in program of the pachinko machine and cannot be adjusted by the pachinko hall operator. However, a pachinko hall operator is able to acquire pachinko machines with different preset jackpot probabilities.

FINANCIAL INFORMATION

BASIS OF PRESENTATION AND PREPARATION

The financial information has been prepared by our Directors based on accounting policies which conform with IFRS issued by the International Accounting Standards Board and HKFRS issued by the Hong Kong Institute of Certified Public Accountants, on the basis of presentation as set out in note 1.3 in section II of the Accountant's Report contained in Appendix I to this prospectus, and no adjustments have been made in preparing the financial information.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our Group's financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. Our significant accounting policies and estimates which are important for an understanding of our financial condition and results of operations, are set forth in detail in notes 2 and 4 in section II of the Accountant's Report contained in Appendix I to this prospectus.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

Our result of operations is significantly determined by our total revenue and operating efficiency. Our total revenue primarily consists of our revenue from the pachinko and pachislot business, being gross pay-ins net of gross pay-outs; whilst our operating efficiency is mainly driven by the costs of operations. Our gross pay-ins is mainly driven by the disposable income of our customers; whilst our gross pay-outs will determine our competitive ability. Taking these into account, our Directors consider that the major factors affecting our revenue include:

- disposable income of our customers, which in turn is affected by (i) the performance of Japanese economy; and (ii) changes in consumption tax in Japan;
- our ability to remain competitive with respect to (i) competition with other pachinko hall operators; and (ii) competition with other forms of entertainment;
- our operating efficiency;
- changes in policies and regulations relating to the pachinko industry; and
- timing of new hall openings.

FINANCIAL INFORMATION

Disposable income of our customers

The performance of Japanese economy

During the Track Record Period, all our operations were in Japan and all of our revenue were generated domestically in Japan. Therefore, changes in Japanese economy would directly impact the disposable income of Japanese household, and thus, our financial performance. According to Yano Research, the real GDP in Japan has decreased slightly at negative CAGR of 0.03% from 2011 to 2016. We believe that our customers' spending in our pachinko halls are inter-related to the overall GDP growth in Japan. We believe that the overall slight GDP decline in Japan during the recent years, together with the increasing consumption tax in Japan had led to the decline in overall spending in the pachinko industry during the recent years. We cannot assure stable results of operation if the Japanese economy fluctuates over time in the future.

Changes in consumption tax in Japan

The Japan government reviews tax policy annually as part of its budgeting process. From 1 April 2014, Japan's consumption tax rate increased from 5% to 8%. The consumption tax is expected to increase to 10% in October 2019. We record our gross pay-ins net of consumption tax in accordance to our accounting policies. As such, the increase in consumption tax in Japan adversely affects our gross pay-ins and, hence, our financial results. Besides, the increase in consumption tax is also likely to adversely affect the customers spending thus imposing a negative impact on our revenue. Any further increase in consumption tax will further reduce our gross pay-ins as well as our revenue and hence our results of operation.

For illustrative purpose only, the following tables demonstrate the impact of hypothetical increase or decrease in consumption tax rate, whilst all other factors remain unchanged:

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|-----------|-----------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million |
| Increase/Decrease in our revenue⁽¹⁾ | | | | | |
| Hypothetical decrease/increase of 1.0% | +/-129 | +/-112 | +/-101 | +/-35 | +/-30 |
| Hypothetical decrease/increase of 2.0% | +/-258 | +/-224 | +/-201 | +/-70 | +/-60 |
| Hypothetical decrease/increase of 3.0% | +/-388 | +/-335 | +/-302 | +/-104 | +/-89 |

FINANCIAL INFORMATION

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|-----------|-----------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million |
| Increase/Decrease in our profit after tax⁽²⁾ | | | | | |
| Hypothetical decrease/increase of 1.0% | +/-79 | +/-71 | +/-65 | +/-12 | +/-11 |
| Hypothetical decrease/increase of 2.0% | +/-157 | +/-141 | +/-131 | +/-25 | +/-21 |
| Hypothetical decrease/increase of 3.0% | +/-236 | +/-212 | +/-196 | +/-36 | +/-31 |

Notes:

- (1) *The changes in consumption tax rate will affect both of the gross pay-ins and gross pay-outs.*
- (2) *The profit after tax is a hypothetical estimation based on the effect of changes in consumption tax rate on our revenue, while all other factors remain unchanged.*

Prospective investors should note that the above analysis on the historical financials is based on assumptions and is for reference only and should not be viewed as actual effect.

Our ability to remain competitive

Competition with other pachinko hall operators

We face competition from other pachinko hall operators. According to Yano Research, the pachinko market is highly fragmented. There were 3,421 pachinko hall operators with approximately 10,986 halls in Japan as of 31 December 2016, with only 5.0% being large scale operators with ten or more halls each. At the same time, the market size of pachinko industry decreased at a compound rate of 2.2% from 2010 to 2015. From an operator's perspective, we consider pay-out ratio, G-prize mark-up, and types of machine offerings as the most important factors in attracting customer traffic to our halls. Any change in the pay-out ratio and G-prize mark-up will impact our revenue margin, as well as the amount of revenue we earn from our customers spending in our halls.

Furthermore, the more frequent we replace the existing machines with machines of the latest titles, the better chance we can retain and attract customers. However, this will also increase our machine expenses. Therefore, it is vital that we find the optimal point in our operation whereby the incremental cost incurred would not exceed the amount of additional revenue it produced.

FINANCIAL INFORMATION

Our Directors believe that with:

- (i) our advanced management information system providing us with real time data on the utilisation and operational performance of our machines;
- (ii) our well established relationships with machine manufacturers would help in securing the newest machine models; and
- (iii) our marketing department constantly gathering information about our competitors' behaviours,

we are equipped with the necessary tools to operate and react efficiently to remain competitive.

Competition with other forms of entertainment

Other than competition with other pachinko hall operators, in recent years, gaming activities such as different forms of racing has gained increasing popularity. Thus, our pachinko business has been facing competition from them. Also, the surge of popularity of video games, on-line games or even mobile entertainment also fuelled the competition that our industry faces. This competition is evidenced by the decreasing visits or plays from our customers. Also, the changes in rules and regulations of the pachinko industry, such as regulating pay-out ratios, may reduce the competitiveness of pachinko and pachislot machines when comparing to other forms of entertainment. Thus, our results of operations may be adversely affected if we are not able to cope with such competition from other forms of entertainment.

Our operating efficiency

Our operating efficiency is key to our operation and financial results. During the Track Record Period, our hall operating expenses accounted for approximately 88.4%, 84.4%, 80.5%, 82.4% and 92.9% of our total revenue for the three years ended 30 June 2016 and the four months ended 31 October 2015 and 2016, respectively. Our key operating cost included pachinko and pachislot machines expenses, employee benefit costs and operating lease rental expense in respect of land and buildings. Thus, our results of operations may be affected if our operating efficiency varies in the future.

FINANCIAL INFORMATION

For illustrative purpose only, the following tables demonstrate the impact of hypothetical increase or decrease in (i) revenue margin; and (ii) pachinko and pachislot machines expenses, whilst all other factors remain unchanged:

(i) **Revenue margin**

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|-----------|-----------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million |
| Increase/Decrease in our revenue: | | | | | |
| Hypothetical increase/decrease of 1.0% | +/-578 | +/-510 | +/-430 | +/-165 | +/-126 |
| Hypothetical increase/decrease of 1.5% | +/-867 | +/-765 | +/-645 | +/-247 | +/-189 |
| Hypothetical increase/decrease of 2.0% | +/-1,157 | +/-1,020 | +/-860 | +/-329 | +/-252 |

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|-----------|-----------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million |
| Increase/Decrease in our profit before tax: | | | | | |
| Hypothetical increase/decrease of 1.0% | +/-578 | +/-510 | +/-430 | +/-165 | +/-126 |
| Hypothetical increase/decrease of 1.5% | +/-867 | +/-765 | +/-645 | +/-247 | +/-189 |
| Hypothetical increase/decrease of 2.0% | +/-1,157 | +/-1,020 | +/-860 | +/-329 | +/-252 |

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|-----------|-----------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million |
| Increase/Decrease in our profit after tax: | | | | | |
| Hypothetical increase/decrease of 1.0% | +/-352 | +/-322 | +/-279 | +/-107 | +/-126 |
| Hypothetical increase/decrease of 1.5% | +/-528 | +/-484 | +/-419 | +/-161 | +/-189 |
| Hypothetical increase/decrease of 2.0% | +/-704 | +/-645 | +/-559 | +/-214 | +/-252 |

FINANCIAL INFORMATION

(ii) *Pachinko and pachislot machines expenses*

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|-----------|-----------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million |
| Increase/Decrease in our profit before tax: | | | | | |
| Hypothetical decrease/increase of 2.0% | +/-114 | +/-90 | +/-67 | +/-27 | +/-24 |
| Hypothetical decrease/increase of 4.0% | +/-229 | +/-180 | +/-133 | +/-55 | +/-48 |
| Hypothetical decrease/increase of 6.0% | +/-343 | +/-270 | +/-200 | +/-82 | +/-73 |

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|-----------|-----------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million |
| Increase/Decrease in our profit after tax: | | | | | |
| Hypothetical decrease/increase of 2.0% | +/-70 | +/-57 | +/-43 | +/-18 | +/-16 |
| Hypothetical decrease/increase of 4.0% | +/-139 | +/-114 | +/-87 | +/-36 | +/-31 |
| Hypothetical decrease/increase of 6.0% | +/-209 | +/-171 | +/-130 | +/-53 | +/-47 |

Prospective investors should note that the above analysis on the historical financials is based on assumptions and is for reference only and should not be viewed as actual effect. In particular, in accordance with the opening of our new hall in Yamaguchi, Chugoku region in December 2016, our Group recognised significant machine expenses after the Track Record Period, which will be reflected in our financial statements for the year ending 30 June 2017.

Changes in policies and regulations relating to the pachinko industry

Our pachinko industry is highly influenced by the policies and regulations imposed by the Japan government as well as voluntary self-regulation. Any policies or regulations imposed, such as reduction in jackpot size or pay-out ratios may lead to a substantial drop in the popularity of pachinko and pachislot machines, which could in turn significantly affect our customers' demand and spending and thus, our results of operation.

Timing of new hall openings

The pachinko hall business is capital intensive, particularly at the time of new hall openings, when significant expenses such as machine costs and renovation costs are incurred. In line with applicable accounting principles, practices and policies adopted by our Group, the costs of machines are fully expensed immediately upon installation whilst revenue will only be generated after the hall commences operations. As such, our Group's financial performance may fluctuate from period to period depending on the timing of new hall openings.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The following table shows the extract of consolidated statements of comprehensive income of our Group during the Track Record Period, details of which are set out in the Accountant's Report contained in Appendix I to this prospectus.

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|--------------|--------------|---------------------------------|------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million (Unaudited) | ¥ million |
| Revenue | 12,990 | 11,245 | 10,098 | 3,621 | 3,065 |
| Other income | 1,354 | 1,223 | 819 | 240 | 237 |
| Other (losses)/gains, net. | (13) | 182 | (131) | (132) | 71 |
| Hall operating expenses | (11,477) | (9,486) | (8,129) | (2,982) | (2,847) |
| Administrative and other operating expenses | (923) | (1,385) | (1,405) | (497) | (407) |
| Operating profit | 1,931 | 1,779 | 1,252 | 250 | 119 |
| Finance income | 81 | 61 | 25 | 14 | 1 |
| Finance costs. | (321) | (277) | (249) | (85) | (76) |
| Finance costs, net. | (240) | (216) | (224) | (71) | (75) |
| Profit before income tax | 1,691 | 1,563 | 1,028 | 179 | 44 |
| Income tax expense | (682) | (981) | (424) | (71) | (18) |
| Profit for the year/period | 1,009 | 582 | 604 | 108 | 26 |
| Profit attributable to: | | | | | |
| Shareholders of the Company . | 1,020 | 562 | 604 | 108 | 26 |
| Non-controlling interests | (11) | 20 | — | — | — |
| | <u>1,009</u> | <u>582</u> | <u>604</u> | <u>108</u> | <u>26</u> |

FINANCIAL INFORMATION

DESCRIPTION OF SELECTED ITEMS IN STATEMENTS OF COMPREHENSIVE INCOME

Revenue, gross pay-ins, gross pay-outs and revenue margin

Revenue

Our total revenue comprised revenue from (i) pachinko and pachislot business, being gross pay-ins less gross pay-outs; (ii) vending machine income; (iii) property rental; and (iv) revenue from other operations. During the Track Record Period, our Group had implemented a series of measures in response to the changing market conditions and industry practices, including but not limited to (i) imposition of G-prize mark-up; (ii) rebalancing the composition of high playing cost and low playing cost pachinko and pachislot machines in our halls; and (iii) closure of certain pachinko halls in view of the local competitive landscape. Such measures have led to the fluctuations in our Group's financial performance as further elaborated below. The following table sets forth the breakdown of our total revenue for the periods indicated.

| | Year ended 30 June | | | | | | Four months ended 31 October | | | |
|--|-----------------------------|--------------|-----------------------------|--------------|-----------------------------|--------------|------------------------------|--------------|-----------------------------|--------------|
| | 2014 | | 2015 | | 2016 | | 2015 | | 2016 | |
| | Percentage of total revenue | | Percentage of total revenue | | Percentage of total revenue | | Percentage of total revenue | | Percentage of total revenue | |
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % |
| | (unaudited) | | | | | | | | | |
| Revenue from pachinko and pachislot business: | | | | | | | | | | |
| Kyushu region | 6,427 | 49.5 | 5,527 | 49.2 | 5,229 | 51.8 | 1,815 | 50.1 | 1,737 | 56.7 |
| Regions other than Kyushu region | 6,076 | 46.8 | 5,265 | 46.8 | 4,448 | 44.0 | 1,660 | 45.9 | 1,175 | 38.3 |
| Total | 12,503 | 96.3 | 10,792 | 96.0 | 9,677 | 95.8 | 3,475 | 96.0 | 2,912 | 95.0 |
| Vending machine income | 170 | 1.3 | 156 | 1.4 | 147 | 1.5 | 52 | 1.4 | 48 | 1.6 |
| Property rental | 280 | 2.2 | 260 | 2.3 | 265 | 2.6 | 89 | 2.5 | 105 | 3.4 |
| Revenue from other operations | 37 | 0.2 | 37 | 0.3 | 9 | 0.1 | 5 | 0.1 | — | — |
| Revenue | 12,990 | 100.0 | 11,245 | 100.0 | 10,098 | 100.0 | 3,621 | 100.0 | 3,065 | 100.0 |

Our revenue from pachinko and pachislot business together with the vending machine income (which represents the concession income from sharing of the gross receipts of such vending machines) constitute revenue from pachinko hall operations and accounted for approximately 97.6%, 97.4%, 97.3%, 97.4% and 96.6% of our total revenue for the three years ended 30 June 2016 and the four months ended 31 October 2015 and 2016, respectively. The percentage of such revenue remained relatively stable during the Track Record Period.

FINANCIAL INFORMATION

Also included in our revenue were (i) property rental income, representing income derived from our rental income from car parks, office, and G-prize wholesalers or G-prize buyers for leasing of properties within the surrounding vicinity of our halls; and (ii) revenue from other operations, mainly representing income from provision of consulting and advertising services to third parties and income from household support services provided to third parties during the Track Record Period, which has ceased since June 2015 and April 2016, respectively, as further elaborated below. Our revenue from property income remained relatively stable during the Track Record Period. The total amount of property rental income and revenue from other operations represented approximately 2.4%, 2.6%, 2.7%, 2.6% and 3.4% of our total revenue for the three years ended 30 June 2016 and the four months ended 31 October 2015 and 2016, respectively.

During the Track Record Period, we provided consulting and advertising services to third parties through our two subsidiaries, namely Aratoru and Adward. They were also responsible for advertising our halls. Since June 2015, we have ceased to provide advertising services to third parties and the aforesaid subsidiaries have been responsible for advertising and promotion of our halls only. Though we only held 40% of each of Aratoru and Award for the year ended 30 June 2014, they were accounted for as our subsidiaries given we had power over them and are exposed, or had rights, to variable returns from our involvement in them. Please refer to note 2.2 in section II of the Accountant's Report contained in Appendix I to this prospectus for further details of the policy. Since April 2016, we also terminated our household support services to third parties, and the relevant subsidiary has since been responsible for providing cleaning and repair services to our pachinko halls only.

The table below shows the key financial and operational metrics of our pachinko and pachislot business during the Track Record Period:

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|--------|--------|---------------------------------|--------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | | | | (unaudited) | |
| Revenue (¥, in millions) | 12,990 | 11,245 | 10,098 | 3,621 | 3,065 |
| Gross pay-ins (¥, in millions) | 57,827 | 51,001 | 42,988 | 16,465 | 12,610 |
| Gross pay-outs (¥, in millions) | 45,324 | 40,209 | 33,311 | 12,990 | 9,698 |
| Revenue margin for pachinko and pachislot business (%) | 21.6 | 21.2 | 22.5 | 21.1 | 23.1 |
| G-prize mark-up (%) | 0-100 | 0-100 | 10-68 | 0-68 | 10-68 |
| Machine utilisation (%) | | | | | |
| Overall for pachinko | 23.2 | 22.3 | 19.9 | 21.6 | 20.2 |
| Overall for pachislot | 29.6 | 28.8 | 28.1 | 29.8 | 26.9 |

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Our revenue decreased by approximately ¥1,745 million or 13.4% to approximately ¥11,245 million for the year ended 30 June 2015 from approximately ¥12,990 million for the year ended 30 June 2014. Our revenue from pachinko and pachislot business represents approximately 96.3% and 96.0% of our revenue for the two years ended 30 June 2015, respectively. As a result of decrease in customer traffic and closure of a hall in regions other than Kyushu region in September 2014, our revenue from pachinko and pachislot business decreased from approximately ¥12,503 million in the year ended 30 June 2014 to approximately ¥10,792 million in the year ended 30 June 2015.

Our revenue decreased by approximately ¥1,147 million or 10.2% to approximately ¥10,098 million for the year ended 30 June 2016 from approximately ¥11,245 million for the year ended 30 June 2015. For the two years ended 30 June 2016, the revenue generated by our pachinko and pachislot business remained stable at approximately 96.0% and 95.8% of our total revenue, respectively. As a result of decrease in customer traffic and imposition of G-prize mark-up (please refer to the paragraph headed “Gross pay-ins and gross pay-outs” in this section for further details), our revenue from pachinko and pachislot business decreased from approximately ¥10,792 million for the year ended 30 June 2015 to ¥9,677 million for the year ended 30 June 2016.

Our revenue decreased by approximately ¥556 million or 15.4% to approximately ¥3,065 million for the four months ended 31 October 2016 from approximately ¥3,621 million for the four months ended 31 October 2015. This was mainly due to decrease in revenue generated by our pachinko hall business as a result of (i) reduced machines as we subleased two storeys of our hall in regions other than Kyushu region to an Independent Third Party for operation of an internet cafe; and (ii) imposition of G-prize mark-up for our certain halls. The revenue from pachinko and pachislot business remained stable at approximately 96.0% and 95.0% of our total revenue for the four months ended 31 October 2015 and 2016, respectively.

FINANCIAL INFORMATION

Gross pay-ins and gross pay-outs

The following table sets forth the breakdown of average gross pay-ins and gross pay-outs per hall by geographic locations for the periods indicated:

| | Year ended 30 June | | | | | | Four months ended 31 October | | | | | | | | |
|--|--|---|-------------------------------|--|---|-------------------------------|--|---|-------------------------------|--|---|----------------------------------|--|---|----------------------------------|
| | 2014 | | | 2015 | | | 2016 | | | 2015 | | | 2016 | | |
| | Gross pay-ins ¥ million | Average gross pay-ins per hall ¥ million | Number of halls as at 30 June | Gross pay-ins ¥ million | Average gross pay-ins per hall ¥ million | Number of halls as at 30 June | Gross pay-ins ¥ million | Average gross pay-ins per hall ¥ million | Number of halls as at 30 June | Gross pay-ins ¥ million | Average gross pay-ins per hall ¥ million | Number of halls as at 31 October | Gross pay-ins ¥ million | Average gross pay-ins per hall ¥ million | Number of halls as at 31 October |
| Kyushu region | 27,947 | 2,329 | 12 ⁽¹⁾ | 25,647 | 2,137 | 12 | 23,660 | 1,972 | 12 | 8,568 | 714 | 12 | 7,255 | 605 | 12 |
| Regions other than Kyushu region | 29,880 | 4,980 | 6 | 25,354 | 5,071 | 5 ⁽²⁾ | 19,328 | 3,866 | 5 | 7,897 | 1,579 | 5 | 5,355 | 1,071 | 5 |
| | 57,827 | 3,213 | 18 | 51,001 | 3,000 | 17 | 42,988 | 2,529 | 17 | 16,465 | 969 | 17 | 12,610 | 742 | 17 |
| | | | | | | | | | | | | | | | |
| | Year ended 30 June | | | | | | Four months ended 31 October | | | | | | | | |
| | 2014 | | | 2015 | | | 2016 | | | 2015 | | | 2016 | | |
| Gross pay-outs ¥ million | Average gross pay-outs per hall ¥ million | Number of halls as at 30 June | Gross pay-outs ¥ million | Average gross pay-outs per hall ¥ million | Number of halls as at 30 June | Gross pay-outs ¥ million | Average gross pay-outs per hall ¥ million | Number of halls as at 30 June | Gross pay-outs ¥ million | Average gross pay-outs per hall ¥ million | Number of halls as at 31 October | Gross pay-outs ¥ million | Average gross pay-outs per hall ¥ million | Number of halls as at 31 October | |
| Kyushu region | 21,520 | 1,793 | 12 ⁽¹⁾ | 20,120 | 1,677 | 12 | 18,431 | 1,536 | 12 | 6,753 | 563 | 12 | 5,518 | 460 | 12 |
| Regions other than Kyushu region | 23,804 | 3,967 | 6 | 20,089 | 4,018 | 5 ⁽²⁾ | 14,880 | 2,976 | 5 | 6,237 | 1,247 | 5 | 4,180 | 836 | 5 |
| | 45,324 | 2,518 | 18 | 40,209 | 2,365 | 17 | 33,311 | 1,959 | 17 | 12,990 | 764 | 17 | 9,698 | 570 | 17 |

Notes:

(1) In April 2014, one pachinko hall in the Kyushu region was closed.

(2) In September 2014, one pachinko hall in regions other than Kyushu region was closed.

FINANCIAL INFORMATION

Gross pay-ins

Our gross pay-ins represents gross amount received from customers for rental of pachinko balls and pachislot tokens. Gross pay-ins is primarily affected by the level of customer spending at our halls, which is in turn largely affected by: (i) G-prize mark-ups; (ii) pay-out ratios; (iii) number, types and mixes of machines; (iv) number and types of halls; (v) number, playing time and preferences of customers; (vi) competitors' behaviour and the general trend of the pachinko industry; and (vii) macroeconomic factors (including tax and inflation). In particular, according to our accounting policy, gross pay-ins is recognised net of consumption tax. During the Track Record Period, the consumption tax rate increased from 5% to 8% on 1 April 2014.

Our gross pay-ins amounted to approximately ¥57,827 million, ¥51,001 million, ¥42,988 million, ¥16,465 million and ¥12,610 million for the three years ended 30 June 2016 and the four months ended 31 October 2015 and 2016, respectively. The decrease in gross pay-ins in our halls was mainly due to decrease in customer traffic, as a result of, amongst other things, the increase in consumption tax from 5% to 8% since 1 April 2014, which had a negative impact on consumer spending in general, as well as the overall reduction in the market size of pachinko industry during the Track Record Period as disclosed under the section headed "Industry Overview" of this prospectus.

Over 60.0% of our pachinko machines were low playing cost machines during the Track Record Period while the proportion of low playing costs pachislot machines out of our pachislot machines increased over the Track Record Period, from approximately 42.0% as at 30 June 2014 to 49.5% as at 31 October 2016. This is in line with the trend of pachinko industry where low playing cost machine is gaining more popularity. We will continue to monitor and adjust the mix of machines in our halls in response to our customers' preference and competitors' strategies with the objective to capture more market share from the playing population.

Our gross pay-ins decreased by approximately ¥6,826 million or 11.8% to approximately ¥51,001 million for the year ended 30 June 2015 from approximately ¥57,827 million for the year ended 30 June 2014. For the year ended 30 June 2015, the decrease in gross pay-ins was mainly due to the closure of two halls in both Kyushu region and regions other than Kyushu region. In April 2014, our Group closed one pachinko hall in Kyushu region due to underperformance and maturity of carpark lease, which was leased for the sole purpose of providing free parking for our customers of this hall. Further, our Group closed another pachinko hall in regions other than Kyushu region in September 2014. In view of the keen competition in the local area and that this hall was a small-sized pachinko hall located within immediate proximity to a larger-sized pachinko hall, our Group decided not to renew the lease upon its maturity. We derived aggregate gross pay-ins of approximately ¥35 million from the aforesaid two closed halls in the year ended 30 June 2015, comparing with an aggregated gross pay-ins of approximately ¥767 million in the year ended 30 June 2014.

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The decrease in our gross pay-ins was mainly due to the closure of halls as evidenced by the relatively stable average gross pay-ins per hall at approximately ¥3,213 million and ¥3,000 million for the two years ended 30 June 2015, respectively. The slight decrease was mainly due to the decrease in customer traffic which was reflected in the decrease in utilisation rate of both our pachinko and pachislot machines during the year. Please refer to the paragraph headed “Utilisation rate” under the section headed “Business” of this prospectus for further details.

Our gross pay-ins decreased by approximately ¥8,013 million or 15.7% to approximately ¥42,988 million for the year ended 30 June 2016 from approximately ¥51,001 million for the year ended 30 June 2015. Such decrease in gross pay-ins was mainly due to the decrease in customer traffic, partly due to the reduction in playing population, intensified competition and the imposition of G-prize mark-up to approximately 10.0% to 25.0% from nil for the year ended 30 June 2016 for 13 halls (nine in the Kyushu region and four in regions other than Kyushu region). Whilst the imposition of G-prize mark-up may have stalled customer traffic and led to a fall in gross pay-ins, there was also a corresponding decrease in gross pay-outs. During the Track Record Period, the fall in gross pay-outs exceeded that of gross pay-ins, which led to an increase in our revenue margin. For further details, please refer to the paragraph headed “Gross pay-outs” and “Revenue margin” in this section.

The average gross pay-ins per hall decreased by approximately ¥471 million or 15.7% to approximately ¥2,529 million for the year ended 30 June 2016 from approximately ¥3,000 million for the year ended 30 June 2015. This was mainly due to the decrease in customer traffic and imposition of G-prize mark-up as mentioned above.

Our gross pay-ins decreased by approximately ¥3,855 million or 23.4% to approximately ¥12,610 million for the four months ended 31 October 2016 from approximately ¥16,465 million for the four months ended 31 October 2015. Such decrease in gross pay-ins was mainly due to (i) changes in the machines composition for two halls in regions other than Kyushu region, whereby high playing cost machines were replaced by low playing cost machines in line with our operating strategy in response to the changing market conditions and industry practices; (ii) reduced number of machines as we subleased two storeys of our hall in regions other than Kyushu region to an Independent Third Party for operation of an internet cafe; and (iii) imposition of G-prize mark-up from nil to 10.0% to 25.0% for our 13 halls.

The average gross pay-ins per hall decreased by approximately ¥227 million or 23.4% to approximately ¥742 million for the four months ended 31 October 2016 due to the abovementioned reasons.

FINANCIAL INFORMATION

Gross pay-outs

Our gross pay-outs represents aggregate cost of G-prizes and general prizes exchanged by our customers, which is mainly determined by our (i) gross pay-ins; (ii) pay-out ratios; and (iii) mark-up on G-prizes and general prizes. Generally, the higher the mark-up added onto the cost of G-prizes and general prizes, the lower the gross pay-outs. Thus, the number of balls or tokens required to redeem a particular G-prize or general prize is subject to the level of mark-up determined and applied by our Group. During the Track Record Period, our general prize and G-prize mark-up ranged from approximately 5.3% to 340.9% and nil to 100%, respectively. Our gross pay-outs during the Track Record Period fluctuated in line with our gross pay-ins, amounted to approximately ¥45,324 million, ¥40,209 million, ¥33,311 million, ¥12,990 million and ¥9,698 million for the three years ended 30 June 2016 and the four months ended 31 October 2015 and 2016, respectively.

Different G-prize mark-up was applied to different halls during the Track Record Period, depending on factors such as local customers preference, sensitivity to mark-ups, competitors' practice, local regulators or any restrictions imposed by associations. Our Directors believe that, generally, imposing a higher G-prize mark-up increases the revenue margin of our pachinko halls, but at the same time it may discourage customers who are sensitive to G-prize mark-up from playing in these halls and decrease gross pay-ins as a result.

Our gross pay-outs decreased by approximately ¥5,115 million or 11.3% to approximately ¥40,209 million for the year ended 30 June 2015 from approximately ¥45,324 million for the year ended 30 June 2014 which was in line with decrease in the gross pay-ins mainly as a result of decrease in customer traffic. Our G-prize mark-ups of each hall were generally stable in the two years ended 30 June 2015. We imposed G-prize mark-ups in three of our halls in Kyushu region and one of our halls in regions other than Kyushu region during the two years ended 30 June 2015. Out of the three halls in Kyushu region, we imposed a relatively higher G-prize mark-up in two halls where customers are relatively less sensitive to G-prize mark-up. We believe that the customers of these two halls, which only have low playing cost machines, are relatively less sensitive to higher level of G-prize mark-up and therefore, we could secure higher revenue by imposing a relatively higher G-prize mark-up of 100%.

Our average gross pay-outs per hall decreased by approximately ¥153 million or 6.1% to approximately ¥2,365 million for the year ended 30 June 2015 from approximately ¥2,518 million for the year ended 30 June 2014. Such decrease was mainly due to the combined effect of (i) decrease in average gross pay-outs per hall for the Kyushu region due to decrease in customer traffic as aforementioned; and (ii) increase in average gross pay-outs per hall for regions other than the Kyushu region mainly due to the closure of one of our halls in September 2014.

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Our gross pay-outs decreased by approximately ¥6,898 million or 17.2% to approximately ¥33,311 million for the year ended 30 June 2016 from approximately ¥40,209 million for the year ended 30 June 2015 mainly due to the decrease in customer traffic as reflected by the drop in gross pay-ins, partly due to the imposition of G-prize mark-ups. During the year ended 30 June 2016, except for one hall in regions other than Kyushu region of which the G-prize mark-up remained unchanged, we reduced the G-prize mark-ups for the three halls in Kyushu region to 10.0%, 10.0% and 68.0%, respectively, and started to impose G-prize mark-ups ranging from 10.0% to 25.0% to the remaining 13 halls which had nil G-prize mark-up previously. This was mainly due to the imposition of G-prize regulations, which require pachinko halls in the Kyushu region to impose a minimum G-prize mark-up of 10.0%. Our Directors, based on market observations, believe the changes of our G-prize mark-ups in such halls were generally in line with the market and were similar to that imposed by our major competitors surrounding the areas.

Our average gross pay-outs per hall decreased by approximately ¥406 million or 17.2% to approximately ¥1,959 million for the year ended 30 June 2016 from approximately ¥2,365 million for the year ended 30 June 2015. Such decrease was mainly due to decrease in customer traffic and imposition of G-prize mark-up as aforementioned.

Our gross pay-outs decreased by approximately ¥3,292 million or 25.3% to approximately ¥9,698 million for the four months ended 31 October 2016 from approximately ¥12,990 million for the four months ended 31 October 2015 which was in line with decrease in gross pay-ins in particular to regions other than Kyushu region. Our gross pay-outs for the halls in regions other than Kyushu region decreased by approximately 33.0% during the period. Such decrease was mainly due to (i) decrease in gross pay-ins resulted from decrease in the machines as we subleased two storeys of a hall in regions other than Kyushu region to an Independent Third Party for operation of an internet cafe resulting in a reduction in number of machines; and (ii) imposition of G-prize mark-ups of approximately 12.0% to 25.0% since the year ended 30 June 2016, for four of our halls in the regions other than Kyushu region. The decrease in gross pay-outs for the Kyushu region of approximately 18.3 % was in line with the decrease in gross pay-ins during the period.

Our average gross pay-outs per hall decreased by approximately ¥194 million or 25.4% to approximately ¥570 million for the four months ended 31 October 2016. Such decrease was mainly due to the decrease in gross pay-ins and imposition of G-prize mark-up as aforementioned.

Subsequent to 31 October 2016 and up to the Latest Practicable Date, save for one pachinko hall in regions other than Kyushu region, which the G-prize mark-up decreased from 25.0% to 0%, there was no change in the G-prize mark-ups imposed to our halls. Going forward, we will continue to monitor and adjust our G-prize mark-ups (with an objective of maximising our revenue), taking into account all relevant factors, such as customer sensitivity to mark-ups and competitors' behaviour.

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Revenue margin

Revenue margin of our revenue from pachinko and pachislot business represents our revenue from pachinko and pachislot business divided by gross pay-ins, which was mainly affected by (i) pay-out ratios; (ii) G-prize mark-ups; and (iii) mix of our pachinko and pachislot machines. Our overall revenue margin decreased slightly from approximately 21.6% in the year ended 30 June 2014 to approximately 21.2% in the year ended 30 June 2015 and increased to approximately 22.5% in the year ended 30 June 2016. Our overall revenue margin increased from approximately 21.1% for the four months ended 31 October 2015 to 23.1% for the four months ended 31 October 2016.

The following table sets forth the revenue margin by geographic locations of our halls for the periods indicated:

| | Year ended 30 June | | | Four months ended 31 October | |
|--------------------------------------|--------------------|-------------|-------------|---------------------------------|-------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | % | % | % | % | % |
| | | | | (unaudited) | |
| Kyushu region | 23.0 | 21.6 | 22.1 | 21.2 | 23.9 |
| Regions other than Kyushu region . . | 20.3 | 20.8 | 23.0 | 21.0 | 21.9 |
| Overall | 21.6 | 21.2 | 22.5 | 21.1 | 23.1 |

We recorded a relatively stable revenue margin of approximately 21.2% for the year ended 30 June 2015, compared to approximately 21.6% for the year ended 30 June 2014. During the year ended 30 June 2015, the pay-out ratio of our largest hall (in terms of gross pay-ins and revenue) in regions other than Kyushu region decreased, leading to an increase in our revenue margin in regions other than Kyushu region from approximately 20.3% for the year ended 30 June 2014 to approximately 20.8% for the year ended 30 June 2015.

During the year ended 30 June 2016, our revenue margin increased from approximately 21.2% for the year ended 30 June 2015 to approximately 22.5% for the year ended 30 June 2016 mainly due to (i) imposition of G-prize mark-ups to our 13 halls which had nil G-prize mark-up previously; and (ii) decrease in pay-out ratio in one of our major halls in regions other than Kyushu as abovementioned.

Our revenue margin increased from approximately 21.1% for the four months ended 31 October 2015 to approximately 23.1% for the four months ended 31 October 2016 which was mainly due to the G-prize mark-up imposition.

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Other income

Other income mainly comprised of (i) income from scrap sales of used pachinko machines to machines broker for reselling in the second-hand market; (ii) dividend income from our investments; (iii) income from expired IC card; and (iv) rental income from staff quarters. The following table sets forth a breakdown of our other income for the periods indicated.

| | Year ended 30 June | | | | | | Four month ended 31 October | | | |
|---|--------------------|--------------|--------------|--------------|------------|--------------|-----------------------------|--------------|------------|--------------|
| | 2014 | | 2015 | | 2016 | | 2015 | | 2016 | |
| | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % |
| | | | | | | | (unaudited) | | | |
| Income from scrap sales of used pachinko machines | 1,265 | 93.5 | 1,097 | 89.7 | 735 | 89.7 | 202 | 84.2 | 226 | 95.4 |
| Dividend income ⁽¹⁾ | 45 | 3.3 | 64 | 5.2 | 18 | 2.2 | 14 | 5.8 | — | — |
| Income from expired IC card ⁽²⁾ | 14 | 1.0 | 12 | 1.0 | 10 | 1.2 | 4 | 1.6 | 3 | 1.3 |
| Rental income from staff quarters | 15 | 1.1 | 7 | 0.6 | 2 | 0.3 | 2 | 0.8 | 1 | 0.4 |
| Others ⁽³⁾ | 15 | 1.1 | 43 | 3.5 | 54 | 6.6 | 18 | 7.6 | 7 | 2.9 |
| | <u>1,354</u> | <u>100.0</u> | <u>1,223</u> | <u>100.0</u> | <u>819</u> | <u>100.0</u> | <u>240</u> | <u>100.0</u> | <u>237</u> | <u>100.0</u> |

Notes:

- (1) Dividend income represents dividend received from equity securities, including Japan stocks, mutual funds etc., held during the Track Record Period.
- (2) Income from expired IC card represents the income earned when the cash balances stored in IC cards and membership cards expired. Based on the terms of membership card and IC card in force during the Track Record Period, the cash balances stored in the membership cards will expire 30 to 180 days after paying, while the cash balances stored in IC cards will expire 20 to 30 days after purchase. Such cash balances were recognised as other income upon expiry.
- (3) Others mainly represent income from forfeited pachinko balls and pachislot tokens.

During the Track Record Period, as we replaced our machines in a relatively shorter interval as compared to our competitors, we derived significant amount of other income from scrap sales of used pachinko machines, which was largely used to fund the purchase of new pachinko and pachislot machines. For details of our Group's machines replacement strategy, please refer to the paragraph headed "Machines" under the section headed "Business" of this prospectus.

Our other income decreased by approximately ¥131 million or 9.7% to approximately ¥1,223 million for the year ended 30 June 2015 from approximately ¥1,354 million for the year ended 30 June 2014 mainly as a result of decrease in income from scrap sales of used machines by approximately ¥168 million or 13.3% during the year, as the number of machines sold during the year decreased due to the slowdown in machines replacement.

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Our other income then decreased by approximately ¥404 million or 33.0% to approximately ¥819 million for the year ended 30 June 2016 from approximately ¥1,223 million for the year ended 30 June 2015. This was mainly due to the decrease in income from scrap sales of used machines by approximately ¥362 million or 33.0% during the period as the number of machines sold during the period decreased, resulting from the slowdown in machines replacement and introduction of the Amended Voluntary Regulations and the announcements issued by machine manufacturer association, which reduced the market demand for our used high jackpot size pachinko machines (as further elaborated below). For details, please refer to the paragraph headed “Reduced jackpot size and pay-out ratios” under the section headed “Industry Overview” of this prospectus.

Our other income remained relatively stable at approximately ¥240 million and ¥237 million, respectively for the four months ended 31 October 2015 and 2016, as a result of the combined effect of (i) increase in income generated from scrap sales of used pachinko machines mainly as a result of increase in average selling price per unit; and (ii) decrease in dividend income from our investments.

During the Track Record Period, our other income from scrap sales were negatively affected by the introduction of (i) the Amended Voluntary Regulations in November and December 2015, which significantly lowered the maximum jackpot size of pachinko machines and pay-out ratio of pachislot machines, and (ii) the three announcements issued by machine manufacturer association in the first half of 2016 withdrawing pachinko machines of certain models. In addition to a reduction in our customer traffic from players that are attracted to the gaming nature of pachinko and pachislot, the Amended Voluntary Regulations and the related announcements also resulted in a decrease in the market demand of our used machines acquired and installed prior to the introduction of the Amended Voluntary Regulations as well as a need to replace our existing machines in order to comply with the Amended Voluntary Regulations and the related announcements. As an illustration of its impact, since the introduction of the Amended Voluntary Regulations and the related announcements, our other income decreased by approximately 33.0% to approximately ¥819 million for the year ended 30 June 2016. As at 30 June 2016, our Group had 977 machines subject to withdrawal following the Amended Voluntary Regulations and the related announcements, out of which 708 had been withdrawn and replaced by 31 October 2016, and all had been withdrawn and replaced as at 31 December 2016, utilising our general working capital. These machines were either sold to a third party engaging in the recycling of pachinko machine materials or traded-in with machine manufacturers. Following this, we do not expect to incur further expenditure as a direct result of the Amended Voluntary Regulations and the related announcements.

Our Directors believe that the negative impacts of the Amended Voluntary Regulations and the related announcements on our financial performance have been gradually easing off, as demonstrated in the stabilisation of our other income for the four months ended 31 October 2016 at approximately ¥237 million, compared to approximately ¥240 million during the same period in 2015. Notwithstanding the above, the Directors are of the view that the second-hand market will continue to adjust towards normalisation in the short term. In addition to such external factors, our Group’s other income from scrap sales are also affected by our overall machine turnover ratio, which in turn is affected by the timing and frequency of new machines

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releases from machine suppliers during the relevant financial reporting period. Further, as mentioned under the paragraph headed “Machine turnover” under the section headed “Business” of this prospectus, our machine turnover for each hall is subject to the competitive landscape within the immediate vicinity of each pachinko hall. In general, the more competition we have in a vicinity, the higher our machine turnover will be, in order for us to remain competitive by generating higher customers interests and traffic than our competitors. Given the hall specific nature of such competition, the opening and/or closing of pachinko halls in different areas would also affect our overall machine turnover ratio, and correspondingly, our other income from scrap sales.

Our Directors expect that demand for our used machines will continue to exist as (i) procurement cost for used machines is generally lower than that of new machines; and (ii) new machines are of limited supply and larger hall operators who have good and established relationships with the machine manufacturers (such as our Group) are better positioned to procure such machines. As such, certain hall operators may only be able to acquire such machines from the second-hand market. According to the Yano Report, second-hand machines consistently account for 30.0% to 40.0% of the total market demand for pachinko and pachislot machines among hall operators on a national level and it is projected that this percentage spread will remain largely stable in the future.

During the Track Record Period, our financial performance had fluctuated materially due to variations in our income from scrap sales of used machines. As mentioned under the paragraph headed “Business strategies” under the section headed “Business” of this prospectus, our Group has been placing focus on the composition and features of our machines in order to attract higher customer traffic. This commercial strategy is also to an extent self-sufficient in that a higher machine turnover usually entails a higher income of scrap sales of pachinko machines (with the number of machines that can be installed in our pachinko halls being a defined number) and proceeds from the disposal in the second-hand market will then be used to fund the purchase of replacement machines.

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Other (losses)/gains, net

Other net (losses)/gains mainly comprised (i) (losses)/gains on fair value for financial assets at fair value through profit or loss; (ii) losses on disposal of property, plant and equipment; and (iii) recovery from insurance companies for our assets. The following table sets forth a breakdown of our other net (losses)/gains for the periods indicated.

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|------------|--------------|---------------------------------|------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million |
| | | | | (unaudited) | |
| (Losses)/gain on fair value for financial assets at fair value through profit or loss ⁽¹⁾ | (40) | 179 | (109) | (133) | 73 |
| Losses on disposal of property, plant and equipment | (42) | (27) | (42) | (9) | (6) |
| Exchange gains/(losses), net ⁽²⁾ | 16 | 98 | (26) | (4) | — |
| Recovery from insurance companies | 65 | 43 | 56 | 14 | 8 |
| Losses on non-refundable G-prize ⁽³⁾ | — | (105) | — | — | — |
| Others | <u>(12)</u> | <u>(6)</u> | <u>(10)</u> | <u>—</u> | <u>(4)</u> |
| | <u>(13)</u> | <u>182</u> | <u>(131)</u> | <u>(132)</u> | <u>71</u> |

Notes:

- (1) The amount represents the net gains or losses arising from the change in fair value for financial assets recognised as fair value through profit and loss. During the Track Record Period, the financial assets at fair value through profit or loss were unlisted debt securities and cash residual value retained in the insurance contracts.
- (2) The amount represents the net exchange gains or losses from the translation of the monetary assets and liabilities denominated in currencies other than the functional currency of our Group, and the translation gains or losses arising from the change in exchange rate between USD and Japanese Yen of our financial assets.
- (3) The amount represents the termination payment made to our four then G-prize wholesalers. The Japan Legal Adviser has advised that despite there had been no expressed provision in the agreements with the Previous G-prize Wholesalers which required our Group to pay compensation to such Previous G-prize Wholesalers when terminating such agreements, our Group may have potential legal liability to compensate the Previous G-prize Wholesalers costs expended to procure G-prizes to be sold if it had terminated the contracts without purchasing the G-prizes stocked at the G-prize wholesalers or otherwise compensating for the damages. Given this, our Group had purchased stored G-prizes (including those kept at G-prize buyers) from these Previous G-prize Wholesalers to amicably terminate these agreements to avoid any potential dispute.

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We recorded other net gains of approximately ¥182 million for the year ended 30 June 2015 compared to other net losses of approximately ¥13 million for the year ended 30 June 2014. Such change was mainly a result of (i) gains on changes in fair value for financial assets at fair value through profit or loss of approximately ¥179 million for the year ended 30 June 2015 compared to losses of approximately ¥40 million for the year ended 30 June 2014; and (ii) increase in net exchange gains mainly from bonds which were denominated in USD of approximately ¥16 million for the year ended 30 June 2014 to approximately ¥98 million for the year ended 30 June 2015 due to depreciation of Japanese Yen against USD during the year. The net gains were partially offset by an one-off loss on non-refundable G-prize of approximately ¥105 million for the year ended 30 June 2015 as a result of termination of contracts with four then G-prize wholesalers in June 2015.

We recorded other net losses of approximately ¥131 million for the year ended 30 June 2016 compared to other net gains of approximately ¥182 million for the year ended 30 June 2015, mainly due to changes in fair value for financial assets at fair value through profit or loss and loss on disposal of certain financial assets.

We then recorded other net gains of approximately ¥71 million for the four months ended 31 October 2016 compared to other net losses of approximately ¥132 million for the four months ended 31 October 2015, mainly due to changes in fair value for financial assets at fair value through profit or loss.

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Hall operating expenses

Hall operating expenses consisted primarily of pachinko and pachislot machines expenses, rental expenses, employee benefit costs for hall operations and others. The following table sets forth the breakdown of hall operating expenses for the periods indicated.

| | Year ended 30 June | | | | | | Four months ended 31 October | | | |
|---|--------------------|--------------|--------------|--------------|--------------|--------------|------------------------------|--------------|--------------|--------------|
| | 2014 | | 2015 | | 2016 | | 2015 | | 2016 | |
| | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % |
| | (Unaudited) | | | | | | | | | |
| Pachinko and pachislot machines expenses . . . | 5,719 | 49.8 | 4,499 | 47.4 | 3,330 | 41.0 | 1,364 | 45.7 | 1,210 | 42.5 |
| Employee benefit costs . . . | 1,093 | 9.5 | 1,012 | 10.7 | 983 | 12.1 | 338 | 11.3 | 386 | 13.6 |
| Operating lease rental expense in respect of land and buildings | 1,121 | 9.8 | 1,050 | 11.1 | 1,046 | 12.9 | 344 | 11.5 | 370 | 13.0 |
| Depreciation and amortisation | 781 | 6.8 | 702 | 7.4 | 625 | 7.7 | 219 | 7.4 | 208 | 7.3 |
| Advertising and promotion expenses | 622 | 5.4 | 542 | 5.7 | 446 | 5.5 | 161 | 5.4 | 137 | 4.8 |
| Outsourcing service expenses ⁽¹⁾ | 431 | 3.8 | 389 | 4.1 | 390 | 4.8 | 140 | 4.7 | 114 | 4.0 |
| Equipment and consumables costs | 297 | 2.6 | 182 | 1.9 | 197 | 2.4 | 81 | 2.7 | 56 | 2.0 |
| Utilities expenses | 411 | 3.6 | 379 | 4.0 | 340 | 4.2 | 128 | 4.3 | 123 | 4.3 |
| G-prize procurement expenses to wholesalers | 207 | 1.8 | 204 | 2.2 | 221 | 2.7 | 76 | 2.6 | 73 | 2.6 |
| Others ⁽²⁾ | 795 | 6.9 | 527 | 5.5 | 551 | 6.7 | 131 | 4.4 | 170 | 5.9 |
| | <u>11,477</u> | <u>100.0</u> | <u>9,486</u> | <u>100.0</u> | <u>8,129</u> | <u>100.0</u> | <u>2,982</u> | <u>100.0</u> | <u>2,847</u> | <u>100.0</u> |

Notes:

- (1) The amount represents expenses paid to external staff agencies for our hall staff mainly for regions other than Kyushu region. The external staff agencies are responsible for recruiting experienced staff and outsource their services to us. Employment contracts are signed between the staff agencies and employees.
- (2) Others mainly represents (i) commission expenses for debit card company and IC card company; (ii) management expenses mainly for security and cleaning services provided for our pachinko halls; and (iii) repair and maintenance costs for our halls.

Our hall operating expenses amounted to approximately ¥11,477 million, ¥9,486 million, ¥8,129 million, ¥2,982 million and ¥2,847 million for the three years ended 30 June 2016 and the four months ended 31 October 2015 and 2016, respectively. As a percentage of total revenue, our hall operating expenses experienced a decreasing trend, accounting for approximately 88.4%, 84.4% and 80.5% during the years ended 30 June 2014, 2015 and 2016, respectively, primarily attributable to the decreasing amount of pachinko and pachislot

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machines expenses during the Track Record Period. Our hall operating expenses as a percentage to our total revenue increased from approximately 82.4% for the four months ended 31 October 2015 to approximately 92.9% for the four months ended 31 October 2016 mainly due to the preparation for new hall openings as further elaborated below.

During the Track Record Period, pachinko and pachislot machines expenses accounted for approximately 49.8%, 47.4%, 41.0%, 45.7% and 42.5% for the three years ended 30 June 2016 and the four months ended 31 October 2015 and 2016, to our total hall operating expenses, respectively. Such expenses amounted to a significant portion for each period as we generally replaced old machines with latest editions as and when necessary, generally taking into account (i) the popularity of each type of machine; and (ii) the diversity of machine composition in each hall. During the Track Record Period, the machine lifetime generally ranged from two months to one year in order to boost customer traffic. Such expenses was also dependent on the timing and frequency of new machines releases from our machine suppliers.

Our hall operating expenses decreased by approximately ¥1,991 million or 17.3% to approximately ¥9,486 million for the year ended 30 June 2015 from approximately ¥11,477 million for the year ended 30 June 2014 partly as a result of closure of one hall in regions other than Kyushu region in September 2014. The decrease in hall operating expenses was also partly due to (i) decrease in pachinko and pachislot machines expenses of approximately ¥1,220 million in view of decrease in number of new pachinko and pachislot machines purchased; (ii) decrease in other expenses, in particular, our repair and maintenance expense which is included under the item “Others”, and equipment and consumables costs by approximately ¥116 million and ¥115 million, respectively, as we did not undertake major hall renewal in the year ended 30 June 2015; and (iii) decrease in rental expenses of ¥71 million as we closed one of our halls and terminated the relevant lease agreement in the year ended 30 June 2015.

Our hall operating expenses then decreased by approximately ¥1,357 million or 14.3% to approximately ¥8,129 million for the year ended 30 June 2016 from approximately ¥9,486 million for the year ended 30 June 2015, mainly due to (i) decrease in pachinko and pachislot machines expenses of approximately ¥1,169 million in line with a reduction in machine turnover ratio of our Group from approximately 1.5 times for the year ended 30 June 2015 to approximately 1.1 times for the year ended 30 June 2016 (for further details of our Group’s machine turnover ratio during the Track Record Period, please refer to the paragraph headed “Machine turnover” under the section headed “Business” of this prospectus). Our Group generally replaced old machines with the latest editions on a regular basis in order to boost customer traffic and a higher machine turnover usually signifies more intense competition in the area surrounding the pachinko halls. As such, machine expenses are dependent on the timing and frequency of new machine released by our Group’s machine suppliers as well as the competitive landscape in the surrounding area of the halls. In light of the announcements of the withdrawal of machines initiated by the Machine Association in the first half of 2016 corresponding to the Amended Voluntary Regulations, machines suppliers generally released

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new machines (with reduced machine jackpot size) in the second half of calendar year 2016, which was the main reason leading to the Group's decrease in pachinko and pachislot machine expenses during the year ended 30 June 2016; and (ii) decrease in advertising and promotion expenses of approximately ¥96 million.

Our hall operating expenses then slightly decreased by approximately ¥135 million or 4.5% to approximately ¥2,847 million for the four months ended 31 October 2016 from approximately ¥2,982 million in the corresponding period in 2015, mainly due to (i) decrease in pachinko and pachislot machines expenses of approximately ¥154 million as a result of the slowdown in machines replacement following the Amended Voluntary Regulations and the related announcements; and (ii) decrease in advertising and promotion expenses of approximately ¥24 million. Despite the total hall operating expenses decreased for the period ended 31 October 2016, the total hall operating expenses as a percentage to our total revenue increased to approximately 92.9% compared to approximately 82.4% of the previous period mainly due to (i) increase in operating lease rental expenses in respect of land and buildings for our new hall which lease term commenced in October 2016 whereas revenue to be generated therefrom commenced in December 2016 following the hall opening; and (ii) increase in expenses categorised under "Others" mainly due to increase in repair and maintenance of our certain halls for renewal.

Administrative and other operating expenses

Administrative and other operating expenses consisted primarily of employee benefit costs for administrative staff and outsourcing services expenses. The following table sets forth the breakdown of administrative and other expenses for the periods indicated.

| | Year ended 30 June | | | | | | Four months ended 31 October | | | |
|--|--------------------|------|-----------|------|-----------|------|------------------------------|------|-----------|------|
| | 2014 | | 2015 | | 2016 | | 2015 | | 2016 | |
| | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % |
| | (Unaudited) | | | | | | | | | |
| Employee benefit costs . . . | 409 | 44.3 | 746 | 53.9 | 606 | 43.1 | 260 | 52.3 | 206 | 50.6 |
| Listing expenses | — | — | 53 | 3.8 | 379 | 27.0 | 90 | 18.1 | 96 | 23.6 |
| Depreciation and amortisation | 74 | 8.0 | 78 | 5.6 | 95 | 6.8 | 32 | 6.5 | 24 | 6.0 |
| Operating lease rental expense in respect of land and buildings ⁽¹⁾ . . . | 42 | 4.6 | 54 | 3.9 | 58 | 4.1 | 19 | 3.8 | 7 | 1.7 |
| Legal and professional fees ⁽²⁾ | 28 | 3.0 | 58 | 4.2 | 52 | 3.7 | 10 | 2.0 | 11 | 2.7 |
| Travel expenses | 21 | 2.3 | 43 | 3.1 | 43 | 3.1 | 13 | 2.6 | 10 | 2.5 |
| Outsourcing service expenses ⁽³⁾ | 128 | 13.9 | 151 | 10.9 | 33 | 2.3 | 17 | 3.4 | 5 | 1.2 |
| Other taxes and duties . . . | 30 | 3.3 | 30 | 2.2 | 31 | 2.2 | 3 | 0.6 | 2 | 0.52 |

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| | Year ended 30 June | | | | | | Four months ended 31 October | | | |
|--|--------------------|--------------|--------------|--------------|--------------|--------------|------------------------------|--------------|------------|--------------|
| | 2014 | | 2015 | | 2016 | | 2015 | | 2016 | |
| | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % |
| | (Unaudited) | | | | | | | | | |
| Equipment and consumables costs | 15 | 1.6 | 7 | 0.5 | 8 | 0.6 | 1 | 0.2 | 1 | 0.2 |
| Utilities expenses | 5 | 0.5 | 6 | 0.4 | 6 | 0.4 | 2 | 0.4 | 2 | 0.5 |
| Insurance fee | 8 | 0.9 | 5 | 0.4 | 4 | 0.3 | 1 | 0.2 | 1 | 0.2 |
| Advertising and promotion expenses | 6 | 0.7 | 6 | 0.4 | — | — | — | — | — | — |
| Repair and maintenance | 4 | 0.4 | 1 | 0.1 | 3 | 0.2 | 1 | 0.2 | 2 | 0.5 |
| Impairment loss of property, plant and equipment | 12 | 1.3 | — | — | — | — | 14 | 2.8 | — | — |
| Others ⁽⁴⁾ | 141 | 15.2 | 147 | 10.6 | 87 | 6.2 | 34 | 6.9 | 40 | 9.8 |
| | <u>923</u> | <u>100.0</u> | <u>1,385</u> | <u>100.0</u> | <u>1,405</u> | <u>100.0</u> | <u>497</u> | <u>100.0</u> | <u>407</u> | <u>100.0</u> |

Notes:

- (1) The amount mainly represents rental expenses in relation to our (i) warehouses for storing our uninstalled pachinko and pachislot machines; (ii) head office in Nagasaki Prefecture; and (iii) office area in Hong Kong.
- (2) The amount mainly represents professional fees paid to our legal advisers, tax adviser and accounting firms in connection with our Group's business operation.
- (3) The amount mainly represents the outsourcing fees incurred in relation to translation services and general consulting services.
- (4) Others mainly represents miscellaneous expenses which mainly includes expenses incurred in relation to our non-pachinko hall operations, including our consulting, advertising and household services, entertainment expenses and carpark management fee for certain of our halls.

Our administrative and other operating expenses amounted to approximately ¥923 million, ¥1,385 million, ¥1,405 million, ¥497 million and ¥407 million for the three years ended 30 June 2016 and the four months ended 31 October 2015 and 2016, respectively.

Our administrative and other operating expenses increased by approximately ¥462 million or 50.1% to approximately ¥1,385 million for the year ended 30 June 2015 from approximately ¥923 million for the year ended 30 June 2014 mainly as a result of (i) increase in employee benefit costs of approximately ¥337 million which included ¥150 million as payment made to the then shareholder of Adward and Aratoru for remuneration of his past service and as part of the acquisition consideration (please refer to the section headed "History and Development" of this prospectus for details); (ii) Listing expenses of approximately ¥53 million compared to nil in the previous period; (iii) increase in legal and professional fee of approximately ¥30 million; and (iv) increase in rental expenses of approximately ¥12 million mainly for a staff quarter newly rented in December 2014.

Our administrative and other operating expenses slightly increased by approximately ¥20 million or 1.4% to approximately ¥1,405 million for the year ended 30 June 2016 from approximately ¥1,385 million for the year ended 30 June 2015 mainly as a result of the

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increase in Listing expenses of approximately ¥326 million during the year ended 30 June 2016. Such increase was partially offset by (i) decrease in employee benefit costs of approximately ¥140 million mainly due to the absence of payment made to the then shareholder of Adward and Aratoru of approximately ¥150 million as abovementioned; and (ii) decrease in outsourcing services expenses of approximately ¥118 million with related companies held by the then shareholder of Adward and Aratoru.

Our administrative and other operating expenses decreased by approximately ¥90 million or 18.1% to approximately ¥407 million for the four months ended 31 October 2016 from approximately ¥497 million for the four months ended 31 October 2015 mainly as a result of (i) decrease in employee benefit costs of approximately ¥54 million for the four months ended 31 October 2016 due to the reduction of machine number for a hall in regions other than Kyushu region by two storeys as we subleased the area to an internet cafe operator since May 2016; and (ii) absence of impairment loss of property, plant and equipment. Please refer to the paragraph headed “Property, plant and equipment” in this section for details.

Finance costs, net

Net finance costs represented finance income net of finance costs. Finance income consisted of interest income derived from deposits and debt securities. Finance costs comprised mainly of finance costs for obligations under finance lease in relation to our halls and interest expenses on our interest-bearing bank borrowings and bonds issued. The following table sets forth a breakdown of our net finance costs for the periods indicated.

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|--------------|--------------|---------------------------------|-------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million |
| | | | | (Unaudited) | |
| Finance income | | | | | |
| Interest income | 41 | 35 | 21 | 11 | — |
| Interest from debt securities | 40 | 26 | 4 | 3 | 1 |
| | <u>81</u> | <u>61</u> | <u>25</u> | <u>14</u> | <u>1</u> |
| Finance costs | | | | | |
| Obligations under finance leases. | (215) | (204) | (193) | (67) | (62) |
| Bank borrowings interest expenses | (98) | (65) | (47) | (16) | (12) |
| Bond interest expenses | (4) | (3) | (3) | (1) | (1) |
| Others | (4) | (5) | (6) | (1) | (1) |
| | <u>(321)</u> | <u>(277)</u> | <u>(249)</u> | <u>(85)</u> | <u>(76)</u> |
| Finance costs, net | <u>(240)</u> | <u>(216)</u> | <u>(224)</u> | <u>(71)</u> | <u>(75)</u> |

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Net finance costs amounted to approximately ¥240 million, ¥216 million, ¥224 million, ¥71 million and ¥75 million for the three years ended 30 June 2016 and the four months ended 31 October 2015 and 2016, respectively.

Our net finance costs decreased by approximately ¥24 million or 10.0% to approximately ¥216 million for the year ended 30 June 2015 from approximately ¥240 million for the year ended 30 June 2014 mainly due to the combined effect of (i) decrease in interest income from debt securities of approximately ¥14 million due to disposal of certain debt securities; (ii) decrease in interest income from bank deposit of approximately ¥6 million in line with the decrease in average bank balances; and (iii) decrease in bank borrowings interest expenses of approximately ¥33 million due to repayment of bank borrowings.

Our net finance costs increased by approximately ¥8 million or 3.7% to approximately ¥224 million for the year ended 30 June 2016 from approximately ¥216 million for the year ended 30 June 2015, mainly as a result of decrease in interest from debt securities of approximately ¥22 million as we disposed some of our debt securities during the year ended 30 June 2016.

Our net finance costs remained relatively stable at approximately ¥71 million and ¥75 million for the four months ended 31 October 2015 and 2016, respectively.

Income tax expenses

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made during the Track Record Period as the Group did not generate any assessable profits arising in Hong Kong during the Track Record Period.

(ii) Japan corporate income tax

Our Group is subject to national corporate income tax, inhabitants tax, and enterprise tax in Japan. Japan corporate income tax has been calculated on the estimated assessable profit for the Track Record Period at the prevailing tax rate in Japan in which the Group operates.

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The following table sets forth the applicable tax rate for us during the Track Record Period and the formula in calculating each type of tax as confirmed by our Directors after consulting an independent tax adviser:

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|--------------------|--------------------|---------------------------------|--------------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | % | % | % | % | % |
| Corporate tax rate: | 25.5 | 25.5 | 23.9 | 23.9 | 23.4 |
| Local corporate tax rate: | N/A ⁽¹⁾ | N/A ⁽¹⁾ | 4.4 | 4.4 | 4.4 |
| Temporary restoration corporate surtax | 10.0 | N/A ⁽²⁾ | N/A ⁽²⁾ | N/A ⁽²⁾ | N/A ⁽²⁾ |
| Enterprise tax rate (長崎県): | | | | | |
| (1) Profit-based tax rate: | 5.3 | 5.3 | 6.7 | 6.7 | 6.7 |
| (2) Special local corporate tax rate : | 81.0 | 81.0 | 43.2 | 43.2 | 43.2 |
| Inhabitants tax rate: | | | | | |
| Prefecture tax (長崎県) | 5.8 | 5.8 | 4.0 | 4.0 | 4.0 |
| Nagasaki city (長崎市) | 14.7 | 14.7 | 12.1 | 12.1 | 12.1 |
| Effective statutory tax rate. | 39.1 | 36.8 | 35.0 | 35.0 | 34.5 |

Notes:

- (1) Tax pertaining to each fiscal year's income obtained by companies such as an incorporated company. This tax is imposed on fiscal years beginning after 1 October 2014.
- (2) The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on 31 March 2014 and, as a result, the Company is no longer subject to Temporary Restoration Corporation Surtax effective for fiscal years beginning on or after 1 April 2014.

The formulas for calculating each type of taxes are:

1. **Corporate tax** = (Taxable income x Corporate tax rate) + Accumulated earnings tax - Income tax credit (Note i)
2. **Temporary restoration corporate surtax** = (Taxable income x Corporate tax rate) x Restoration surtax rate
3. **Inhabitants tax** = (Corporate tax + Income tax credit) x Inhabitants tax rate + Inhabitants tax on per capital basis (Note ii)
4. **Enterprise tax** is calculated as the sum of the followings:
 - (1) **Profit-based tax** = Taxable income x Profit-based tax rate
 - (2) **Special local corporate tax** = Taxable income x Special local corporate tax rate (Note iii)

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5. Effective statutory tax rate is calculated as:

$$\frac{\text{Corporate tax rate} \times (1 + \text{Restoration corporation surtax}) + \text{Inhabitants tax rate} + \text{Enterprise tax rate}}{1 + \text{Enterprise tax rate}}$$

During the Track Record Period, our Group's effective statutory income tax rates were approximately 39.1%, 36.8%, 35.0%, 35.0% and 34.5% for three years ended 30 June 2016 and the four months ended 31 October 2015 and 2016, respectively. The decrease in our Group's effective statutory income tax rates during the Track Record Period was due to our Group no longer being subject to the temporary restoration corporation surtax from fiscal years beginning on or after 1 April 2014. Also, the corporate tax rate of Japan was reduced from 25.5% to 23.9% for fiscal years beginning on or after 1 April 2015. During the three years ended 30 June 2016, our Group's effective tax rate was higher than the applicable statutory tax rate due to movements in deferred income tax arising from Reorganisation in preparation for the Listing.

Notes:

- (i) Accumulated earnings tax = Taxable undistributed current earnings x Progressive accumulated earnings tax rates as follow:
 - a. First ¥ 30 million 10% per annum
 - b. Next ¥ 70 million 15% per annum
 - c. Over ¥100 million 20% per annum
- (ii) Inhabitants tax on per capital basis is determined by the local government by the factors of paid-in capital and the number of employees
- (iii) Special local corporate tax rate = Profit based-rate x 148%

Income tax expense increased by approximately ¥299 million or 43.8% to ¥981 million for the year ended 30 June 2015 from ¥682 million for the year ended 30 June 2014. The reason for the increase in effective tax rate from 40.3% for the year ended 30 June 2014 to 62.8% for the year ended 30 June 2015 was mainly due to the following factors:

- (i) Recognition of deferred income tax liabilities arising from withholding income tax which resulted in an increase in income tax of ¥629 million. As part of the Reorganisation, our Company was incorporated in Hong Kong on 16 June 2015 to serve as the listing vehicle of our Group. The dividend distributed to our Company from members of our Group is subject to 5.0% withholding income tax pursuant to Japan tax law as the dividend recipient was incorporated outside Japan. The income tax of ¥629 million was calculated at 5.0% of the distributable reserve of our Group's subsidiaries as at 30 June 2015. Subsequent to the Reorganisation, deferred income tax attributable to the distributable reserve of our Group is remeasured as at each reporting date.
- (ii) Increase in recognition or utilisation of deferred income tax assets in connection with previously unrecognised deductible temporary differences and tax losses, and

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current year tax losses for the year ended 30 June 2015, resulting in a decrease in income tax of ¥310 million. As a result of the merger of subsidiaries as part of the Reorganisation as described in the paragraph headed “Reorganisation” under the section headed “History and Development” of this prospectus, certain surviving companies with future taxable profit can utilise the tax losses and unrecognised deductible temporary differences of certain dissolved companies.

- (iii) During the year ended 30 June 2015, there was an increase in deductible temporary differences not recognised. The deductible temporary differences arise from subsidiaries that are not probable to have future taxable profit to utilise the deductible temporary difference.

Setting aside the above factors, the effective tax rate of our Group for the year ended 30 June 2015 would be 40.7% which is comparable with that of 40.3% for the year ended 30 June 2014.

Income tax expense decreased by approximately ¥557 million or 56.8% to ¥424 million for the year ended 30 June 2016 from approximately ¥981 million for the year ended 30 June 2015. The decrease was mainly due to decrease in profit before income tax of approximately ¥535 million and the decrease in effective tax rate. The effective tax rate decreased from approximately 62.8% for the year ended 30 June 2015 to approximately 41.2% for the year ended 30 June 2016.

Income tax expense decreased by approximately ¥53 million or 74.6% to approximately ¥18 million for the four months ended 31 October 2016 from approximately ¥71 million for the four months ended 31 October 2015. The decrease was mainly due to decrease in profit before income tax of approximately ¥135 million. The effective tax rate remained relatively stable at approximately 39.7% and 40.9% for the four months ended 31 October 2015 and 2016, respectively.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our income tax obligations and have not had any unresolved income tax issues or disputes with the relevant tax authorities save as disclosed in the paragraph headed “Historical compliance matters” under the section headed “Business” of this prospectus.

Profit for the year/period

Profit for the year decreased by approximately ¥427 million or 42.3% to approximately ¥582 million for the year ended 30 June 2015 from approximately ¥1,009 million for the year ended 30 June 2014 and our net profit margin decreased to approximately 5.2% for the year ended 30 June 2015 from approximately 7.8% for the year ended 30 June 2014. This was mainly due to (i) decrease in revenue from our pachinko and pachislot business as a result of closure of two halls in April and September 2014, respectively, and decrease in customer traffic; (ii) increase in expenses mainly in relation to the Listing; (iii) increase in income tax

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expenses arising from the Reorganisation undertaken by our Group in preparation for the Listing during the year (please refer to the paragraph headed “Income tax expenses” in this section for further details); and (iv) increase in employment benefit expenses as explained above.

Our profit for the year increased by approximately ¥22 million or 3.8% to ¥604 million for the year ended 30 June 2016 from approximately ¥582 million for the year ended 30 June 2015. Our net profit margin increased to approximately 6.0% for the year ended 30 June 2016 from approximately 5.2% for the year ended 30 June 2015 which was mainly due to a particularly low net profit for the year ended 30 June 2015 arising from the one-off income tax expenses arising from the Reorganisation undertaken by our Group as mentioned above. It is noted that our Group’s net profit was negatively affected by (i) a reduction in revenue as mentioned above; (ii) our Group incurred other losses amounted to approximately ¥131 million for the year ended 30 June 2016, mainly due to the losses on fair value for financial assets at fair value through profit or loss amounted to approximately ¥109 million, compared to other gains amounted to approximately ¥182 million for the year ended 30 June 2015; and (iii) an increase in Listing expenses of approximately ¥326 million from approximately ¥53 million for the year ended 30 June 2015 to approximately ¥379 million for the year ended 30 June 2016.

Our profit for the period decreased by approximately ¥82 million or 75.9% to ¥26 million for the four months ended 31 October 2016 from approximately ¥108 million for the four months ended 31 October 2015. Our net profit margin decreased to approximately 0.8% for the four months ended 31 October 2016 from approximately 3.0% for the four months ended 31 October 2015 which was mainly due to the combined effect of (i) decrease in revenue of approximately 15.4% as a result of decrease in customer traffic as well as a fall in number of machines as a result of subletting part of a pachinko hall premises; and (ii) hall operating expenses remaining stable despite lower revenue mainly due to the expenses incurred for the preparation of new hall in the Chugoku region, which had commenced its operation in December 2016. Thus, despite the improved revenue margin as a result of imposition of G-prize mark-up and decrease in income tax expense, our net profit margin decreased to approximately 0.8% for the four months ended 31 October 2016 from approximately 3.0% for the corresponding period in 2015.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

Our primary uses of cash are for the payment of hall operations, staff costs, various operating expenses, fund and repayments of our interest and principal of bank borrowings and capital expenditure and have been funded through a combination of cash generated from our operations, bank borrowings and advances and loans from our Directors. Upon completion of the Share Offer, we currently expect that there will not be any material change in the sources and usage of cash of our Group in the future, except that (i) we will not have advances and loans from our Directors; and (ii) we expect to have additional funds from proceeds of the Share Offer for implementing our future plans as detailed under the section headed “Future

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Plans and Proposed Use of Proceeds” of this prospectus. The following table summarises, for the periods indicated, our statements of cash flows.

| | Year ended 30 June | | | Four months ended 31 October | |
|--|---------------------|---------------------|---------------------|---------------------------------|---------------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million |
| Net cash generated from operating activities | 2,406 | 1,737 | 828 | 285 | 490 |
| Net cash (used in)/generated from investing activities | (703) | (583) | 3,440 | (137) | (137) |
| Net cash used in financing activities | <u>(751)</u> | <u>(1,693)</u> | <u>(5,480)</u> | <u>(394)</u> | <u>(532)</u> |
| Net increase/(decrease) in cash and cash equivalents | 952 | (539) | (1,212) | (246) | (179) |
| Cash and cash equivalents at beginning of year/period | <u>2,153</u> | <u>3,105</u> | <u>2,566</u> | <u>2,566</u> | <u>1,354</u> |
| Cash and cash equivalents at end of year/period | <u><u>3,105</u></u> | <u><u>2,566</u></u> | <u><u>1,354</u></u> | <u><u>2,320</u></u> | <u><u>1,175</u></u> |

Operating activities

During the Track Record Period, our cash inflow from operating activities was principally receipt of cash from our operation of pachinko halls and other business. Our cash outflow used in operating activities was principally for the use of hall operations, staff costs, and various operating expenses.

For the year ended 30 June 2014, our Group recorded net cash generated from operating activities of approximately ¥2,406 million, mainly as a result of the profit before tax of approximately ¥1,691 million generated during the year, which was primarily adjusted for (i) non-cash depreciation of approximately ¥853 million; (ii) impairment loss for property, plant and equipment of approximately ¥151 million; and (iii) decrease in inventories of approximately ¥196 million mainly due to decrease in number of uninstalled machines. The amount was partially offset by (i) an interest expenses of approximately ¥321 million; and (ii) income tax paid of approximately ¥798 million.

For the year ended 30 June 2015, our Group had net cash generated from operating activities of approximately ¥1,737 million, mainly as a result of profit before tax of approximately ¥1,563 million, which was primarily adjusted for non-cash depreciation of approximately ¥774 million, partially offset by the adjustments on (i) gains on fair value change on financial assets through profit and loss of approximately ¥179 million; and (ii) income tax paid of approximately ¥681 million. Our net cash generated from operating activities decreased by approximately ¥669 million compared to previous year which was in line with decrease in cash generated from operations due to closures of two halls.

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For the year ended 30 June 2016, our Group had net cash generated from operating activities of approximately ¥828 million, mainly due to profit before tax of approximately ¥1,028 million, which was primarily adjusted for (i) non-cash depreciation of approximately ¥698 million; and (ii) interest expenses of approximately ¥249 million. The amount was partially offset by the decrease in (i) accruals, provisions and other payables of approximately ¥131 million mainly due to other taxes payable; and (ii) income tax paid of approximately ¥1,126 million. Our net cash generated from operating activities decreased by approximately ¥909 million compared to previous year which was in line with decrease in cash generated from operations due to decrease in customer traffic. Such decrease was further enhanced by tax paid of ¥1,126 million for our assessable profits and one-off withholding tax paid in relation to payment of dividends.

For the four months ended 31 October 2016, our Group had net cash generated from operating activities of approximately ¥490 million, mainly as a result of profit before tax of approximately ¥44 million, which was primarily adjusted for (i) non-cash depreciation of approximately ¥224 million; and (ii) interest expenses of approximately ¥76 million. The amount was partially offset by the increase in prepayments, deposit and other receivables of approximately ¥144 million mainly due to increase in rental deposits paid for our new hall in Chugoku region which lease term commenced in October 2016. Our net cash generated from operating activities increased by approximately ¥205 million compared to previous period which was due to the combined effect of (i) decrease in cash generated from operations; and (ii) income tax refund of approximately ¥308 million due to decreases in our tax provision as a result of decrease in profit before tax.

Investing activities

During the Track Record Period, our cash inflow from investing activities was principally proceeds from disposal of financial assets. Our cash outflow used in investing activities was principally for purchase of financial assets, property, plant and equipment and acquisition of a subsidiary.

For the year ended 30 June 2014, our Group had net cash used in investing activities of approximately ¥703 million primarily attributable to (i) the purchase of financial assets that categorised under “financial assets at fair value through profit or loss” of approximately ¥961 million; (ii) repayments of amounts due to a director and a shareholder of approximately ¥594 million; and (iii) the purchase of property, plant and equipment of approximately ¥392 million for equipment and tools for our hall renovation in the Kansai region. This was partially offset by (i) the proceeds from disposal of property, plant and equipment and investment properties of approximately ¥585 million; and (ii) the decrease in time deposits of approximately ¥412 million.

For the year ended 30 June 2015, our Group had net cash used in investing activities of approximately ¥583 million, representing a decrease of approximately ¥120 million from approximately ¥703 million for the year ended 30 June 2014, primarily attributable to proceeds from disposal of financial assets that categorised under “financial assets at fair value through profit or loss” of approximately ¥978 million, partially offset by purchase of financial assets at fair value through profit or loss of approximately ¥1,672 million.

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For the year ended 30 June 2016, our Group had net cash generated from investing activities of approximately ¥3,440 million, representing an increase of approximately ¥4,023 million from an outflow of approximately ¥583 million for the year ended 30 June 2015, primarily attributable to proceeds from disposal of financial assets at fair value through profit or loss of approximately ¥1,708 million and repayment of amount due from the Controlling Shareholder and his related parties of approximately ¥1,485 million.

For the four months ended 31 October 2016, our Group had net cash used in investing activities of approximately ¥137 million, which remained stable when compared to a net cash used in investing activities of approximately ¥137 million for the four months ended 31 October 2015. Our investing activities consisted purchase of property, plants and equipment of approximately ¥160 million for our hall renewal and improvement of pachinko halls' operating system. The amount was partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of approximately ¥23 million.

Financing activities

During the Track Record Period, our cash inflow from financing activities was principally proceeds from bank borrowings and advances from directors and related parties. Our cash outflow used in financing activities was principally for repayment of bank borrowings and repayment to directors and related parties.

For the year ended 30 June 2014, our Group had net cash used in financing activities of approximately ¥751 million primarily attributable to (i) repayment of bank borrowings of approximately ¥610 million; and (ii) repayment of obligations under finance leases of approximately ¥341 million. The amount was partially offset by new bank borrowings of approximately ¥218 million.

For the year ended 30 June 2015, our Group had net cash used in financing activities of approximately ¥1,693 million, representing an increase of approximately ¥942 million from approximately ¥751 million for the year ended 30 June 2014, primarily attributable to the repayment of bank borrowings and obligations under finance lease in relation to our halls of approximately ¥1,766 million and ¥205 million, respectively. The amount was partially offset by the proceeds from new bank borrowings of approximately ¥611 million.

For the year ended 30 June 2016, our Group had net cash used in financing activities of approximately ¥5,480 million, representing an increase of approximately ¥3,787 million from approximately ¥1,693 million for the year ended 30 June 2015, primarily attributable to (i) dividends paid of approximately ¥4,740 million in December 2015; and (ii) repayment of bank borrowings of approximately ¥2,434 million. The amount was partially offset by the proceeds from new bank borrowings of approximately ¥2,157 million.

For the four months ended 31 October 2016, our Group had net cash used in financing activities of approximately ¥532 million, representing an increase of approximately ¥138 million from approximately ¥394 million for the four months ended 31 October 2015, primarily attributable to repayment of bank borrowings and obligations under finance leases of approximately ¥546 million and ¥55 million, respectively. The amount was partially offset by the proceeds from new bank borrowings of approximately ¥100 million.

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Net current assets

We recorded net current assets of approximately ¥3,900 million, ¥4,203 million, ¥317 million, ¥183 million and ¥253 million as at 30 June 2014, 2015 and 2016, 31 October 2016 and 28 February 2017, respectively. The table below sets out selected information of our current assets and current liabilities as of the dates indicated, respectively.

| | As at 30 June | | | As at 31 October | As at 28 February |
|--|---------------------|---------------------|-------------------|---------------------|--------------------------|
| | 2014 | 2015 | 2016 | 2016 | 2017 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million (Unaudited) |
| Current assets | | | | | |
| Inventories | 100 | 82 | 101 | 44 | 45 |
| Trade receivables | 2 | — | — | — | — |
| Prepayments, deposits and other receivables | 611 | 557 | 515 | 594 | 1,168 |
| Amounts due from related parties | 1,915 | 1,485 | — | — | — |
| Financial assets at fair value through profit or loss | 1,019 | 1,792 | 225 | 267 | 62 |
| Income tax recoverable | 18 | 863 | 445 | 7 | 77 |
| Short-term bank deposits | 684 | 500 | 100 | 100 | — |
| Cash and cash equivalents | <u>3,105</u> | <u>2,566</u> | <u>1,354</u> | <u>1,175</u> | <u>1,097</u> |
| | <u>7,454</u> | <u>7,845</u> | <u>2,740</u> | <u>2,187</u> | <u>2,449</u> |
| Current liabilities | | | | | |
| Borrowings | 1,406 | 862 | 953 | 591 | 737 |
| Trade payables | 33 | 27 | 23 | 25 | 23 |
| Accruals, provisions and other payables | 1,463 | 1,315 | 1,180 | 1,152 | 1,233 |
| Loan from related parties | 183 | 162 | — | — | — |
| Amounts due to related parties | 47 | — | 1 | — | — |
| Obligations under finance leases | 205 | 179 | 171 | 175 | 199 |
| Current income tax liabilities | <u>217</u> | <u>1,097</u> | <u>95</u> | <u>61</u> | <u>4</u> |
| | <u>3,554</u> | <u>3,642</u> | <u>2,423</u> | <u>2,004</u> | <u>2,196</u> |
| Net current assets | <u><u>3,900</u></u> | <u><u>4,203</u></u> | <u><u>317</u></u> | <u><u>183</u></u> | <u><u>253</u></u> |

Our Group's net current assets increased from approximately ¥3,900 million as at 30 June 2014 to approximately ¥4,203 million as at 30 June 2015 primarily due to (i) increase in current portion of financial assets at fair value through profit or loss of approximately ¥773 million due to increase in our unlisted debt securities of approximately ¥961 million; (ii) increase in income

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tax recoverable of approximately ¥845 million mainly as a result of withholding tax paid on 5.0% of distributable earnings for investment in subsidiaries; and (iii) decrease in bank borrowings of approximately ¥544 million. The amount was partially offset by the increase in current income tax liabilities of approximately ¥880 million due to increase in our withholding tax payables.

Our Group's net current assets then decreased to approximately ¥317 million as at 30 June 2016. The decrease was mainly due to (i) the payment of dividend of approximately ¥4,740 million; and (ii) decrease in financial assets at fair value through profit or loss of approximately ¥1,567 million from approximately ¥1,792 million as at 30 June 2015 to approximately ¥225 million as at 30 June 2016, primarily due to the disposal of financial assets, which was then partially offset by the decrease in current income tax liabilities of approximately ¥1,002 million due to decrease in our withholding tax payable and income tax paid of approximately ¥1,126 million.

Our Group's net current assets then further decreased to approximately ¥183 million as at 31 October 2016. The decrease was primarily due to decrease in income tax recoverable of approximately ¥438 million mainly as a result of tax refund and decrease in profit before tax.

Our Group's net current assets then increased to approximately ¥253 million as at 28 February 2017. This was mainly attributable to an increase in prepayments, deposits and other receivables of approximately ¥574 million mainly due to the reclassification of non-current rental deposit to current portion since the lease term of one of our halls is expiring in January 2018. The increase in net current assets is partially offset by the increase in newly drawn down borrowings between October 2016 and February 2017 mainly relating to the acquisition of property in Nagasaki, completion of which took place in February 2017.

As disclosed in the paragraph headed "Entry barriers to the pachinko industry" under the section headed "Industry Overview" of this prospectus and the paragraph headed "Our business may be subject to fluctuations in financial performance due to the timing of new hall openings" under the section headed "Risk Factors" of this prospectus, the pachinko hall operation business is capital intensive, particularly during the period leading up to the opening of new halls, when significant expenses such as machine expenses or acquisition costs of property (where halls are to be established in self-owned properties) would be incurred while revenue will only be generated after the hall commenced operations. In this regard, our Group closely monitors such liquidity requirements and if consider necessary, arrange for external funding.

Sufficiency of working capital

Taking into account the financial resources available to us including internally generated funds, the available banking facilities and the estimated net proceeds from the Share Offer, our Directors are of the opinion, and the Sponsor concurs that, our Group will have sufficient working capital for our present requirements and for the next 12 months following the date of this prospectus.

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DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Non-current assets

Property, plant and equipment

During the Track Record Period, our property, plant and equipment consisted of freehold land, buildings, leasehold improvements, equipment and tools, motor vehicles and construction in progress. Our Directors reviewed the recoverable amount and determined certain of the assets of the halls were to be impaired. The recoverable amount of each hall was determined based on the value-in-use of calculations. As at 30 June 2014 and 2015, we applied five-year revenue growth rates at a range of approximately -21.5% to 29.6% and -19.9% to 29.6%, respectively, long term growth rate of 0% for both years and discount rate of 9.8% for both years in the cash flow projections we used to determine the recoverable amount throughout the Track Record Period. As at 30 June 2014, 2015 and 2016 and 31 October 2016, our property, plant and equipment amounted to approximately ¥9,308 million, ¥8,794 million, ¥8,304 million and ¥8,250 million, respectively, representing approximately 61.6%, 58.2%, 58.8% and 58.0% to our total non-current assets, respectively.

During the Track Record Period, we recorded impairment loss on property, plant and equipment of approximately ¥151 million, ¥49 million and ¥19 million for the three years ended 30 June 2016 which was mainly due to four halls were performing below our management's initial budget and continuously making operating losses, and were projected to incur losses in the future periods. Out of these four halls, impairment was made in relation to the carrying value of one hall which was closed down during the financial year ended 30 June 2015. The remaining three halls, with respective operating history of 48, 16 and 8 years, deviated from the management's initial expectation due to more intense competition in the surrounding area of the halls and resulted in a decrease in gross pay-ins. We did not recognise any impairment loss on property, plant and equipment for the four months ended 31 October 2016 as the asset's recoverable amount exceeds its carrying amount. Please refer to note 13 in section II of the Accountant's Report contained in Appendix I to this prospectus for the details of the impairment losses recognised for property, plant and equipment.

Investment properties

Our investment properties represented buildings and car parks situated in Japan which were rented out under operating lease. As at 30 June 2014, 2015 and 2016 and 31 October 2016, our investment properties amounted to approximately ¥2,387 million, ¥2,440 million, ¥2,394 million and ¥2,377 million, respectively, representing approximately 15.8%, 16.1%, 17.0% and 16.7% to our total non-current assets, respectively.

Our Group's investment properties were valued as at 30 June 2014, 2015 and 2016 and 31 October 2016 by an independent professionally qualified valuer, DTZ Cushman & Wakefield Limited, who hold a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. The valuation was determined using the investment approach, which largely used observable and unobservable inputs, including market rent, capitalisation rate and estimation in vacancy rate after expiry of current lease, or the direct comparison approach, which largely used comparables occurred in the real estate market.

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At each financial year end, our finance division (i) verifies all major inputs to the independent valuation report; (ii) assesses property valuations movements when compared to the prior year valuation report; and (iii) holds discussions with the independent valuer.

Impairment loss will be recognised by our Group where the valuation results indicate that the carrying amount of the investment properties exceed its recoverable amount. The fair value of our investment properties amounted to approximately ¥2,597 million, ¥2,687 million, ¥2,646 million and ¥2,640 million as at 30 June 2014, 2015 and 2016 and 31 October 2016, respectively. No impairment loss was recognised during the Track Record Period.

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss represents our purchase in unlisted debt securities and insurance contracts. We invested in (i) corporate bonds; (ii) bonds with fixed return; and (iii) units in a certain trust during the Track Record Period as part of our investment strategy to increase the average yield earned from the excess fund from our business. We maintained adequate balance of liquid capital and diversified our investment to control the risk. There has been no default or any impairment made to the debt securities we held in the Track Record Period. The total financial assets at fair value through profit or loss amounted to approximately ¥1,203 million, ¥2,076 million, ¥259 million and ¥310 million as at 30 June 2014, 2015 and 2016 and 31 October 2016, respectively. The decrease from approximately ¥2,076 million to ¥259 million as at 30 June 2015 and 2016, respectively, was due to the disposal of majority of our financial assets during the year ended 30 June 2016.

| | As at 30 June | | | As at 31 October |
|-------------------------------------|---------------|-----------|-----------|---------------------|
| | 2014 | 2015 | 2016 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million |
| Unlisted securities | | | | |
| - Debt securities | 1,115 | 2,076 | 259 | 310 |
| - Insurance contracts | 88 | — | — | — |
| Less: non-current portion | (184) | (284) | (34) | (43) |
| Current portion | 1,019 | 1,792 | 225 | 267 |

The changes from financial assets at fair value through profit or loss were recognised in “other gain or loss” in our financial statements. During the Track Record Period, we recorded a loss of approximately ¥40 million, gain of approximately ¥179 million, loss of approximately ¥109 million and gain of approximately ¥73 million for the three years ended 30 June 2016 and the four months ended 31 October 2016, respectively.

Financial assets at fair value through other comprehensive income

Our financial assets at fair value through other comprehensive income represented our investments in equity securities. The majority of our holdings in equity securities in the Track Record Period were listed shares of airlines company and system equipment developer for pachinko halls in Japan, etc. For investment in unlisted equity securities, those were

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investment made in industry association and club membership in the form of equity interest. We consider these investments as our strategic investment and do not have any plans to dispose of such equity securities. Hence, such shares are accounted for as financial assets at fair value through other comprehensive income in non-current assets. The total financial assets at fair value through other comprehensive income amounted to approximately ¥41 million, ¥155 million, ¥38 million and ¥42 million as at 30 June 2014, 2015 and 2016 and 31 October 2016, respectively. The decrease from approximately ¥155 million to ¥38 million as at 30 June 2015 and 2016, respectively, was due to the disposal of majority of our listed securities during the year ended 30 June 2016.

| | As at 30 June | | | As at 31 October |
|---------------------------|---------------|------------|-----------|---------------------|
| | 2014 | 2015 | 2016 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million |
| Listed securities | | | | |
| - Equity securities | 38 | 151 | 33 | 38 |
| Unlisted securities | | | | |
| - Equity securities | <u>3</u> | <u>4</u> | <u>5</u> | <u>4</u> |
| | <u>41</u> | <u>155</u> | <u>38</u> | <u>42</u> |

The changes in fair values of financial assets at fair value through other comprehensive income are recorded in “investment revaluation reserves” in the consolidated statements of change in equity. For the three years ended 30 June 2016 and the four months ended 31 October 2016, we recorded a fair value loss of approximately ¥9 million, fair value gain of approximately ¥27 million, fair value loss of approximately ¥33 million and fair value gain of approximately ¥5 million, respectively. The fair value of all equity securities is based on the current bid prices and recent transaction prices in an active market.

Investment policy

We adopted a treasury and investment policy for financial assets that set out overall principles as well as detailed approval processes of our investment activities. Such policy includes, amongst other things, the following:

- investments in low liquidity products being avoided;
- investments should be yield-earning in nature and the primary objectives of investment activities is to diversify our investment and control their risk;
- investments should be undertaken only in situations where we have surplus cash not required for short or medium term of use; and
- investments should be undertaken only to the extent that adequate liquid capital is maintained.

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Our finance division is responsible for the initial assessment and analysis on the expected benefit and potential risk of our investment activities and compiling of relevant data and information from banks. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to, our short and medium term cash requirement, the market conditions, the economic developments, the anticipated investment conditions, the investment cost, the duration of the investment and the expected benefit and potential loss of the investment.

For any investments, formal approval must be obtained from the Board of Directors before the execution or disposal of any investment. Our finance division is also responsible for reporting the status of our investment activities to the Directors regularly. The report should include the total investment return.

Prepayments, deposits and other receivables

The following table sets forth the breakdown of our prepayments, deposits and other receivables as of the dates indicated.

| | As at 30 June | | | As at |
|--|---------------|--------------|--------------|--------------|
| | | | | 31 October |
| | 2014 | 2015 | 2016 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million |
| Non-current portion | | | | |
| Rental and other deposits | 1,853 | 1,758 | 1,751 | 1,848 |
| Long-term loans | 1 | — | — | — |
| | <u>1,854</u> | <u>1,758</u> | <u>1,751</u> | <u>1,848</u> |
| Current portion | | | | |
| Prepayment for prizes in operation for pachinko halls | 225 | 166 | 167 | 183 |
| Prepaid expenses | 188 | 225 | 253 | 322 |
| Other receivables | 124 | 55 | 55 | 56 |
| Other tax receivables | — | 48 | 6 | — |
| Rental and other deposits | 120 | 63 | 34 | 33 |
| Less: allowance for impairment of other receivables | (46) | — | — | — |
| | <u>611</u> | <u>557</u> | <u>515</u> | <u>594</u> |

Rental and other deposits

Our deposits mainly comprised of rental deposits, utility and other deposits. Our total rental and other deposits decreased from approximately ¥1,973 million as at 30 June 2014 to approximately ¥1,821 million as at 30 June 2015 that was mainly attributable to (i) the repayment of the Funds by Subcontractor E, please refer to the paragraph headed “Relationship with a past G-prize buyer and a subcontractor of the past G-prize buyer” under

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the section headed “Three Party System” of this prospectus; and (ii) the decrease in rental deposits from closure of one hall in regions other than Kyushu region. The amount remained relatively stable at approximately ¥1,785 million as at 30 June 2016 and increased to approximately ¥1,881 million as at 31 October 2016 mainly due to increase in rental deposits paid for our new hall in the Chugoku region of which the lease agreement commenced in October 2016.

Prepaid expenses

Our short term prepaid expenses mainly comprised of prepaid rental expenses, prepayment of legal and professional fee and withholding tax recoverable and others. The amount increased from approximately ¥188 million as at 30 June 2014 to approximately ¥225 million as at 30 June 2015, mainly attributable to an increase in prepayment of legal and professional fee of approximately ¥45 million primarily due to fees in relation to the Listing for the year ended 30 June 2015. The amount then increased to approximately ¥253 million and ¥322 million, respectively, as at 30 June 2016 and 31 October 2016 as a result of an increase in prepayment for Listing expenses.

Other receivables

Our other receivables mainly represented receivables for disposal of our pachinko machines and receivables from household services during the Track Record Period. Our other receivables decreased from approximately ¥124 million as at 30 June 2014 to ¥55 million as at 30 June 2015 due to a write-off of receivables from a machine manufacturer. In December 2008, we subscribed for a bond issued by such machine manufacturer as part of our supplier relationship management. Such pachinko machine manufacturer applied for bankruptcy and winding-up procedures in June 2014. As a result, we had written-off the remaining balance of receivables of approximately ¥46 million from such pachinko machine manufacturer during the year ended 30 June 2015 as we considered such amount to be unrecoverable. Our Directors confirmed that save as the repayment of certain amount due from the pachinko machine manufacturer mentioned above, we did not have any other transactions with such pachinko machine manufacturer during the Track Record Period and up to the Latest Practicable Date. The balance of our other receivables decreased to approximately ¥55 million as at 30 June 2015 after the abovementioned write-off and remained relatively stable at approximately ¥55 million and ¥56 million, respectively, as at 30 June 2016 and 31 October 2016.

Current items

Inventories

Our inventories consisted of uninstalled pachinko and pachislot machines during the Track Record Period. Our balance of inventories decreased from approximately ¥100 million as at 30 June 2014 to approximately ¥82 million as at 30 June 2015 in line with our reduced pace of machine replacement. As at 30 June 2016, the balance of inventories increased to approximately ¥101 million as the number of uninstalled pachinko and pachislot machines increased. The amount then decreased to approximately ¥44 million as at 31 October 2016 due to decrease in number of uninstalled pachinko and pachislot machines.

FINANCIAL INFORMATION

The following table sets forth the turnover days of our inventories for the dates indicated.

| | For the year ended 30 June | | | For the four months ended 31 October |
|--|---|-----------------|----------------|--|
| | 2014 | 2015 | 2016 | 2016 |
| | Average inventory turnover days ^(Note) . . . | <u>1.2 days</u> | <u>0.7 day</u> | <u>0.8 day</u> |

Note:

Average inventory turnover days are derived by dividing the average of beginning and ending balance of inventories of a given year/period by total gross pay-ins and multiplying by 365/120 days for each of the respective year/period.

Our inventory turnover days were low as we do not require significant amount of inventory to operate our business. Pachinko and pachislot machines will be arranged for installation immediately once delivered to us and therefore the cost of such machines have been charged to our hall operating expenses.

As at 28 February 2017, all of our inventories as at 31 October 2016 had been utilised.

Amounts due from related parties

As at 30 June 2014, 2015 and 2016 and 31 October 2016, the amounts due from related parties comprised of amount due from a director, amounts due from related parties and related companies was approximately ¥1,915 million, ¥1,485 million, nil and nil, respectively.

Amount due from a director represented loans and interest and rental receivables. The loans were unsecured, interest-bearing at 2.0% to 3.0% per annum and refundable on demand. The amount was fully repaid as at 30 June 2016.

Amounts due from related parties represented loans and interest and rental receivables. The loans were unsecured, interest-bearing at 2.0% to 3.0% per annum and refundable on demand. The amounts were fully repaid as at 30 June 2016.

Amounts due from related companies represented loans which were unsecured, interest-bearing at 2.0% to 2.5% per annum and repayable on demand. The amounts were fully repaid as at 30 June 2016.

Please refer to note 34(b) in section II of the Accountant's Report contained in Appendix I to this prospectus for details of amounts due from related parties.

FINANCIAL INFORMATION

Trade payables

Our trade payables are derived primarily from payables relating to our suppliers for our general prize. Trade payables as at 30 June 2014, 2015 and 2016 were approximately ¥33 million, ¥27 million and ¥23 million, respectively. The decreasing trend of our trade payables balance is mainly due to a decrease in amount of general prize purchased since fewer customers exchanged for general prize over the three years ended 30 June 2016. The amount then remained relatively stable at approximately ¥25 million as at 31 October 2016.

Our suppliers generally offer us trade credit periods of 30 to 90 days. The table below sets forth, as of the end of the reporting periods indicated, the aging analysis of our trade payables.

| | As at 30 June | | | As at 31 October |
|-------------------------|---------------|-----------|-----------|---------------------|
| | 2014 | 2015 | 2016 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million |
| Less than 30 days | 30 | 27 | 23 | 25 |
| 30-90 days | 3 | — | — | — |
| | 33 | 27 | 23 | 25 |

The following table sets out the average trade payables turnover days for the Track Record Period.

| | For the year ended 30 June | | | For the four months ended 31 October |
|---|----------------------------|---------|---------|--|
| | 2014 | 2015 | 2016 | 2016 |
| Average turnover days of trade payables ^(Note) | 0.3 day | 0.3 day | 0.3 day | 0.3 day |

Note:

Average turnover days of trade payables are calculated based on (i) the average of the beginning and ending trade payables balances of a given year/period; (ii) divided by the total gross pay-outs for the corresponding year/period; and (iii) multiplying by 365/120 days for the respective year/period.

Average trade payables turnover days remained relatively stable at 0.3 day during the Track Record Period which was mainly due to our stringent control over our inventory, thus, our purchase.

FINANCIAL INFORMATION

As at 28 February 2017, all of the trade payables outstanding as at 31 October 2016 had been fully settled.

Accruals, provisions and other payables

The following table sets forth the breakdown of our accruals, provisions and other payables as of the dates indicated.

| | As at 30 June | | | As at |
|---|---------------|--------------|--------------|--------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥ million | ¥ million | ¥ million | ¥ million |
| Non-current portion | | | | |
| Provision for reinstatement costs | 362 | 359 | 347 | 348 |
| Rental deposits receipt in advance | 59 | 59 | 75 | 89 |
| | <u>421</u> | <u>418</u> | <u>422</u> | <u>437</u> |
| Current portion | | | | |
| Payable for pachinko and pachislot machines . . . | 489 | 336 | 222 | 283 |
| Accrued staff costs | 163 | 176 | 150 | 154 |
| Accrued advertising expenses | 64 | 51 | 46 | 42 |
| Accrued bonuses | 75 | 74 | 69 | 54 |
| Accrued outsourcing fee | 70 | 84 | 76 | 67 |
| Other taxes payables | 313 | 282 | 190 | 85 |
| Rental deposits receipt in advance | 2 | 1 | 15 | 2 |
| Unearned revenue | 25 | 17 | 12 | 13 |
| Unutilised balls and tokens | 90 | 132 | 181 | 205 |
| Consumables payable | 57 | 78 | 81 | 55 |
| Utilities payable | 57 | 50 | 42 | 46 |
| Consideration for business combination | 26 | — | — | — |
| Listing expenses payable | — | — | 73 | 121 |
| Other payables | 32 | 34 | 23 | 25 |
| | <u>1,463</u> | <u>1,315</u> | <u>1,180</u> | <u>1,152</u> |

Our current portion of accruals, provisions and other payables mainly represented accrued purchases for pachinko and pachislot machines, staff costs and bonuses and other tax payables. Our accruals, provisions and other payables amounted to approximately ¥1,463 million, ¥1,315 million and ¥1,180 million as at 30 June 2014, 2015 and 2016, respectively. The decrease in accruals, provisions and other payables during the Track Record Period was mainly due to decrease in payable for pachinko and pachislot machines corresponding to the slowdown in machines replacement. The amount then remained relatively stable at approximately ¥1,152 million as at 31 October 2016.

FINANCIAL INFORMATION

CAPITAL EXPENDITURES

Our Group's capital expenditures have mainly consisted of expenditures on acquisitions of property, plant and equipment for our operations. Our Group incurred capital expenditures of approximately ¥392 million, ¥301 million, ¥234 million and ¥160 million for the three years ended 30 June 2016 and the four months ended 31 October 2016, respectively, majority of which came from freehold land, buildings, leasehold improvements and equipment and tools for our pachinko halls. Since 31 October 2016 and up to the Latest Practicable Date, save for the new hall in Chugoku and Nagasaki region, which has incurred approximately ¥3,752 million of capital expenditure, we did not make any material capital expenditures.

For the year ending 30 June 2017, we estimate that the capital expenditures will amount to approximately ¥4,050 million primarily for property, plant and equipment and opening of new halls.

Our Group's projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions and economic and regulatory environment. Please refer to the section headed "Future Plans and Proposed Use of Proceeds" of this prospectus for further information.

We expect to fund our capital expenditures principally through the net proceeds we receive from the Share Offer, cash generated from our operations and bank borrowings. We believe that these sources of funding will be sufficient to finance our capital expenditure needs for the next 12 months.

CONTRACTUAL AND CAPITAL COMMITMENTS

Operating lease commitments

As at the end of the reporting periods during the Track Record Period, our Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises and pachinko halls as follows:

As lessee

| | As at 30 June | | | As at |
|---|---------------|------------|------------|--------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥ million | ¥ million | ¥ million | 2016 |
| | | | | ¥ million |
| No later than one year | 771 | 738 | 722 | 971 |
| Later than one year and no later than five years | 34 | 22 | 17 | 17 |
| Over five years | 51 | 47 | 43 | 41 |
| | <u>856</u> | <u>807</u> | <u>782</u> | <u>1,029</u> |

FINANCIAL INFORMATION

As at 30 June 2014, 2015 and 2016 and 31 October 2016, our Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

As lessor

| | As at 30 June | | | As at 31 October |
|------------------------------|---------------|-----------|-----------|---------------------|
| | 2014 | 2015 | 2016 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million |
| No later than one year | 50 | 50 | 65 | 66 |

Capital commitments

As at the end of the reporting periods during the Track Record Period, our Group had capital commitments which were not provided for in our consolidated financial statements as at the dates indicated:

| | As at 30 June | | | As at 31 October |
|---|---------------|-----------|-----------|---------------------|
| | 2014 | 2015 | 2016 | 2016 |
| | ¥ million | ¥ million | ¥ million | ¥ million |
| Contracted but not provided for in respect of purchase of property, plant and equipment | 7 | 32 | 9 | 17 |

FINANCIAL INFORMATION

INDEBTEDNESS

The following table sets out our total indebtedness as at 30 June 2014, 2015, 2016, 31 October 2016 and 28 February 2017:

| | As at 30 June | | | As at 31 October | As at 28 February |
|---|---------------------|---------------------|---------------------|---------------------|----------------------|
| | 2014 | 2015 | 2016 | 2016 | 2017 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million |
| | | | | | (unaudited) |
| Non-current portion | | | | | |
| <i>Borrowings</i> | | | | | |
| - Bank loans..... | 2,501 | 1,989 | 1,680 | 1,626 | 4,627 |
| - Bonds..... | 247 | 148 | 89 | 59 | 29 |
| <i>Total borrowings</i> | <u>2,748</u> | <u>2,137</u> | <u>1,769</u> | <u>1,685</u> | <u>4,656</u> |
| <i>Obligations under finance lease</i> | <u>3,267</u> | <u>3,088</u> | <u>2,917</u> | <u>2,858</u> | <u>2,878</u> |
| | <u>6,015</u> | <u>5,225</u> | <u>4,686</u> | <u>4,543</u> | <u>7,534</u> |
| Current portion | | | | | |
| <i>Borrowings</i> | | | | | |
| - Bank loans..... | 1,233 | 762 | 893 | 531 | 677 |
| - Bonds..... | 100 | 100 | 60 | 60 | 60 |
| - Loans from insurance company..... | <u>73</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| <i>Total borrowings</i> | <u>1,406</u> | <u>862</u> | <u>953</u> | <u>591</u> | <u>737</u> |
| <i>Loans from related parties</i> | 183 | 162 | — | — | — |
| <i>Amounts due to related parties</i> | 47 | — | 1 | — | — |
| <i>Obligations under finance lease</i> | <u>205</u> | <u>179</u> | <u>171</u> | <u>175</u> | <u>199</u> |
| | <u>1,841</u> | <u>1,203</u> | <u>1,125</u> | <u>766</u> | <u>936</u> |
| <i>Total</i> | <u><u>7,856</u></u> | <u><u>6,428</u></u> | <u><u>5,811</u></u> | <u><u>5,309</u></u> | <u><u>8,470</u></u> |

The indebtedness consisted of borrowings, loans from/amounts due to related parties and obligations under finance lease during the Track Record Period. At the close of business on 28 February 2017, being the latest practicable date for the purpose of this indebtedness statement, we had no outstanding loan and amounts due to related parties and their controlled companies.

FINANCIAL INFORMATION

Borrowings

Our borrowings consist of bank loans, loans from insurance company and bonds issued by our Group as at each reporting date and as at 28 February 2017. The total borrowings amounted to approximately ¥4,154 million, ¥2,999 million, ¥2,722 million, ¥2,276 million and ¥5,393 million as at 30 June 2014, 2015 and 2016, 31 October 2016 and 28 February 2017, respectively.

The following table sets forth the repayment schedule of our borrowings as at 30 June 2014, 2015 and 2016, 31 October 2016 and 28 February 2017:

| | As at 30 June | | | As at 31 October | As at 28 February |
|---------------------------------|---------------|-----------|-----------|---------------------|--------------------------|
| | 2014 | 2015 | 2016 | 2016 | 2017 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million (unaudited) |
| Within 1 year | 1,406 | 862 | 953 | 591 | 737 |
| Between 1 and 2 years | 801 | 464 | 452 | 457 | 794 |
| Between 2 and 5 years | 1,059 | 1,048 | 955 | 952 | 2,048 |
| Over 5 years | 888 | 625 | 362 | 276 | 1,814 |
| | 4,154 | 2,999 | 2,722 | 2,276 | 5,393 |

The following table sets forth our effective interest rates as at 30 June 2014, 2015 and 2016, 31 October 2016 and 28 February 2017:

| | As at 30 June | | | As at 31 October | As at 28 February |
|----------------------|---------------|------|------|---------------------|----------------------|
| | 2014 | 2015 | 2016 | 2016 | 2017 |
| | % | % | % | % | % (unaudited) |
| Bank loans | 1.9 | 1.7 | 1.4 | 1.5 | 1.4 |
| Bonds | 1.3 | 1.2 | 1.2 | 1.2 | 1.1 |

Our bank loans amounted to approximately ¥3,734 million, ¥2,751 million, ¥2,573 million, ¥2,157 million and ¥5,304 million as at 30 June 2014, 2015 and 2016, 31 October 2016 and 28 February 2017, respectively. The bank borrowings were mainly for our purchases and establishment of new hall or renewal of existing halls during the Track Record Period.

FINANCIAL INFORMATION

Our bonds issued by our Group amounted to approximately ¥347 million, ¥248 million, ¥149 million, ¥119 million and ¥89 million as at 30 June 2014, 2015 and 2016, 31 October 2016 and 28 February 2017, respectively.

The following table sets forth the principal amounts of our bonds carried at fixed interest rate per annum:

| Issue date | Principal amount | Interest rate | Due date |
|-------------------------|------------------|----------------|---------------|
| | ¥ million | | |
| 31 March 2011 | 200 | 6 months TIBOR | 31 March 2016 |
| 31 July 2013 | 300 | 6 months TIBOR | 31 July 2018 |

At the close of business on 28 February 2017, being the latest practicable date for the purpose of the indebtedness statement, we had outstanding borrowings of approximately ¥5,393 million, certain part of which was secured by certain assets of our Group. Guarantees by our Controlling Shareholder and his related parties, for our certain bank borrowings as at 30 June 2014 and 2015, have been replaced by corporate guarantee during the year ended 30 June 2016. No borrowings were guaranteed by our Directors as at 30 June 2016 and 31 October 2016. The following table sets forth the carrying amounts of assets pledged to secure certain of our Group's general banking facilities as at the dates indicated.

| | As at 30 June | | | As at | As at |
|---|---------------|--------------|--------------|--------------|--------------------------|
| | 2014 | 2015 | 2016 | 31 October | 28 February |
| | ¥ million | ¥ million | ¥ million | 2016 | 2017 |
| | | | | ¥ million | ¥ million (unaudited) |
| Property, plant and equipment | 4,452 | 3,244 | 3,258 | 3,265 | 6,202 |
| Investment properties | 691 | 678 | 651 | 649 | 646 |
| Bank deposits | 503 | 500 | — | — | — |
| Financial assets at fair value through other comprehensive income | | | | | |
| — listed equity securities | 37 | 38 | 32 | 37 | 40 |
| | <u>5,683</u> | <u>4,460</u> | <u>3,941</u> | <u>3,951</u> | <u>6,888</u> |

As at the Latest Practicable Date, there was no material covenant relating to our outstanding debts. Our Directors confirm that there was no breach of any covenant under our bank borrowings during the Track Record Period and up to the Latest Practicable Date.

FINANCIAL INFORMATION

As at 28 February 2017, being the latest practicable date for the purpose of indebtedness statement, all banking facilities available to us has been fully utilised.

During the Track Record Period, we did not experience any delay or default in repayment of bank borrowings nor experience any difficulty in obtaining banking facilities with terms that are commercially acceptable to us. As at the date of this prospectus, other than the acquisition of a property in Nagasaki, which we intended to use as pachinko hall, which was partly funded by bank borrowings, we do not have any plan for material external debt financing.

Loans from related parties/amounts due to related parties

Loans from/amounts due to related parties represented advances that were non-trade in nature.

Our loans from related parties were unsecured, interest-bearing at 1.35% and 0.925% per annum and repayable on 18 December 2015. Such amount was fully repaid on 18 December 2015. The following table sets out our loans from related parties as at the dates indicated:

| | As at 30 June | | | As at 31 October | As at 28 February |
|--|---------------|-----------|-----------|---------------------|--------------------------|
| | 2014 | 2015 | 2016 | 2016 | 2017 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million (unaudited) |
| Loans from related parties (short-term loans and other payables) | | | | | |
| Katsuya Yamamoto | 170 | 162 | — | — | — |
| Satoshi Maeda | 13 | — | — | — | — |
| Total | 183 | 162 | — | — | — |

FINANCIAL INFORMATION

The following table sets out the amounts due to related parties as at the dates indicated:

| | As at 30 June | | | As at 31 October | As at 28 February |
|-----------------------------------|---------------|-----------|-----------|---------------------|--------------------------|
| | 2014 | 2015 | 2016 | 2016 | 2017 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million (unaudited) |
| Amount due to a related party: | | | | | |
| - Katsumitsu Yamamoto | 1 | — | — | — | — |
| - Satoshi Maeda | — | — | 1 | — | — |
| Amounts due to related companies: | | | | | |
| - Argent Co., Ltd. | 32 | — | — | — | — |
| - Enjoy Co., Ltd. | 6 | — | — | — | — |
| - All Co., Ltd. | 8 | — | — | — | — |
| Total | <u>47</u> | <u>—</u> | <u>1</u> | <u>—</u> | <u>—</u> |

Amounts due to a related party were unsecured, interest-bearing at approximately 2.0% to 3.0% per annum and repayable on demand. The amounts were fully repaid on 30 June 2015.

Amounts due to related companies represented loans, trade and other payables which were unsecured, interest-bearing at approximately 2.0% per annum and repayable on demand. The amounts were fully repaid on 30 June 2015.

FINANCIAL INFORMATION

Obligations under finance lease

Our Group leases certain buildings for pachinko halls under finance lease arrangements. As at 31 October 2016, the aggregated outstanding principal amount was approximately ¥2,858 million. The table below sets out our obligations under finance lease as at the dates indicated.

| | As at 30 June | | | As at 31 October | As at 28 February |
|---|---------------|--------------|--------------|---------------------|--------------------------|
| | 2014 | 2015 | 2016 | 2016 | 2017 |
| | ¥ million | ¥ million | ¥ million | ¥ million | ¥ million (unaudited) |
| No later than 1 year | 205 | 179 | 171 | 175 | 199 |
| Later than 1 year and no later than 2 years | 179 | 173 | 182 | 186 | 210 |
| Later than 2 year and no later than 5 years | 551 | 582 | 618 | 630 | 703 |
| Later than 5 years | <u>2,537</u> | <u>2,333</u> | <u>2,117</u> | <u>2,042</u> | <u>1,965</u> |
| Total finance lease liabilities | 3,472 | 3,267 | 3,088 | 3,033 | 3,077 |
| Less: Amount included in current liabilities | <u>(205)</u> | <u>(179)</u> | <u>(171)</u> | <u>(175)</u> | <u>(199)</u> |
| Non-current portion | <u>3,267</u> | <u>3,088</u> | <u>2,917</u> | <u>2,858</u> | <u>2,878</u> |

The average lease term is 18 years with effective interest rate at approximately 6.2% per annum as at 30 June 2014, 2015 and 2016, 31 October 2016 and 28 February 2017, respectively. No arrangements have been entered into for contingent rental payments during the reporting periods.

Contingent liabilities

As at 28 February 2017, being the latest practicable date for the purpose of the indebtedness statement, we did not have any material contingent liabilities or guarantees.

FINANCIAL INFORMATION

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, our Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS ARRANGEMENT

During the Track Record Period and up to the Latest Practicable Date, our Group had not entered into any material off-balance sheet commitments and arrangements.

TRANSACTIONS WITH RELATED PARTIES

With respect to the related party transactions set forth in the Accountant's Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

PROPERTY INTEREST AND PROPERTY VALUATION

DTZ Cushman & Wakefield Limited, an independent property valuer, has valued certain interests of our properties in Japan as at 28 February 2017 and is of the opinion that the value was, in aggregate, ¥3,269 million, with the entire value attributable to us. Please refer to Appendix IV to the prospectus for the full text of the letter and summary of valuation certificates with regard to such property interests.

The statement below shows the reconciliation of aggregate amounts of certain properties as selected in our audited consolidated financial information as at 31 October 2016 as set forth in Appendix I to this prospectus with the valuation of these properties as at 31 October 2016 as set forth in Appendix IV to this prospectus.

| | ¥ (million) |
|---|---------------------|
| Net book value of the following properties as at 31 October 2016 | |
| Freehold land and buildings included in investment properties | 1,333 |
| Additions during the period from 1 November 2016 to 28 February 2017 . . . | 3,115 |
| Depreciation during the period from 1 November 2016 to 28 February 2017 | <u>(3)</u> |
| Net book value as at 28 February 2017 | 4,445 |
| Net valuation surplus/(deficit) ^(Note) | <u>(1,176)</u> |
| Valuation of properties owned by our Group as at 28 February 2017 as set out in the property valuation report in Appendix IV to this prospectus . . . | <u><u>3,269</u></u> |

Note: Net valuation deficit mainly arose from the acquisition of the Nagasaki hall. Please refer to the paragraph headed "Establishment of new halls since Track Record Period" under the section headed "Future Plans and Proposed Use of Proceeds" of this prospectus.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at/for each of the dates indicated:

| | As at/For the year ended 30 June | | | As at/For the four months ended 31 October | |
|--|----------------------------------|------|------|--|------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | | | | (unaudited) | |
| Net profit margin (%) ⁽¹⁾ | 7.8 | 5.2 | 6.0 | 3.0 | 0.8 |
| Interest coverage (times) ⁽²⁾ . . | 6.3 | 6.6 | 5.1 | 3.1 | 1.6 |
| Return on equity (%) ⁽³⁾ | 8.6 | 4.9 | 7.7 | N/A | 1.0 |
| Return on total assets (%) ⁽⁴⁾ . | 4.5 | 2.5 | 3.6 | N/A | 0.5 |
| Current ratio (times) ⁽⁵⁾ | 2.1 | 2.2 | 1.1 | N/A | 1.1 |
| Gearing ratio (%) ⁽⁶⁾ | 67.3 | 53.7 | 74.2 | N/A | 67.5 |
| Net debt to equity ratio (%) ⁽⁷⁾ . | 34.9 | 28.1 | 55.6 | N/A | 51.3 |

Notes:

- (1) Net profit margin for each financial year/period during the Track Record Period was calculated on profit for the year/period divided by revenue for the respective period. Please refer to the paragraph headed "Profit for the year/period" in this section for further detail.
- (2) Interest coverage is calculated by dividing profit before tax and interest by the finance cost for the corresponding year/period.
- (3) Return on equity for each of the year ended 30 June 2014, 2015, 2016 and the four months ended 31 October 2016 (with annualised profits) was calculated based on the net profit of the respective years/period divided by the total equity at the end of the respective years/period and multiplied by 100.0%.
- (4) Return on total assets for each of the year ended 30 June 2014, 2015, 2016 and the four months ended 31 October 2016 (with annualised profits) was calculated based on the net profit of the respective years/period divided by the total assets at the end of the respective years/period and multiplied by 100.0%.
- (5) Current ratios as at 30 June 2014, 2015, 2016 and 31 October 2016 were calculated based on the total current assets as of the respective dates divided by the total current liabilities as of the respective dates.
- (6) Gearing ratios as at 30 June 2014, 2015, 2016 and 31 October 2016 were calculated based on the total debt (being bank and other borrowings, loans from related parties, amounts due to related parties and obligations under finance leases) as of the respective dates divided by total equity as of the respective dates and multiplied by 100.0%.
- (7) Net debt to equity ratios as at 30 June 2014, 2015 and 2016 and 31 October 2016 was calculated based on net debts (being total debt net of cash and cash equivalents and bank deposits) as of the respective dates divided by total equity as of the respective dates and multiplied by 100.0%.

FINANCIAL INFORMATION

Interest coverage

Our interest coverage increased from approximately 6.3 times for the year ended 30 June 2014 to approximately 6.6 times for the year ended 30 June 2015 mainly due to the combined effect of (i) our decrease in the profit before finance costs and income tax mainly as a result of our decreased revenue from pachinko and pachislot business; and (ii) decrease in our finance costs for the year ended 30 June 2015 at a slightly larger extent. The interest coverage then decreased to approximately 5.1 times for the year ended 30 June 2016 mainly due to the decrease in our profit before interest and tax. Our interest coverage decreased to approximately 1.6 times for the four months ended 31 October 2016 from approximately 3.1 times for the four months ended 31 October 2015, which was mainly due to the decrease in profit before interest and tax as aforementioned, while without corresponding decrease in operational expenses as our Group incurred expenses whilst preparing for the new hall openings in December 2016.

Return on equity

Our return on equity was approximately 8.6%, 4.9% and 7.7% for the three years ended 30 June 2016, respectively. The decrease for the year ended 30 June 2015 was mainly due to the decrease in our profit for the year. The increase for the year ended 30 June 2016 was mainly due to the combined effect of (i) slight increase in profit for the year of approximately ¥22 million; and (ii) decrease in our total equity mainly as a result of approximately ¥4,740 million dividend paid during the year. The return on equity then decreased to approximately 1.0%⁽¹⁾ for the four months ended 31 October 2016 mainly due to the decrease in profit for the relevant period to approximately ¥26 million.

Return on total assets

Our return on total assets was approximately 4.5%, 2.5% and 3.6% for the three years ended 30 June 2016, respectively. The decrease for the year ended 30 June 2015 was primarily attributable to the decrease of our profit for the year. The return on total assets then increase to approximately 3.6% for the year ended 30 June 2016 mainly due to (i) the decrease in total assets resulted from the decrease in amounts due from related parties amounted from approximately ¥1,485 million for the year ended 30 June 2015 to nil for the year ended 30 June 2016; (ii) the decrease in financial assets at fair value through profit or loss from approximately ¥1,792 million to ¥225 million, mainly due to the disposal of financial assets during the year ended 30 June 2016; and (iii) slight increase in profit for the year as mentioned above. The return on total assets then decreased to approximately 0.5%⁽²⁾ for the four months ended 31 October 2016 mainly due to the decrease in profit for the relevant period to approximately ¥26 million.

Notes:

- (1) It should be noted that the return on equity for the four months ended 31 October 2016 was based on annualised net profit, which may not be representative for our Group's full year result.
- (2) It should be noted that the return on total assets for the four months ended 31 October 2016 was based on annualised net profit, which may not be representative for our Group's full year result.

FINANCIAL INFORMATION

Current ratio

Our current ratio was approximately 2.1 times, 2.2 times and 1.1 times as at 30 June 2014, 2015 and 2016, respectively. The ratio remained relatively stable as at 30 June 2014 and 2015. The current ratio then decreased to approximately 1.1 times as at 30 June 2016 mainly due to the payment of dividend of approximately ¥4,740 million. The current ratio then remained relatively stable at approximately 1.1 times as at 31 October 2016.

Gearing ratio

Our gearing ratio was approximately 67.3%, 53.7% and 74.2% as at 30 June 2014, 2015 and 2016, respectively. The decrease in our gearing ratio as at 30 June 2015 was mainly due to the repayment of bank borrowings. Our gearing ratio then increased to approximately 74.2% as at 30 June 2016 mainly due to the decrease in total equity as dividend of approximately ¥4,740 million was paid during the period. The gearing ratio then decreased to approximately 67.5% as at 31 October 2016 mainly due to decrease in our total debts as a result of repayment of bank loans during the period.

During the Track Record Period, approximately half of our total debt were bank loans and bonds issued, while long-term borrowings represent approximately 66.2%, 71.3%, 65.0% and 74.0% of our Group's total borrowings during the Track Record Period.

Net debt to equity ratio

Our net debt to equity ratio decreased from approximately 34.9% as at 30 June 2014 to approximately 28.1% as at 2015 mainly due to the repayment of bank borrowings. Our net debt to equity ratio then increased to approximately 55.6% as at 30 June 2016 mainly due to the decrease in total equity as dividend of approximately ¥4,740 million was paid during the period. The net debt to equity ratio then decreased to approximately 51.3% as at 31 October 2016 mainly due to the decrease in our total debts as a result of repayment of bank loans during the period.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risks from changes in market rates and prices, such as interest rates, credit and liquidity.

(a) Market risk

(i) *Foreign exchange risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

FINANCIAL INFORMATION

Our Group operates in Japan and its business transactions are principally denominated in Japanese Yen. However, our Group is exposed to foreign exchange risk arising primarily from the transactions in its cash and cash equivalents, deposits and financial assets denominated in USD. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency.

As at 30 June 2014, 2015 and 2016 and 31 October 2016, if USD had weakened or strengthened by 5.0% against Japanese Yen with all other variables held constant, post-tax profit for the years/period would have been approximately ¥21 million, ¥32 million, ¥8 million and ¥9 million lower or higher respectively, mainly as a result of foreign exchange losses or gains on translation of USD-denominated cash and cash equivalents, deposits and financial assets.

(ii) ***Cash flow and fair value interest rate risk***

Our Group's interest rate risk arises from bank balances and borrowings which are carried at variable rates, which expose our Group to cash flow interest rate risk.

As at 30 June 2014, 2015 and 2016 and 31 October 2016, if interest rates were increased or decreased by 50 basis points and all other variables were held constant, our Group's post-tax profit would decrease or increase by approximately ¥7 million, ¥6 million, ¥5 million and ¥4 million, respectively, as a result of increase or decrease in net interest expense.

Our Group manages its interest rate exposure with a focus on reducing our Group's overall cost of debt and exposure to changes in interest rates. When considered appropriate, our Group uses derivatives such as interest rate swaps to manage its interest rate exposure. Our Group's main interest rate exposure relates to Japanese Yen-denominated borrowings. In the opinion of the Directors, fair value interest rate risk is low as no significant interest rate swaps were entered during the Track Record Period, and accordingly, sensitivity analysis has not been disclosed.

(iii) ***Price risk***

Our Group is exposed to equity securities price risk because of investments in listed securities held by our Group which are classified on the consolidated statements of financial position as financial assets at fair value through other comprehensive income.

FINANCIAL INFORMATION

The table below summarises the impact of increases or decreases of the share prices of underlying financial instruments on our Group's equity. The analysis is based on the assumption that the share prices of the underlying financial instruments had increased or decreased by 5.0% with all other variables held constant.

| | Year ended 30 June | | | Four months ended |
|---|--------------------|------------|------------|-------------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥ million | ¥ million | ¥ million | ¥ million |
| Impact on other components of equity | | | | |
| Share prices: | | | | |
| - increase by 5.0% | 2 | 8 | 2 | 2 |
| - decrease by 5.0% | <u>(2)</u> | <u>(8)</u> | <u>(2)</u> | <u>(2)</u> |

(b) Credit risk

Credit risk arises mainly from cash deposited at banks, trade receivables, deposits and other receivables, financial assets at fair value through profit or loss and through other comprehensive income.

In respect of cash deposited at banks and financial assets at fair value through profit or loss and through other comprehensive income, the credit risk is considered to be low as the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Approximately 99.0% of our Group's revenue is received in cash. Our Group's credit risk mainly arose from service income from other operations.

Our Group has set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the sound collection history of the receivables due from them, our management believes that there is no material credit risk inherent in our Group's outstanding receivable balance due from these customers. Our management makes periodic assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. Our Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the Directors are of the opinion that adequate provision for uncollectible receivables has been made.

FINANCIAL INFORMATION

(c) Liquidity risk

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets.

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of committed credit facilities from leading banks and the ability to close out market position.

Our Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets and receivables; and long term financing including long-term borrowings. Our Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable our Group to continue our business for the foreseeable future.

The table below analyses our Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal to their carrying amounts as the impact of discounting is not significant.

| The Group | Within 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|------------------|--------------------------|--------------------------|-----------------|---------------|
| | ¥million | ¥million | ¥million | ¥million | ¥million |
| As at 30 June 2014 | | | | | |
| Trade payables | 33 | — | — | — | 33 |
| Other payables (excluding accruals and provisions) | 1,091 | 1 | 15 | 43 | 1,150 |
| Borrowings | 1,467 | 859 | 1,102 | 1,015 | 4,443 |
| Obligations under finance leases | 409 | 372 | 1,065 | 3,542 | 5,388 |
| Loans from related parties | 186 | — | — | — | 186 |
| Amounts due to related parties | 47 | — | — | — | 47 |
| | <u>3,233</u> | <u>1,232</u> | <u>2,182</u> | <u>4,600</u> | <u>11,247</u> |

FINANCIAL INFORMATION

| The Group | Within 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|------------------|--------------------------|--------------------------|-----------------|--------------|
| | ¥million | ¥million | ¥million | ¥million | ¥million |
| As at 30 June 2015 | | | | | |
| Trade payables | 27 | — | — | — | 27 |
| Other payables (excluding accruals and provisions) | 930 | 1 | 15 | 43 | 989 |
| Borrowings | 907 | 504 | 1,088 | 705 | 3,204 |
| Obligations under finance leases | 371 | 355 | 1,061 | 3,191 | 4,978 |
| Loans from related parties | 162 | — | — | — | 162 |
| | <u>2,397</u> | <u>860</u> | <u>2,164</u> | <u>3,939</u> | <u>9,360</u> |
| As at 30 June 2016 | | | | | |
| Trade payables | 23 | — | — | — | 23 |
| Other payables (excluding accruals and provisions) | 839 | 4 | — | 71 | 914 |
| Borrowings | 988 | 484 | 988 | 402 | 2,862 |
| Obligations under finance leases | 354 | 354 | 1,061 | 2,838 | 4,607 |
| Amounts due to related parties | 1 | — | — | — | 1 |
| | <u>2,205</u> | <u>842</u> | <u>2,049</u> | <u>3,311</u> | <u>8,407</u> |
| As at 31 October 2016 | | | | | |
| Trade payables | 25 | — | — | — | 25 |
| Other payables (excluding accruals and provisions) | 835 | 20 | — | 69 | 924 |
| Borrowings | 621 | 487 | 984 | 302 | 2,394 |
| Obligations under finance leases | 354 | 354 | 1,060 | 2,722 | 4,490 |
| | <u>1,835</u> | <u>861</u> | <u>2,044</u> | <u>3,093</u> | <u>7,833</u> |

LISTING EXPENSES

The total Listing expenses (based on the mid-point of the Offer Price range) are estimated to be approximately ¥1,080 million. For the years ended 30 June 2015 and 2016 and the four months ended 31 October 2016, we incurred Listing expenses of approximately ¥71 million, ¥501 million and ¥127 million, respectively, in connection with the Share Offer. By the completion of the Share Offer, we expect to incur further Listing expenses of approximately ¥381 million, of which an estimated amount of approximately ¥262 million is to be recognised as expenses and the remaining is expected to be charged to equity.

FINANCIAL INFORMATION

DIVIDEND

During the Track Record Period, our Group distributed final dividends to our Shareholders/then Shareholders of approximately ¥2 million, ¥2 million, ¥4,740 million and nil for each of the three years ended 30 June 2016 and the four months ended 31 October 2016, respectively. Our Directors consider such dividend as investment return to the then Shareholders during the Track Record Period and should not be regarded as an indication of the future dividend payment to be adopted by our Group following the Listing. The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Companies Ordinance. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors. Currently, we do not have any dividend payment and predetermined dividend distribution ratio.

Any dividends declared will be in HK\$ with respect to our Shares on a per share basis, and our Company will pay such dividends in HK\$.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

Shareholders should also note that the dividend distributed to our Company from members of our Group is subject to 5% withholding income tax pursuant to Japan tax law. For further details, please refer to the paragraph headed "Income tax expenses" in this section.

DISTRIBUTABLE RESERVES

Our reserves available for distribution to shareholders consist of retained earnings. As at the Latest Practicable Date, we had retained earnings of approximately ¥76.0 million available for distribution to the equity holders of our Group.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to Appendix II to this prospectus for our unaudited pro forma adjusted consolidated net tangible assets.

FINANCIAL INFORMATION

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there have not been any material adverse changes in our financial or trading position or prospects subsequent to the Track Record Period and up to the date of this prospectus. As far as we were aware, there was no material change in the general market conditions that had affected or would affect our business operations or financial conditions materially and adversely.

FUTURE PLANS AND PROPOSED USE OF PROCEEDS

FUTURE PLANS

We intend to expand our business in line with the strategies set out in the paragraph headed “Business strategies” under the section headed “Business” of this prospectus. In particular, with the enhanced capital base upon Listing, we intend to capitalise on the consolidation opportunities in the pachinko industry as detailed under the section headed “Industry Overview” of this prospectus, and target to strengthen our market position by strategically expanding our pachinko hall operations through establishing or acquiring pachinko halls.

New hall development

Going forward, we will continue to pursue expansion opportunities through establishing new or acquiring pachinko halls in desirable location as consolidation opportunities arise. In particular, we intend to establish our halls in locations convenient and close to our potential customers. When assessing the suitability of a location, we take into account (i) the pool of potential customers in the surrounding area with reference to, amongst other things, population density and demographic; and (ii) the intensity of competition in the vicinity such as the number and market position of potential competing halls.

We tailor our strategy to best suit each location and assess the feasibility of each new hall based on (i) the estimated investment costs; (ii) funding requirements, in particular whether external financing is required and related costs therein; (iii) our liquidity position; and (iv) external factors which may affect the feasibility of the hall such as expected regulatory changes and latest prevailing industry trends. In this regard, breakeven and investment payback periods are adopted as indicators for the expected performance of a new hall and are assessed in conjunction with strategic considerations for our Group’s expansion (e.g. defensive strategy for maintaining our foothold in a region) and our knowledge of the region. Breakeven period (“**Breakeven Period**”) refers to the time required for the hall’s monthly revenue (from pachinko hall operations) to equal to its monthly direct expenses (excluding depreciation), whilst investment payback period (“**Investment Payback Period**”) refers to the time required for the hall’s accumulated net profit to cover its opening costs and ongoing expenses incurred so far. In general, our Group looks for Breakeven Period of four to six months for all new halls and Investment Payback Period within five to seven years for new halls established in leased properties and 10 to 15 years for new halls established with self-owned properties. Meanwhile, target capacity of halls in urban area would generally range from 300 to 800 machines whilst target capacity halls in the suburban areas would generally range from 500 to 1,200 machines.

Our process for hall openings is generally as follows: (i) our planning and development department selects a potential location or we are approached by property agents with potential sales target; (ii) our planning and development department conducts a primary survey to assess the suitability of the target location; (iii) if results of the primary survey are satisfactory, our marketing department will then conduct a secondary location survey to provide a second opinion on the location; (iv) our planning and development department and marketing department will prepare an investment plan; and (v) the investment plan will be presented to our Board for approval. This process typically takes about two months, with subsequent construction and design of the acquired property which may last for about six months.

FUTURE PLANS AND PROPOSED USE OF PROCEEDS

Establishment of new halls since Track Record Period

Chugoku Hall

Since the Track Record Period and up to the Latest Practicable Date, we have opened our first hall in the Chugoku region (the “**Chugoku Hall**”) in December 2016. The Chugoku Hall is a large scale suburban hall with 650 machines, majority of which being high playing cost machines. Out of the 650 machines, 380 are pachinko machines and 270 are pachislot machines. Given this is our Group’s first venture in the Chugoku region, to limit our exposure, we have established the Chugoku Hall using a leased property on a fixed-term lease with a term of 25 years.

Up to the Latest Practicable Date, the opening of the Chugoku hall has been financed by our internal resources. Meanwhile, we have also secured bank borrowings of ¥400 million with a term of five years at interest rate of TIBOR plus 0.95% as additional funding for the Chugoku Hall. This loan does not contain any repayment on demand clause, and has been drawn down in late January 2017.

Nagasaki Hall

Since the Track Record Period, we have successfully bid a property in Nagasaki, which we have identified as a potential site for establishing a major hall (the “**Nagasaki Hall**”). In this connection, we have entered into a sale and purchase agreement with an Independent Third Party (the “**Vendor**”) on 23 January 2017 to acquire all outstanding shares of a company newly established with the sole purpose to hold the property for a consideration of approximately ¥3.1 billion. The consideration was settled in cash and funded by bank borrowings of ¥3.0 billion and internal resources. Completion of the acquisition had taken place in February 2017.

Our Directors consider the acquisition of the Nagasaki Hall to be important to our overall business development and the consideration is justifiable for the following reasons:

- (i) It is our intention as at the Latest Practicable Date to set up the Nagasaki Hall as our flagship hall housing 800 machines, currently expecting grand opening in the third quarter of 2017. It is to be one of the largest pachinko halls in the centre of Nagasaki, our headquarters and largest base of operations. The Nagasaki Hall will significantly consolidate our position as the market leader in the Nagasaki prefecture and strengthen our corporate image in the area because, from our experience, a new large scale pachinko hall generally draws in strong customer awareness and players who habitually visit small scale pachinko halls in the surrounding area.
- (ii) We competed with a number of bidders who are fellow pachinko hall operators, and our Directors were informed that one of them is our largest competitor in the Nagasaki prefecture. Our Directors believe that it is important not to lose this strategic hall location to a strong competitor as it would have critical implication to our position as market leader in the Nagasaki prefecture.

FUTURE PLANS AND PROPOSED USE OF PROCEEDS

- (iii) Our Directors were aware of the bidding price of the other bidders and have weighed the consideration of this acquisition against these competing bids. Combined with our independent market researches and long established local business knowledge, our Directors have concluded that our bidding price is fair and reasonable.

- (iv) The property housing the Nagasaki Hall was previously used as a pachinko hall by the Vendor and is well suited for pachinko hall operations, resulting in savings on renovations and refurbishment works. The Nagasaki Hall also has intangible values attached to it such as customers' familiarity with its location as a pachinko hall.

In light of the strategic reasons above, the Directors are of the view that the value of the property to the Group's business and future plans far exceeds its value when viewed as just a real estate on a standalone basis. Consequently, we proceeded to bid for the property at the consideration of approximately ¥3.1 billion, above the property valuation of approximately ¥1.9 billion. The valuation of the property as at 28 February 2017 is set out in Appendix IV to this prospectus.

As further elaborated in the paragraph headed "Use of proceeds" in this section, we intend to use approximately HK\$27.6 million (equivalent to approximately ¥391.9 million), representing approximately 50.0% of the net proceeds from the Share Offer to set up the Nagasaki Hall. As at the Latest Practicable Date, based on latest information available, we expect the Breakeven Period for the Nagasaki Hall to be around four months and the Investment Payback Period to be around 15 years. Based on latest available information, the Nagasaki Hall is expected to achieve operating cash flow breakeven in the third month after commencement of business.

USE OF PROCEEDS

We estimate that the net proceeds of the Share Offer (after deducting underwriting fees and estimate expenses borne by us in relation to the Share Offer) will be approximately HK\$55.2 million (equivalent to approximately ¥783.8 million) (assuming an Offer Price of HK\$1.05 per Offer Share, being the mid-point of the indicative Offer Price range). We currently intend to apply the net proceeds as follows:

- (i) approximately HK\$27.6 million (equivalent to approximately ¥391.9 million) (being approximately 50.0% of the net proceeds) for establishing the new pachinko hall in the Kyushu region, including (a) approximately HK\$15.2 million (equivalent to approximately ¥215.5 million) being approximately 27.5% of the net proceeds for machine procurement; (b) approximately HK\$2.7 million (equivalent to approximately ¥39.2 million) being approximately 5.0% of the net proceeds for renovation; (c) approximately HK\$8.3 million (equivalent to approximately ¥117.6 million) being approximately 15.0% of the net proceeds for pachinko related facilities; and (d) approximately HK\$1.4 million (equivalent to approximately ¥19.6 million) being approximately 2.5% of the net proceeds for promotional expenses;

FUTURE PLANS AND PROPOSED USE OF PROCEEDS

- (ii) approximately HK\$22.1 million (equivalent to approximately ¥313.5 million) being approximately 40.0% of the net proceeds for renovating and enhancing facilities for six pachinko halls during the year ending 30 June 2018 and eight pachinko halls during the year ending 30 June 2019 (being two additional pachinko halls on top of the six halls during the year ending 30 June 2018), respectively. Out of approximately 40.0% of the net proceeds, approximately 14.0% and 26.0% of the net proceeds would be utilised during the years ending 30 June 2018 and 2019, respectively. Renovation work includes refurbishing the prize counter as well as exterior so as to enhance our customer experience; whilst upgrading our hardware facilities such as token dispensers will enhance our operation efficiency; and

- (iii) approximately HK\$5.5 million (equivalent to approximately ¥78.4 million) being approximately 10.0% of the net proceeds for working capital and other general corporate purposes of our Group.

If the final Offer Price is at the high-end of the indicative Offer Price range (being HK\$1.20 per Share), the net proceeds will increase by approximately HK\$18.6 million (equivalent to approximately ¥266.3 million). If the final Offer Price is at the low-end of the indicative Offer Price range (being HK\$0.90 per Share), the net proceeds will decrease by approximately HK\$18.6 million (equivalent to approximately ¥266.3 million). If the sum raised is above or below the mid-point Offer Price, we intend to deploy the net proceeds for the above purposes in the same proportion.

The application of the net proceeds as stated above are only current estimates and are subject to changes based on prevailing economic, market and business conditions. To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the proceeds in interest bearing bank accounts, such as short-term savings accounts or basic short-term money market funds, with licensed commercial banks and/or authorised financial institutions in Hong Kong and Japan.

UNDERWRITING

PUBLIC OFFER UNDERWRITER

Crosby Securities Limited

PLACING UNDERWRITER(S)

The Placing Underwriter(s) is currently expected to be:

Crosby Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company is initially offering for subscription of the Public Offer Shares at the Offer Price under the Public Offer, on and subject to the terms and conditions set forth in this prospectus and the Application Forms. The Public Offer Underwriter has agreed on and subject to the terms and conditions in the Public Offer Underwriting Agreement, to procure subscribers for, or failing which they shall subscribe for, the Public Offer Shares.

The Public Offer Underwriting Agreement is subject to various conditions, which include, without limitation:

- (a) the Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus; and
- (b) the Placing Underwriting Agreement having been executed, becoming unconditional and not having been terminated.

Grounds for termination

The respective obligations of the Public Offer Underwriter to subscribe for, or procure subscribers for, the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination. The Sole Bookrunner and Lead Manager (for itself and on behalf of the Public Offer Underwriter) may in its absolute discretion terminate the Public Offer Underwriting Agreement with immediate effect by written notice to our Company at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date if:

- (i) there shall develop, occur, exist or come into effect:
 - (a) any change or prospective change (whether or not permanent) in the business or in the business or in the financial or trading position of our Group; or

UNDERWRITING

- (b) any change or development involving a prospective change or development, or any event or series of event resulting or representing or likely to result in any change or development involving a prospective change or deterioration (whether or not permanent) in local, national, regional or international financial, political, military, industrial, economic, legal framework, regulatory, fiscal, currency, credit or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting any of Hong Kong, Japan or any other jurisdictions where any member of our Group is incorporated or operates (collectively, the “**Relevant Jurisdictions**”); or
- (c) any deterioration of any pre-existing local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions in or affecting any of the Relevant Jurisdictions; or
- (d) any new laws or any change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or governmental authority in or affecting any of the Relevant Jurisdictions; or
- (e) a change or development or event involving a prospective change in taxation or exchange control (or in the implementation of any exchange control) or foreign investment regulations in or affecting any of the Relevant Jurisdictions adversely affecting an investment in shares; or
- (f) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting any of the Relevant Jurisdictions; or
- (g) any event, act or omission which gives rise or is likely to give rise to any liability of any of our Company, Controlling Shareholder and Chairman under the Public Offer Underwriting Agreement pursuant to the indemnities contained therein; or
- (h) (i) any suspension or restriction on dealings in shares or securities generally on the Stock Exchange or (ii) any moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (i) the imposition of economic or other sanctions, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions; or
- (j) any event, or series of events, in the nature of force majeure (including without limitation, any acts of God, acts of government, declaration of a national or international emergency or war, acts or threat of war, calamity, crisis, economic sanction, riot, public disorder, civil commotion, fire, flooding, explosion, epidemic (including but not limited to severe acute respiratory syndrome or avian flu), pandemic, outbreak of disease, terrorism, strike or lockout) in or affecting any of the Relevant Jurisdictions; or

UNDERWRITING

- (k) any change or development involving a prospective change, or a materialisation of any of the risks set out under the section headed “Risk Factors” of this prospectus; or
- (l) any change in the system under which the value of the Hong Kong dollar is linked to that of the USD or a material devaluation of Hong Kong dollar against any foreign currency; or
- (m) any demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (n) save as disclosed in this prospectus, a contravention by any member of our Group of the Listing Rules or applicable laws; or
- (o) a prohibition on our Company for whatever reason from allotting the Shares pursuant to the terms of the Share Offer; or
- (p) non-compliance of this prospectus or any aspect of the Share Offer with the Listing Rules or any other applicable laws; or
- (q) an order or a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto in respect of any member of our Group; or
- (r) any material loss or damage sustained by any member of our Group; or
- (s) save as disclosed in this prospectus, any litigation or claim of material importance of any third party being instigated against any member of our Group; or
- (t) a Director being charged with an indictable offence or prohibited by the operation of law or is otherwise disqualified from taking part in the management of a company; or
- (u) the chairman or president of our Company vacating his office; or
- (v) the commencement by any governmental, regulatory or judicial body or organisation of any action against a Director or an announcement by any governmental, regulatory or judicial body or organisation that it intends to take any such action; or

UNDERWRITING

- (w) any matter or event resulting in a breach of any of the warranties, representations or undertakings contained in the Public Offer Underwriting Agreement or there has been a material breach of any other provisions thereof; or
- (x) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC,

which in the sole and absolute opinion of Sole Bookrunner and Lead Manager acting reasonably (for itself and on behalf of the Public Offer Underwriter):

- (a) is or will or may individually or in the aggregate have a material adverse effect on the business, financial, trading or other condition or prospects of our Group taken as a whole; or
 - (b) has or will or may have a material adverse effect on the success of the Share Offer or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or
 - (c) is or will or may make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any material part of the Public Offer Underwriting Agreement, the Placing Underwriting Agreement, and/or the Share Offer to be performed or implemented in accordance with its terms or (ii) to proceed with or to market the Share Offer on the terms and in the manner contemplated in this prospectus; or
- (ii) Sole Bookrunner and Lead Manager or the Public Offer Underwriter shall become aware of the fact that, or have cause to believe that:
- (a) any of the warranties given by our Company, Controlling Shareholder and Chairman under the Public Offer Underwriting Agreement or pursuant to the Placing Underwriting Agreement is untrue, inaccurate, misleading or breached in any material respect when given or as repeated, or has been declared or determined by any court or governmental authorities to be illegal, invalid or unenforceable in any material respect;
 - (b) any statement contained in this prospectus, the Application Forms, the formal notice or any announcement or advertisement issued by or on behalf of our Company in connection with the Public Offer (including any supplement or amendment thereto) was or is untrue, incorrect or misleading in any material respect, or any matter arises or is discovered which would, if such document were to be issued at that time, constitute a material omission therefrom, or that any forecasts, expressions of opinion, intention or expectation expressed in such document are not, in all material aspects, fair and honest and based on reasonable assumptions, when taken as a whole;

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- (c) there has been a material breach on the part of any of our Company, Controlling Shareholder and Chairman of any of the provisions of the Public Offer Underwriting Agreement or the Placing Underwriting Agreement;
- (d) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, constitute a material omission therefrom; or
- (e) any material adverse change or development involving a prospective change in the assets, liabilities, conditions, business affairs, prospects, profits, losses or financial or trading position or performance of any member of our Group; or
- (f) approval by the Listing Committee of the listing of, and permission to deal in, the Offer Shares to be issued or sold under the Share Offer is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (g) we withdraw this prospectus (and/or any other documents issued or used in connection with the Share Offer) or the Share Offer.

Undertakings to the Public Offer Underwriter

Undertakings by our Company

Our Company has undertaken to the Sponsor, the Sole Bookrunner and Lead Manager and the Public Offer Underwriter, and our Controlling Shareholder and Chairman have undertaken to and covenants with the Sponsor, the Sole Bookrunner and Lead Manager and the Public Offer Underwriter that he/it will procure our Company that:

- (a) except pursuant to the Share Offer, the Bonus Issue, the exercise of any share options to be granted under the Share Option Scheme or under the circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules, not without the prior written consent of the Sole Bookrunner and Lead Manager (for itself and on behalf of the Public Offer Underwriter), and subject always to the provisions of the Listing Rules, offer, allot, issue or sell, or agree to allot, issue or sell, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates (as defined in the Public Offer Underwriting Agreement)), either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exchangeable for such Shares or any voting right or any other right attaching thereto or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities or any voting right or any other right attaching thereto, whether any of the

UNDERWRITING

foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to effect any such transaction during the period commencing from the date of the Public Offer Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six-month Period**”);

- (b) not at any time during the First Six-month Period, issue or create any mortgage, pledge, charge or other security interest or any rights in favour of any other person over, directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares or securities of our Company) or repurchase any Shares or securities of our Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of our Company or agree to do any of the foregoing, except pursuant to the Share Offer, the Bonus Issue or the exercise of the subscription rights attaching to any share options to be granted under the Share Option Scheme or under the circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules or under Note (2) to Rule 10.07 of the Listing Rules;
- (c) not at any time within the period of six months immediately following the expiry of the First Six-month Period (the “**Second Six-month Period**”) do any of the acts set out in (a) and (b) above such that any of our Controlling Shareholder, directly or indirectly, would cease to be a controlling shareholder of our Company (within the meaning defined in the Listing Rules); and
- (d) in the event that our Company does any of the acts set out in clause (a) or (b) after the expiry of the First Six-month Period or the Second Six-month Period, as the case may be, take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein,

provided that none of the above undertakings shall (a) restrict our Company’s ability to sell, pledge, mortgage or charge any share capital or other securities of or any other interest in any of the subsidiaries provided that such sale or any enforcement of such pledge, mortgage or charge will not result in such Subsidiaries ceasing to be a subsidiary of our Company; or (b) restrict any of the subsidiaries from issuing any share capital or other securities thereof or any other interests therein provided that any such issue will not result in that subsidiary ceasing to be a subsidiary of our Company.

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Undertakings by our Controlling Shareholder

Our Controlling Shareholder has represented, warranted and undertaken to the Sponsor, the Sole Bookrunner and Lead Manager, the Public Offer Underwriter and our Company that, except pursuant to the Share Offer and unless in compliance with the Listing Rules, he shall not, without the prior written consent of the Sole Bookrunner and Lead Manager (for itself and on behalf of the Public Offer Underwriter), directly or indirectly, and shall procure that none of his or its close associates (as defined in the Listing Rules) or companies controlled by him or any nominee or trustee holding in trust for him shall, during the First Six-month Period:

- (a) offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)) any of the Shares (or any interest therein or any of the voting or other rights attaching thereto) in respect of which he or it is shown in this prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares (or any interest therein or any of the voting or other rights attaching thereto); or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares (or any interest therein or any of the voting or other rights attaching thereto) or such securities, at any time during the First Six-month Period, save as provided under note (2) to Rule 10.07(2) of the Listing Rules and subject always to compliance with the provisions of the Listing Rules; and
- (b) in the event of a disposal of any Shares (or any interest therein or any of the voting or other rights attaching thereto) or such securities at any time during the Second Six-month period, (1) such disposal shall not result in any of our Controlling Shareholder ceasing to be our controlling shareholder (as defined in the Listing Rules) of our Company at any time during the Second Six-month Period; and (2) he or it shall take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

Without prejudice to our Controlling Shareholder undertaking above, our Controlling Shareholder undertakes to the Sponsor, the Sole Bookrunner and Lead Manager, the Public Offer Underwriter and our Company that within the First Six-month Period and the Second Six-month Period he shall:

- (a) if and when he pledges or charges, directly or indirectly, any Shares (or any interest therein or any of the voting or other rights attaching thereto) or other securities of our Company beneficially owned by him or it (or any beneficial interest therein), immediately inform our Company, the Sponsor, the Sole Bookrunner and Lead Manager and the Public Offer Underwriter in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and

UNDERWRITING

- (b) if and when he receives indications, either verbal or written, from any pledgee or chargee that any Shares (or any interest therein or any of the voting or other rights attaching thereto) or other securities of our Company (or any beneficial interest therein) pledged or charged by him will be disposed of, immediately inform our Company, the Sponsor, the Sole Bookrunner and Lead Manager and the Public Offer Underwriter in writing of such indications.

Our Company shall notify the Stock Exchange as soon as our Company has been informed of such event and shall make a public disclosure by way of announcement in accordance with the Listing Rules.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Controlling Shareholder

In accordance with Rule 10.07(1) of the Listing Rules, our Controlling Shareholder has undertaken to the Stock Exchange and our Company that except pursuant to the Share Offer or unless in compliance with the requirements of the Listing Rules, he shall not, and shall procure that the relevant registered holder(s) shall not, (i) at any time during the period commencing on the date by reference to which disclosure of its or his shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or other securities of our Company in respect of which it or he is shown by this prospectus to be the beneficial owner; and (ii) at any time during the period of six months from the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he would cease to be our Controlling Shareholder.

Our Controlling Shareholder has further undertaken to us and the Stock Exchange that he will, within a period of commencing on the date by reference to which disclosure of his shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us of:

- (a) any pledges or charges of any Shares or other securities of our Company beneficially owned by our Controlling Shareholder in favour of any authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules for a bona fide commercial loan, and the number of such Shares or other securities of our Company so pledged or charged; and
- (b) when he or the relevant requested holders receive indication, either verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such securities will be disposed of.

UNDERWRITING

Undertaking by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement or arrangement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except pursuant to the Share Offer and the Bonus Issue or in certain circumstances prescribed by Rule 10.08 of the Listing Rules which includes the grant of options and the issue of Shares pursuant to the Share Option Scheme.

Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company, our Controlling Shareholder and Chairman will enter into the Placing Underwriting Agreement with the Sponsor, the Sole Bookrunner and Lead Manager, the Placing Underwriter(s) and other parties (if any) on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriter(s) are expected to severally, but not jointly, agree to procure subscribers and purchasers to subscribe for or purchase, or failing which they shall subscribe for or purchase, the Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Prospective investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the Placing Underwriting Agreement, our Company and Controlling Shareholder will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed “Undertakings to the Public Offer Underwriter” above in this section.

Commission, fees and expenses

The Public Offer Underwriter will receive a gross underwriting commission of 3.0% of the aggregate Offer Price of the Public Offer Shares initially offered under the Public Offer out of which any sub-underwriting commission, praecipium and selling concession will be paid. For unsubscribed Public Offer Shares reallocated to the Placing and any Placing Shares reallocated from the Placing to the Public Offer, we will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the Placing Underwriter(s) and not the Public Offer Underwriter.

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Based on the Offer Price of HK\$1.05 per Offer Share (being the mid-point of the indicative Offer Price range), the aggregate commission, together with Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fees, legal and other professional fees and printing and other expenses relating to the Share Offer, are estimated to amount to approximately HK\$76.1 million in total, and are payable by our Company.

SPONSOR'S AND UNDERWRITERS' INTEREST IN OUR COMPANY

The Sponsor will receive a sponsorship fee to the Share Offer. The Sole Bookrunner and Lead Manager and the Underwriters will receive an underwriting commission and/or praecipium. Particulars of these underwriting commission and expenses are set forth under the paragraph headed "Commission, fees and expenses" in this section.

Save as disclosed above, none of the Sponsor and the Underwriters is interested legally or beneficially in any Shares or other securities of our Company or any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase any Shares or other securities of our Company or any members of our Group or has any interest in the Share Offer.

Following the completion of the Share Offer, the Public Offer Underwriter and its affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Public Offer Underwriting Agreement and/or the Placing Underwriting Agreement.

The Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors and the Sole Bookrunner and Lead Manager will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

This prospectus is published in connection with the Public Offer which forms part of the Share Offer. Altus Capital is the Sponsor for the listing of the Shares on the Stock Exchange. Crosby Securities Limited is the Sole Bookrunner and Lead Manager of the Share Offer.

The Share Offer initially consists of:

- (i) the Public Offer of 12,500,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described in the paragraph headed “Public Offer” in this section; and
- (ii) the Placing of 112,500,000 Offer Shares.

Investors may apply for Offer Shares under the Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the Placing, but may not do both. Reasonable steps will be taken to identify and reject applications in the Public Offer from investors who have received Offer Shares in the Placing, and to identify and reject indications of interest in the Placing from investors who have applied for Offer Shares in the Public Offer. The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The Placing will involve selective marketing of Offer Shares to professional, institutional, individual and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and elsewhere. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Placing Underwriter(s) is soliciting from prospective investors’ indications of interest in acquiring the Offer Shares in the Placing. Prospective professional, institutional, individual and other investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to and to cease on or around, the last day of lodging applications under the Public Offer.

The Public Offer is fully underwritten by the Public Offer Underwriter under the terms of the Public Offer Underwriting Agreement and is subject to our Company and the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) agreeing on the Offer Price. Our Company expects to enter into the Placing Underwriting Agreement relating to the Placing on the Price Determination Date. Details of the underwriting arrangements are summarised under the section headed “Underwriting” of this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for Offer Shares pursuant to the Share Offer will be conditional on, amongst others:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Share Offer and the Bonus Issue and such listing and permission not subsequently having been revoked prior to the commencement of dealing in our Shares on the Stock Exchange;
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the Placing Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the Public Offer Underwriting Agreement and the Placing Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective agreements,

in each case on or before the dates and times specified in the Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event, not later than the date which is 30 days after the date of this prospectus.

The Offer Shares are being offered at the Offer Price which is expected to be fixed between the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Monday, 8 May 2017 and in any event, not later than 12:00 noon on Thursday, 11 May 2017.

If, for any reason, the Offer Price is not agreed between the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) and our Company by 12:00 noon on Thursday, 11 May 2017, the Share Offer will not proceed and will lapse.

The consummation of each of the Public Offer and the Placing is conditional upon, amongst other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Public Offer to be published in *The Standard* (in English) and *the Hong Kong Economic Times* (in Chinese) and on our website (www.okura-holdings.com) and the Stock Exchange's website (www.hkexnews.hk) on the next business day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

set out under the section headed “How to Apply for the Public Offer Shares” of this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended from time to time).

Share certificates for the Offer Shares are expected to be issued on Friday, 12 May 2017 but will only become valid certificates of title at 8:00 a.m. on Monday, 15 May 2017 provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in the paragraph headed “Grounds for termination” under the section headed “Underwriting” of this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

PUBLIC OFFER

Number of Offer Shares initially offered

Our Company is initially offering 12,500,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Share Offer. Subject to the reallocation of Shares between (i) the Placing; and (ii) the Public Offer as mentioned below, the number of the Public Offer Shares will represent 2.5% of our Company’s issued share capital immediately after completion of the Share Offer and the Bonus Issue (without taking into account any Shares to be issued upon the exercise of the Share Option Scheme).

Completion of the Public Offer is subject to the conditions as set out in the paragraph headed “Conditions of the Share Offer” in this section.

Allocation

Allocation of Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The total available Shares under the Public Offer (after taking into account any reallocation of Offer Shares between the Public Offer and the Placing) is to be divided into two pools (subject to adjustment of odd lot size) for allocation purposes: pool A and pool B. The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

applied for Public Offer Shares with an aggregate price of HK\$5.0 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable) or less. The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate price of more than HK\$5.0 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Public Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Public Offer Shares from either pool A or pool B but not from both pools and can only apply for Public Offer Shares in either pool A or pool B.

Accordingly, the maximum number of Public Offer Shares initially in pool A and pool B will be 6,250,000 and 6,250,000, respectively.

Multiple or suspected multiple applications within either pool or between pools and any application for more than 6,250,000 Public Offer Shares (being 50% of the Public Offer Shares initially available under the Public Offer) are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Public Offer and the Placing is subject to adjustment. If the number of Offer Shares validly applied for under the Public Offer is (i) 15 times or more but less than 50 times; (ii) 50 times or more but less than 100 times; and (iii) 100 times or more, of the number of Offer Shares initially available under the Public Offer, then Offer Shares will be reallocated to the Public Offer from the Placing so that the total number of Offer Shares available under the Public Offer will be increased to 37,500,000 Offer Shares (in the case of (i)), 50,000,000 Offer Shares (in the case of (ii)) and 62,500,000 Offer Shares (in the case of (iii)) representing 30%, 40% and 50% of the Offer Shares initially available under the Share Offer, respectively in each case, the additional Offer Shares reallocated to the Public Offer will be allocated between pool A and pool B and the number of Offer Shares allocated to the Placing will be correspondingly reduced, in such manner as the Sole Bookrunner and Lead Manager deems appropriate. In addition, in certain prescribed circumstances, the Sole Bookrunner and Lead Manager may, at its sole and absolute discretion, reallocate Placing Shares as it deems appropriate from the Placing to the Public Offer to satisfy in whole or in part the excess valid applications in the Public Offer.

If the Public Offer Shares are not fully subscribed for, the Sole Bookrunner and Lead Manager may, at its sole and absolute discretion, reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportion as the Sole Bookrunner and Lead Manager deems appropriate.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Applications

The Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Sole Bookrunner and Lead Manager so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the Placing.

The listing of the Offer Shares on the Stock Exchange is sponsored by Altus Capital. Applicants under the Public Offer are required to pay, on application, the maximum price of HK\$1.20 per Offer Share in addition to any brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed "Price determination of the Share Offer" in this section, is less than the maximum price of HK\$1.20 per Share, appropriate refund payments (including the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out under the section headed "How to Apply for the Public Offer Shares" of this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

PLACING

Number of Offer Shares offered

The number of Offer Shares to be initially offered for subscription under the Placing will be 112,500,000 Shares, representing 90% of the total number of the Offer Shares initially available under the Share Offer. Subject to any reallocation of Offer Shares between the Placing and the Public Offer, the Placing Shares will represent 22.5% of our enlarged issued share capital immediately after completion of the Share Offer and the Bonus Issue (without taking into account any Shares to be issued upon the exercise of the Share Option Scheme).

The Placing is subject to the same conditions as stated in the paragraph headed "Conditions of the Share Offer" in this section.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation

The Share Offer will include selective marketing of Offer Shares to professional, institutional, individual and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the book-building process described in the paragraph headed “Price determination of the Share Offer” in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid shareholder base, including professional, institutional, individual and other investors, to the benefit of our Company and our Shareholders as a whole.

The Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Sole Bookrunner and Lead Manager so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

PRICE DETERMINATION OF THE SHARE OFFER

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Monday, 8 May 2017, and in any event by 12:00 noon on Thursday, 11 May 2017, by agreement between the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) and our Company.

The Offer Price will be not more than HK\$1.20 per Share and is expected to be not less than HK\$0.90 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer.

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional, individual and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Share Offer and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause to be published in *The Standard* (in English) and *the Hong Kong Economic Times* (in Chinese), and our website (www.okura-holdings.com) and the Stock Exchange's website (www.hkexnews.hk) notices of the reduction in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range. Upon issue of such a notice, the number of Offer Shares offered in the Share Offer and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer.

Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Share Offer statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon by our Company with the Sole Bookrunner and Lead Manager (for itself and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The final Offer Price, the levels of indication of interest in the Share Offer, the results of applications and the basis of allotment of Offer Shares under the Public Offer, are expected to be announced on Friday, 12 May 2017 in the manner set out in the paragraph headed "Publication of results" under the section headed "How to Apply for the Public Offer Shares" of this prospectus.

DEALINGS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, 15 May 2017, it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, 15 May 2017, and will be traded in board lots of 5,000 Shares.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for the Public Offer Shares, then you may not apply for or indicate an interest for the Placing Shares.

To apply for the Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Bookrunner and Lead Manager, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for the Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Bookrunner and Lead Manager may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form Service** for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of our subsidiaries;
- a Director or chief executive officer of our Company and/or any of our subsidiaries;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- an associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR THE PUBLIC OFFER SHARES

Which application channel to use

For the Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk.

For the Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your, or a designated CCASS Participant's, stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 28 April 2017 until 12:00 noon on Monday, 8 May 2017 from:

- (i) the office of the **Public Offer Underwriter**:

| | |
|----------------------------------|--|
| Crosby Securities Limited | 5/F AXA Centre 151 Gloucester Road Wan Chai Hong Kong |
|----------------------------------|--|

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(ii) any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

| | Branch name | Address |
|-------------------------|--------------------------|--|
| Hong Kong Island | 88 Des Voeux Road Branch | 88 Des Voeux Road Central, Central |
| | Causeway Bay Branch | G/F to 2/F, Yee Wah Mansion, 38-40A Yee Wo Street, Causeway Bay |
| Kowloon | Kwun Tong Branch | G/F & 1/F One Pacific Centre, 414 Kwun Tong Road, Kwun Tong |
| | San Po Kong Branch | Shop A, G/F, Perfect Industrial Building, 31 Tai Yau Street, San Po Kong |
| New Territories | Shatin Plaza Branch | Shop No. 8, Shatin Plaza, 21-27 Shatin Centre Street, Shatin |

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 28 April 2017 until 12:00 noon on Monday, 8 May 2017 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**Horsford Nominees Limited — Okura Public Offer**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Friday, 28 April 2017 — 9:00 a.m. to 5:00 p.m.
- Saturday, 29 April 2017 — 9:00 a.m. to 1:00 p.m.
- Tuesday, 2 May 2017 — 9:00 a.m. to 5:00 p.m.
- Thursday, 4 May 2017 — 9:00 a.m. to 5:00 p.m.
- Friday, 5 May 2017 — 9:00 a.m. to 5:00 p.m.
- Saturday, 6 May 2017 — 9:00 a.m. to 1:00 p.m.
- Monday, 8 May 2017 — 9:00 a.m. to 12:00 noon

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 8 May 2017, the last application day or such later time as described in the paragraph headed “Effect of bad weather on the opening of the applications lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form Service**, amongst other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Bookrunner and Lead Manager (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sponsor, the Sole Bookrunner and Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, the receiving bank, the Sponsor, the Sole Bookrunner and Lead Manager, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sponsor, the Sole Bookrunner and Lead Manager and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S under the U.S. Securities Act) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S under the U.S. Securities Act;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Bookrunner and Lead Manager will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed “Who can apply” in this section, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form Service** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

TIME FOR SUBMITTING APPLICATIONS UNDER THE HK eIPO WHITE FORM

You may submit your application to the **HK eIPO White Form** Service Provider at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 28 April 2017 until 11:30 a.m. on Monday, 8 May 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 8 May 2017 or such later time under the paragraph headed “Effects of bad weather on the opening of the applications lists” in this section.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

No multiple applications

If you apply by means of the **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for the Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under the **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Bookrunner and Lead Manager and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Public Offer Shares applied for or any lesser number allocated;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors and the Sole Bookrunner and Lead Manager will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sponsor, the Sole Bookrunner and Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, the receiving bank, the Sponsor, the Sole Bookrunner and Lead Manager, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for the Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Effect of giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 5,000 Public Offer Shares. Instructions for more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of the Public Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Friday, 28 April 2017 — 9:00 a.m. to 8:30 p.m.^(Note)
- Saturday, 29 April 2017 — 8:00 a.m. to 1:00 p.m.^(Note)
- Tuesday, 2 May 2017 — 8:00 a.m. to 8:30 p.m.^(Note)

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- Thursday, 4 May 2017 — 8:00 a.m. to 8:30 p.m.^(Note)
- Friday, 5 May 2017 — 8:00 a.m. to 8:30 p.m.^(Note)
- Saturday, 6 May 2017 — 8:00 a.m. to 1:00 p.m.^(Note)
- Monday, 8 May 2017 — 8:00 a.m.^(Note) to 12:00 noon

Note:

These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 28 April 2017 until 12:00 noon on Monday, 8 May 2017 (24 hours daily, except from 3:00 p.m. on Saturday, 29 April 2017 until 1:00 p.m. on Sunday, 30 April 2017 and on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 8 May 2017, the last application day or such later time as described in the paragraph headed “Effect of bad weather on the opening of the application lists” in this section.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Personal data

The section of the Application Form headed “Personal data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bank, the Sole Bookrunner and Lead Manager, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for the Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sponsor, the Sole Bookrunner and Lead Manager and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before Monday, 8 May 2017.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued shares of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** and **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 5,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the paragraph headed “Price determination of the Share Offer” under the section headed “Structure and Conditions of the Share Offer” of this prospectus.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 8 May 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 8 May 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned under the section headed “Expected timetable” of this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Friday, 12 May 2017 in *The Standard* (in English) and *the Hong Kong Economic Times* (in Chinese) and on our website (www.okura-holdings.com) and the Stock Exchange’s website (www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our website (www.okura-holdings.com) and the Stock Exchange’s website (www.hkexnews.hk) by no later than 9:00 a.m. on Friday, 12 May 2017;
- from the designated results of allocations website (www.tricor.com.hk/ipo/result) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Friday, 12 May 2017 to 12:00 midnight on Thursday, 18 May 2017;
- by telephone enquiry line by calling **3691 8488** between 9:00 a.m. and 6:00 p.m. from Friday, 12 May 2017 to Wednesday, 17 May 2017 on a Business Day;
- in the special allocation results booklets which will be available for inspection during opening hours from Friday, 12 May to Monday, 15 May 2017 at the designated receiving bank branches.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained under the section headed “Structure and Conditions of the Share Offer” of this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(ii) **If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Sole Bookrunner and Lead Manager, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) **If the allotment of the Public Offer Shares is void:**

The allotment of the Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Bookrunner and Lead Manager believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- you apply for more than 50% of the Public Offer Shares initially offered under the Public Offer.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$1.20 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the paragraph headed “Conditions of the Public Offer” under the section headed “Structure and Conditions of the Share Offer” of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Friday, 12 May 2017.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Friday, 12 May 2017. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Monday, 15 May 2017 provided that the Share Offer has become unconditional and the right of termination described under the section headed "Underwriting" of this prospectus has not been exercised. Investors who trade the Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 12 May 2017 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Friday, 12 May 2017, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Friday, 12 May 2017, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participants stock account as stated in your Application Form on Friday, 12 May 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- If you are applying as a CCASS Investor Participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraph headed "Publication of results" in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 12 May 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 12 May 2017, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Friday, 12 May 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(iv) If you apply via **Electronic Application Instructions to HKSCC**

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, 12 May 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the paragraph headed "Publication of results" in this section on Friday, 12 May 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 12 May 2017 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 12 May 2017. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, 12 May 2017.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

28 April 2017

The Board of Directors
Okura Holdings Limited

Altus Capital Limited

Dear Sirs,

We report on the financial information of Okura Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated statements of financial position as at 30 June 2014, 2015 and 2016 and 31 October 2016, the statements of financial position of the Company as at 30 June 2015 and 2016 and 31 October 2016, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 30 June 2014, 2015 and 2016 and for the four months ended 31 October 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to II below for inclusion in Appendix I to the prospectus of the Company dated 28 April 2017 (the "Prospectus") in connection with the share offer of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Hong Kong with limited liability on 15 June 2015. Pursuant to a group reorganisation as described in Note 1.2 of Section II headed "Reorganisation" below, which was completed on 1 November 2015, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1.2 of Section I below. All of these companies are private companies.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

Statutory audited financial statements for the year ended 30 June 2016 have been prepared by the Company in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and audited by us in accordance with Hong Kong Standards on Auditing (the “HKSA”) issued by the HKICPA.

The directors of the Company have prepared the consolidated financial statements of the Company for the Relevant Periods, in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board and HKFRS issued by the HKICPA (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRS and HKFRS. We have audited the Underlying Financial Statements in accordance with the HKSA issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRS and HKFRS, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the financial position of the Company as at 30 June 2015 and 2016 and 31 October 2016 and of the financial position of the Group as at 30 June 2014, 2015 and 2016 and 31 October 2016 and of the Group's financial performance and cash flows for the Relevant Periods.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus, which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the four months ended 31 October 2015, and a summary of significant accounting policies and other explanatory information (the “Stub Period Comparative Financial Information”).

The directors of the Company are responsible for the preparation and fair presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 30 June 2014, 2015 and 2016 and 31 October 2016 and for each of the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016 (the "Financial Information").

Consolidated statements of comprehensive income

| | Note | The Group | | | | |
|--|------|--------------------|--------------|--------------|-------------------|-------------|
| | | Year ended 30 June | | | Four months ended | |
| | | 2014 | 2015 | 2016 | 2015 | 2016 |
| | | ¥million | ¥million | ¥million | ¥million | ¥million |
| | | | | | | (Unaudited) |
| Revenue | 5 | 12,990 | 11,245 | 10,098 | 3,621 | 3,065 |
| Other income | 6 | 1,354 | 1,223 | 819 | 240 | 237 |
| Other (losses)/gains, net. | 6 | (13) | 182 | (131) | (132) | 71 |
| Hall operating expenses | 7 | (11,477) | (9,486) | (8,129) | (2,982) | (2,847) |
| Administrative and other operating expenses. | 7 | (923) | (1,385) | (1,405) | (497) | (407) |
| Operating profit | | <u>1,931</u> | <u>1,779</u> | <u>1,252</u> | <u>250</u> | <u>119</u> |
| Finance income | | 81 | 61 | 25 | 14 | 1 |
| Finance costs. | | (321) | (277) | (249) | (85) | (76) |
| Finance costs, net. | 9 | (240) | (216) | (224) | (71) | (75) |
| Profit before income tax | | <u>1,691</u> | <u>1,563</u> | <u>1,028</u> | <u>179</u> | <u>44</u> |
| Income tax expense | 10 | (682) | (981) | (424) | (71) | (18) |
| Profit for the year/period. | | <u>1,009</u> | <u>582</u> | <u>604</u> | <u>108</u> | <u>26</u> |
| Profit attributable to: | | | | | | |
| Shareholders of the Company | | 1,020 | 562 | 604 | 108 | 26 |
| Non-controlling interests | | (11) | 20 | — | — | — |
| | | <u>1,009</u> | <u>582</u> | <u>604</u> | <u>108</u> | <u>26</u> |

| | | The Group | | | | |
|--|---|--------------------|------------|-------------|---------------------------------|-----------|
| | | Year ended 30 June | | | Four months ended 31 October | |
| Note | | 2014 | 2015 | 2016 | 2015 | 2016 |
| | | ¥million | ¥million | ¥million | ¥million | ¥million |
| (Unaudited) | | | | | | |
| Other comprehensive | | | | | | |
| (loss)/income | | | | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | | | | |
| | Remeasurement of defined benefit retirement plans | (1) | 2 | (1) | — | 3 |
| | Change in fair value of equity investments at fair value through other comprehensive income | (9) | 27 | (33) | 6 | 5 |
| | Deferred income tax arising from fair value change | 3 | (10) | 24 | (2) | (1) |
| | | <u>(7)</u> | <u>19</u> | <u>(10)</u> | <u>4</u> | <u>7</u> |
| | Total comprehensive income for the year/period | <u>1,002</u> | <u>601</u> | <u>594</u> | <u>112</u> | <u>33</u> |
| | Total comprehensive income/(loss) attributable to: | | | | | |
| | Shareholders of the Company | 1,013 | 581 | 594 | 112 | 33 |
| | Non-controlling interests | (11) | 20 | — | — | — |
| | | <u>1,002</u> | <u>601</u> | <u>594</u> | <u>112</u> | <u>33</u> |
| Earnings per share for profit attributable to shareholders of the Company | | | | | | |
| | - Basic and diluted (expressed in Japanese Yen per share) | 11 | <u>128</u> | <u>70</u> | <u>76</u> | <u>14</u> |
| | | | <u>3</u> | | | <u>3</u> |

Note: The earnings per share as presented above is calculated using the weighted average number of ordinary shares of 8,000,000 shares for each of the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016. It has not taken into account the proposed bonus issue of 367,000,000 shares pursuant to the written resolution passed by the shareholders on 10 April 2017 because the proposed bonus issue has not become effective as of the date of this report.

Consolidated statements of financial position

| | Note | As at 30 June | | | As at |
|--|-------|----------------------|----------------------|----------------------|----------------------|
| | | 2014 | 2015 | 2016 | 31 October |
| | | ¥million | ¥million | ¥million | 2016 |
| | | | | ¥million | |
| Assets | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 13 | 9,308 | 8,794 | 8,304 | 8,250 |
| Investment properties | 15 | 2,387 | 2,440 | 2,394 | 2,377 |
| Intangible assets | 16 | 744 | 839 | 831 | 823 |
| Prepayments, deposits and other receivables | 21 | 1,854 | 1,758 | 1,751 | 1,848 |
| Financial assets at fair value through other comprehensive income | 18(b) | 41 | 155 | 38 | 42 |
| Financial assets at fair value through profit or loss | 18(a) | 184 | 284 | 34 | 43 |
| Long-term bank deposits | 22 | 100 | — | — | — |
| Deferred income tax assets | 30 | 490 | 842 | 762 | 838 |
| | | <u>15,108</u> | <u>15,112</u> | <u>14,114</u> | <u>14,221</u> |
| Current assets | | | | | |
| Inventories | 19 | 100 | 82 | 101 | 44 |
| Trade receivables | 20 | 2 | — | — | — |
| Prepayments, deposits and other receivables | 21 | 611 | 557 | 515 | 594 |
| Amounts due from related parties | 34(b) | 1,915 | 1,485 | — | — |
| Financial assets at fair value through profit or loss | 18(a) | 1,019 | 1,792 | 225 | 267 |
| Income tax recoverable | | 18 | 863 | 445 | 7 |
| Short-term bank deposits | 22 | 684 | 500 | 100 | 100 |
| Cash and cash equivalents | 22 | 3,105 | 2,566 | 1,354 | 1,175 |
| | | <u>7,454</u> | <u>7,845</u> | <u>2,740</u> | <u>2,187</u> |
| Total assets | | <u><u>22,562</u></u> | <u><u>22,957</u></u> | <u><u>16,854</u></u> | <u><u>16,408</u></u> |
| Equity | | | | | |
| Equity attributable to shareholders of the Company | | | | | |
| Capital | 23 | 5,229 | 11,968 | 11,968 | 11,968 |
| Reserves | 24 | 5,859 | 8 | (4,138) | (4,105) |
| | | 11,088 | 11,976 | 7,830 | 7,863 |
| Non-controlling interests | | 581 | — | — | — |
| Total equity | | <u><u>11,669</u></u> | <u><u>11,976</u></u> | <u><u>7,830</u></u> | <u><u>7,863</u></u> |

| | Note | As at 30 June | | | As at |
|--|-------|---------------|---------------|---------------|---------------|
| | | 2014 | 2015 | 2016 | 31 October |
| | | ¥million | ¥million | ¥million | 2016 |
| Liabilities | | | | | |
| Non-current liabilities | | | | | |
| Borrowings | 28 | 2,748 | 2,137 | 1,769 | 1,685 |
| Obligations under finance leases | 29 | 3,267 | 3,088 | 2,917 | 2,858 |
| Accruals, provisions and other payables | 26 | 421 | 418 | 422 | 437 |
| Employee benefit obligations | 27 | 902 | 1,068 | 1,087 | 1,155 |
| Deferred income tax liabilities | 30 | 1 | 628 | 406 | 406 |
| | | <u>7,339</u> | <u>7,339</u> | <u>6,601</u> | <u>6,541</u> |
| Current liabilities | | | | | |
| Borrowings | 28 | 1,406 | 862 | 953 | 591 |
| Trade payables | 25 | 33 | 27 | 23 | 25 |
| Accruals, provisions and other payables | 26 | 1,463 | 1,315 | 1,180 | 1,152 |
| Loans from related parties | 34(d) | 183 | 162 | — | — |
| Amounts due to related parties | 34(c) | 47 | — | 1 | — |
| Obligations under finance leases | 29 | 205 | 179 | 171 | 175 |
| Current income tax liabilities | | 217 | 1,097 | 95 | 61 |
| | | <u>3,554</u> | <u>3,642</u> | <u>2,423</u> | <u>2,004</u> |
| Total liabilities | | <u>10,893</u> | <u>10,981</u> | <u>9,024</u> | <u>8,545</u> |
| Total equity and liabilities | | <u>22,562</u> | <u>22,957</u> | <u>16,854</u> | <u>16,408</u> |
| Net current assets | | <u>3,900</u> | <u>4,203</u> | <u>317</u> | <u>183</u> |
| Total assets less current liabilities | | <u>19,008</u> | <u>19,315</u> | <u>14,431</u> | <u>14,404</u> |

Statements of financial position

| | Note | Company | | |
|----------------------------------|-------|--------------------------|--------------------------|-----------------------------|
| | | As at 30 June 2015 | As at 30 June 2016 | As at 31 October 2016 |
| | | ¥million | ¥million | ¥million |
| Assets | | | | |
| Non-current asset | | | | |
| Investments in subsidiaries..... | 14 | 11,968 | 11,968 | 11,968 |
| Current asset | | | | |
| Cash and cash equivalents..... | | — | 76 | 76 |
| Total assets..... | | 11,968 | 12,044 | 12,044 |
| Liabilities | | | | |
| Total liabilities..... | | — | — | — |
| Net assets | | 11,968 | 12,044 | 12,044 |
| Equity | | | | |
| Share capital..... | 23 | 11,968 | 11,968 | 11,968 |
| Reserves..... | 24(a) | — | 76 | 76 |
| Total equity | | 11,968 | 12,044 | 12,044 |

Consolidated statements of changes in equity

| | Capital (Note 23) | Capital reserve (Note 24(b)) | Legal reserve (Note 24(c)) | Investment revaluation reserve (Note 24(d)) | Retained earnings | Non- controlling interest | Total |
|--|----------------------|------------------------------------|----------------------------------|--|----------------------|---------------------------------|---------------|
| | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million |
| Balances at 1 July 2013 | 5,229 | — | 31 | 9 | 4,808 | 592 | 10,669 |
| Comprehensive income/(loss) | | | | | | | |
| Profit/(loss) for the year | — | — | — | — | 1,020 | (11) | 1,009 |
| Other comprehensive income | | | | | | | |
| Remeasurement of defined benefit retirement plans | — | — | — | — | (1) | — | (1) |
| Equity investments at fair value through other comprehensive income, net of tax | — | — | — | (6) | — | — | (6) |
| Total comprehensive (loss)/income | — | — | — | (6) | 1,019 | (11) | 1,002 |
| Dividend paid | — | — | — | — | (2) | — | (2) |
| Transfer to legal reserve. | — | — | 3 | — | (3) | — | — |
| Total transactions with shareholders | — | — | 3 | — | (5) | — | (2) |
| Balance at 30 June 2014 | <u>5,229</u> | <u>—</u> | <u>34</u> | <u>3</u> | <u>5,822</u> | <u>581</u> | <u>11,669</u> |
| Balances at 1 July 2014 | 5,229 | — | 34 | 3 | 5,822 | 581 | 11,669 |
| Comprehensive income | | | | | | | |
| Profit for the year | — | — | — | — | 562 | 20 | 582 |
| Other comprehensive income | | | | | | | |
| Remeasurement of defined benefit retirement plans | — | — | — | — | 2 | — | 2 |
| Equity investments at fair value through other comprehensive income, net of tax | — | — | — | 17 | — | — | 17 |
| Total comprehensive income. | — | — | — | 17 | 564 | 20 | 601 |
| Dividend paid | — | — | — | — | (2) | — | (2) |
| Transfer to legal reserve. | — | — | 4 | — | (4) | — | — |
| Acquisition of additional interests in subsidiaries | — | 370 | — | — | — | (601) | (231) |
| Distribution to shareholders | — | (61) | — | — | — | — | (61) |
| Incorporation of the Company, and transfer of Listing Business to the Company. | 6,739 | (6,739) | — | — | — | — | — |
| Total transactions with shareholders | <u>6,739</u> | <u>(6,430)</u> | <u>4</u> | <u>—</u> | <u>(6)</u> | <u>(601)</u> | <u>(294)</u> |
| Balance at 30 June 2015 | <u>11,968</u> | <u>(6,430)</u> | <u>38</u> | <u>20</u> | <u>6,380</u> | <u>—</u> | <u>11,976</u> |

| | Capital (Note 23) | Capital reserve (Note 24(b)) | Legal reserve (Note 24(c)) | Investment revaluation reserve (Note 24(d)) | Retained earnings | Non- controlling interest | Total |
|---|----------------------|------------------------------------|----------------------------------|--|----------------------|---------------------------------|---------------|
| | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million |
| Balances at 1 July 2015 | 11,968 | (6,430) | 38 | 20 | 6,380 | — | 11,976 |
| Comprehensive income | | | | | | | |
| Profit for the year | — | — | — | — | 604 | — | 604 |
| Other comprehensive income | | | | | | | |
| Remeasurement of defined benefit retirement plans | — | — | — | — | (1) | — | (1) |
| Equity investments at fair value through other comprehensive income, net of tax | — | — | — | (9) | — | — | (9) |
| Total comprehensive (loss)/ income | — | — | — | (9) | 603 | — | 594 |
| Dividend paid | — | — | — | — | (4,740) | — | (4,740) |
| Transfer to legal reserve. | — | — | 2 | — | (2) | — | — |
| Total transactions with shareholders | — | — | 2 | — | (4,742) | — | (4,740) |
| Balance at 30 June 2016 | <u>11,968</u> | <u>(6,430)</u> | <u>40</u> | <u>11</u> | <u>2,241</u> | <u>—</u> | <u>7,830</u> |
| Balances at 1 July 2015 | 11,968 | (6,430) | 38 | 20 | 6,380 | — | 11,976 |
| Comprehensive income (unaudited) | | | | | | | |
| Profit for the period (unaudited) | — | — | — | — | 108 | — | 108 |
| Other comprehensive income (unaudited) | | | | | | | |
| Equity investments at fair value through other comprehensive income, net of tax (unaudited) | — | — | — | 4 | — | — | 4 |
| Total comprehensive income (unaudited) | — | — | — | 4 | 108 | — | 112 |
| Balance at 31 October 2015 (unaudited) | <u>11,968</u> | <u>(6,430)</u> | <u>38</u> | <u>24</u> | <u>6,488</u> | <u>—</u> | <u>12,088</u> |
| Balances at 1 July 2016 | 11,968 | (6,430) | 40 | 11 | 2,241 | — | 7,830 |
| Comprehensive income | | | | | | | |
| Profit for the period | — | — | — | — | 26 | — | 26 |
| Other comprehensive income | | | | | | | |
| Remeasurement of defined benefit retirement plans | — | — | — | — | 3 | — | 3 |
| Equity investments at fair value through other comprehensive income, net of tax | — | — | — | 4 | — | — | 4 |
| Total comprehensive income | — | — | — | 4 | 29 | — | 33 |
| Balance at 31 October 2016 | <u>11,968</u> | <u>(6,430)</u> | <u>40</u> | <u>15</u> | <u>2,270</u> | <u>—</u> | <u>7,863</u> |

Consolidated statements of cash flows

| | | The Group | | | | |
|---|----|--------------------|----------|----------|---------------------------------|----------|
| | | Year ended 30 June | | | Four months ended 31 October | |
| Note | | 2014 | 2015 | 2016 | 2015 | 2016 |
| | | ¥million | ¥million | ¥million | ¥million | ¥million |
| | | (Unaudited) | | | | |
| Cash flows from operating activities | | | | | | |
| | | 3,444 | 2,634 | 2,178 | 669 | 257 |
| | 31 | 81 | 61 | 25 | 14 | 1 |
| | | (321) | (277) | (249) | (85) | (76) |
| | | (798) | (681) | (1,126) | (313) | 308 |
| | | 2,406 | 1,737 | 828 | 285 | 490 |
| Cash flows from investing activities | | | | | | |
| | | (961) | (1,672) | (—) | (9) | — |
| | | 290 | 978 | 1,708 | — | 23 |
| | | (6) | (87) | (—) | — | — |
| | | — | — | 84 | — | — |
| | | (392) | (301) | (234) | (85) | (160) |
| | | — | (93) | (4) | — | — |
| | | 585 | 5 | 15 | — | — |
| | 31 | (1) | (101) | (14) | — | — |
| | 16 | (1) | (101) | (14) | — | — |
| | | 412 | 281 | — | — | — |
| | | — | — | (100) | (100) | — |
| | | — | 3 | 500 | 500 | — |
| | | (594) | 430 | 1,485 | (443) | — |
| | | (36) | (26) | — | — | — |
| | | (703) | (583) | 3,440 | (137) | (137) |

| Note | The Group | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Year ended 30 June | | | Four months ended | |
| | 31 October | | | | |
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million | ¥million |
| | (Unaudited) | | | | |
| Cash flows from financing activities | | | | | |
| Proceeds from borrowings | 218 | 611 | 2,157 | — | 100 |
| Repayment of borrowings | (610) | (1,766) | (2,434) | (287) | (546) |
| Dividends paid | (2) | (2) | (4,740) | — | — |
| Repayment of loan from a director. Payment of listing expenses (equity portion) | (16) | (21) | (162) | (11) | — |
| Repayment of obligations under finance leases | — | (18) | (122) | (29) | (31) |
| Considerations paid for ownership interests in subsidiaries | (341) | (205) | (179) | (67) | (55) |
| Distribution to shareholders | — | (231) | — | — | — |
| | — | (61) | — | — | — |
| Net cash used in financing activities | <u>(751)</u> | <u>(1,693)</u> | <u>(5,480)</u> | <u>(394)</u> | <u>(532)</u> |
| Net increase/(decrease) in cash and cash equivalents | 952 | (539) | (1,212) | (246) | (179) |
| Cash and cash equivalents at beginning of the year/period | <u>2,153</u> | <u>3,105</u> | <u>2,566</u> | <u>2,566</u> | <u>1,354</u> |
| Cash and cash equivalents at end of the year/period | <u><u>3,105</u></u> | <u><u>2,566</u></u> | <u><u>1,354</u></u> | <u><u>2,320</u></u> | <u><u>1,175</u></u> |

II. NOTE TO THE FINANCIAL INFORMATION**1 General information, reorganisation and basis of presentation****1.1 General Information**

Okura Holdings Limited (the “Company”) was established as a limited company in Hong Kong under the Hong Kong Companies Ordinance on 16 June 2015. The address of the Company’s registered office is Level 11, Admiralty Centre Tower II, 18 Harcourt Road, Admiralty, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries comprising the Group (together, the “Group”) are principally engaged in pachinko and pachislot hall operations (the “Listing Business”) in Japan.

The Financial Information is presented in millions of Japanese Yen (“¥”), unless otherwise stated.

The Financial Information contained in this Prospectus does not constitute the Company’s statutory annual consolidated financial statements for any of the financial years ended 30 June 2014, 2015 and 2016.

As the Company was a private company in all three years, the Company was not required to deliver its financial statements to the Registrar of Companies, and has not done so.

The Company’s auditor has reported on these financial statements for the year ended 30 June 2016. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis; and did not contain a statement under either sections 406(2), 407(2) or (3) of the Companies Ordinance.

1.2 Reorganisation

For the period until the completion of the reorganisation (the “Reorganisation”) and as described below, the Listing Business had been operated by K’s Holdings Limited Company, K’s Holdings Co., Ltd., Monaco Holdings Co., Ltd. and their subsidiaries (collectively, the “Operating Companies”). All the Operating Companies had been controlled by Katsuya Yamamoto (the “Chairman” and executive director) and his family members, namely, Katsumitsu Yamamoto, Kai Yamamoto, Kinya Yamamoto, and Kakuya Yamamoto (collectively, the “Yamamoto Family”), and the Chairman made decision on behalf of the Yamamoto Family in respect of the Operating Companies.

Pursuant to the Reorganisation in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Listing”), all of the Operating Companies were transferred to the Company now comprising the Group. The major steps undertaken to effect the Reorganisation were as follows:

(i) ***Acquisition of Aisen Co., Ltd. (“Aisen”) from a third party***

On 20 September 2012, Okura Co., Ltd. (a wholly owned subsidiary of K's Holdings Co., Ltd.) signed an agreement with three independent third parties to acquire the entire issued capital of 400 shares of Aisen for a cash consideration of approximately ¥1,562 million. The acquisition of Aisen was completed on 1 October 2012. Since then, Aisen became a wholly owned subsidiary of Okura Co., Ltd.. Aisen operated one pachinko hall in Kakogawa, Hyogo.

On 3 December 2012, Okura Nishinohon Co., Ltd. was incorporated under Okura Co., Ltd. as a wholly owned subsidiary. Aisen's pachinko hall in Kakogawa and the related assets were succeeded by Okura Nishinohon., Co., Ltd. and Aisen became an investment holding company.

(ii) ***Acquisition of equity interests of non-wholly owned subsidiaries under K's Holdings Limited Company***

K's Holdings Limited Company and Okura Co., Ltd. held 10,695,680 shares and 360 shares of K's Property Co., Ltd. respectively. The remaining 14 shares were held by five individual shareholders. On 6 August 2013, K's Holdings Limited Company entered into an agreement with five individual shareholders to acquire 14 shares of K's Property Co., Ltd. for a cash consideration of ¥14,000. The acquisition was completed and the consideration was fully settled on 9 August 2013.

On 3 December 2013, K's Holdings Limited Company entered into an agreement with Okura Co., Ltd. to acquire 360 shares of K's Property Co., Ltd. for a cash consideration of ¥360,000.

The acquisition was completed and the consideration was fully settled on 27 December 2013. Upon the completion of the transaction, K's Property Co., Ltd. became a wholly owned subsidiary of K's Holdings Limited Company.

(iii) ***Merger of K's Works Co., Ltd., K's Trading Co., Ltd. and K's Parking Co., Ltd.***

Okura Co., Ltd. originally held 89.4% of equity interest in Nicks K's Property Co., Ltd.. On 6 January 2014, the wholly owned subsidiaries of Nicks K's Property Co., Ltd., K's Works Co., Ltd., K's Trading Co., Ltd. and K's Parking Co., Ltd. entered into an agreement to merge together. The merger was completed on 1 March 2014. K's Works Co., Ltd. became the surviving company, while K's Trading Co., Ltd. and K's Parking Co., Ltd. were dissolved as of 1 March 2014.

(iv) ***Transfer of Monaco Holdings Co., Ltd.***

Monaco Holdings Co., Ltd. and its subsidiaries were originally held by Katsumitsu Yamamoto directly. Monaco Holdings Co., Ltd. and its subsidiaries operated 2 pachinko halls in Nagasaki. On 22 December 2014, the entire interest of Monaco Holdings Co., Ltd. was transferred to Okura Co., Ltd.. The transfer was completed on 27 December 2014. Upon the completion of transaction, the Monaco Holdings Co., Ltd. became a wholly owned subsidiary of Okura Co., Ltd..

On 23 March 2015, Okura Co., Ltd., Monaco Holdings Co., Ltd., and Monaco Co., Ltd. (a wholly owned subsidiary of Monaco Holdings Co., Ltd.) entered into an agreement to merge together. The merger was completed on 1 May 2015 and Okura Co., Ltd. became the surviving company.

(v) ***Acquisition of equity interests of non-wholly owned subsidiaries under Okura Co., Ltd.***

Okura Co., Ltd. originally held 89.4% of equity interest in Nicks K's Property Co., Ltd.. On 15 January 2015, Okura Co., Ltd. entered into an agreement with NICS Taxation Co., Ltd. (the non-controlling shareholder of Nicks K's Property Co., Ltd.) to acquire the remaining 10.6% of equity interest of Nicks K's Property Co., Ltd. for a cash consideration of ¥123,428,000. The acquisition was completed and the consideration was fully settled on 20 January 2015. Upon the completion of transaction, Nicks K's Property Co., Ltd. became a wholly owned company of Okura Co., Ltd..

Hoju Tokyo Co., Ltd. was originally held by K's Works Co., Ltd. (a wholly owned subsidiary of Nicks K's Property Co., Ltd.), Okura Co., Ltd. and Park Holdings Co., Ltd. (the non-controlling shareholder) with equity interests of 84.1%, 3.7% and 12.2% respectively.

On 15 January 2015, K's works Co., Ltd. entered into an agreement with Park Holdings Co., Ltd. to acquire 12.2% equity interest of Hoju Tokyo Co., Ltd. for a cash consideration of ¥50,970,000.

On 15 January 2015, Okura Co., Ltd. agreed to transfer its 3.7% of issued share capital of Hoju Tokyo Co., Ltd. to K's Works Co., Ltd. for a cash consideration of ¥15,596,820.

The transactions were completed and the consideration was fully settled on 20 January 2015. Upon the completion of transaction, Hoju Tokyo Co., Ltd. became a wholly owned company of K's works Co., Ltd..

NKPA Co., Ltd. was originally a partially owned subsidiary of K's Property Co., Ltd., in which K's Property Co., Ltd. and NICS Taxation Co., Ltd. held 80% and 20% of its equity interest respectively. On 15 January 2015, Hoju Co., Ltd. (a wholly owned subsidiary of Hoju Tokyo Co., Ltd.) entered into an agreement with K's Property Co., Ltd. and NICS Taxation Co., Ltd. to acquire the entire issued share capital of NKPA Co., Ltd. for a cash consideration of ¥9,700,000 and ¥2,425,000, respectively. The acquisition was completed and the consideration was fully settled on 20 January 2015. Upon the completion of transaction, NKPA Co., Ltd. became a wholly owned company of Hoju Co., Ltd..

(vi) ***Share transfers and mergers involving K's Holdings Co., Ltd. and K's Holdings Company Limited***

On 19 March 2015, Katsuya Yamamoto, Kai Yamamoto, Kinya Yamamoto, and Kakuya Yamamoto agreed to transfer their entire issued share capital of K's Holdings Company Limited to K's Holdings Co., Ltd. for a cash consideration of ¥34,020,000. The acquisition was completed and the consideration was fully settled on 27 March 2015. Upon the completion of the transaction, K's Holdings Limited Company became a wholly owned company of K's Holdings Co., Ltd..

On 23 March 2015, K's Holdings Limited Company and K's Holdings Co., Ltd. entered into an agreement to merge together. The merger was completed on 19 May 2015 and K's Holdings Co., Ltd. became the surviving company.

(vii) ***Merger of K's Works Co., Ltd., Mercury Service Co., Ltd., Equ Limited Company, Nicks K's Property Co., Ltd., Hoju Tokyo Co., Ltd., Hoju Co., Ltd., NKPA Co., Ltd. and K's Power Co., Ltd.***

On 10 April 2015, the eight companies, K's Works Co., Ltd., Mercury Service Co., Ltd. (a wholly-owned subsidiary of Okura Co., Ltd.), Equ Limited Company (a wholly-owned subsidiary of Okura Co., Ltd.), Nicks K's Property Co., Ltd., Hoju Tokyo Co., Ltd., Hoju Co., Ltd., NKPA Co., Ltd. and K's Power Co., Ltd. (a wholly-owned subsidiary of Hoju Tokyo Co., Ltd.) entered into an agreement to merge together. The mergers were completed on 15 May 2015 and K's works Co., Ltd. became the surviving company directly held by Okura Co., Ltd..

(viii) ***Incorporation of the Company and injection of K's Holdings Co., Ltd.***

On 16 June 2015, the Company was established in Hong Kong with limited liability. The Company allotted and issued 8,000,000 shares at ¥1 each to Katsuya Yamamoto. Katsuya Yamamoto transferred the entire issued share capital of K's Holdings Co., Ltd. to the Company for a consideration of ¥8 million. The transaction was completed on 16 June 2015, upon which all issued share capital in K's Holdings Co., Ltd. was held by the Company. Since then, the Listing Business has been transferred to the Company.

(ix) ***Acquisition of Aratoru Co., Ltd. and Adward Co., Ltd.***

K's Holdings Co., Ltd. originally held 40% of equity interest in Aratoru Co., Ltd. and Adward Co., Ltd. respectively. The remaining 60% of equity interest was held by Satoshi Maeda. On 29 June 2015, K's Holdings Co., Ltd. entered into an agreement to acquire 60% of equity interest in Aratoru Co., Ltd. and Adward Co., Ltd. from Satoshi Maeda for a cash consideration of ¥204,083,228 which included ¥150,000,000 was paid to Satoshi Maeda for compensation of his past services in Aratoru Co., Ltd. and Adward Co., Ltd.. ¥200 million consideration was settled and the transaction was completed on 30 June 2015. Upon the completion of transaction, both Aratoru Co., Ltd. and Adward Co., Ltd. became wholly owned subsidiaries of K's Holdings Co., Ltd.. The remaining ¥4 million consideration was settled on 29 September 2015.

(x) **Distribution of shares of K's Works Co., Ltd., EQU Co., Ltd., and SU Ltd.**

EQU Co., Ltd. and SU Ltd. were the wholly owned subsidiaries of Okura Co., Ltd.. On 24 August 2015, Okura Co., Ltd. distributed all shares of K's works Co., Ltd., EQU Co., Ltd., and SU Ltd. to K's Holdings Co., Ltd.. Upon the distribution in kind, K's works Co., Ltd., EQU Co., Ltd., and SU Ltd. became wholly owned subsidiaries of K's Holdings Co., Ltd..

(xi) **Merger of K's Property Co., Ltd., EQU Co., Ltd., SU Ltd., K's Works Co., Ltd., K's Value Co., Ltd., and KPA Co., Ltd.**

K's Value Co., Ltd. and KPA Co., Ltd. were the wholly owned subsidiaries of K's Holdings Co., Ltd.. On 11 September 2015, K's Property Co., Ltd., EQU Co., Ltd., SU Ltd., K's Works Co., Ltd., K's Value Co., Ltd., and KPA Co., Ltd. entered into an agreement to merge together. The merger was completed on 1 November 2015 and K's Property Co., Ltd. became the surviving company.

Upon completion of the Reorganisation, the Company became the holding company of the Operating Companies listed below. At the time of completion of the above Reorganisation, shares that are directly or indirectly owned or controlled are described in the table below.

| Name | Date of incorporation | Location | Principal activities | Amount of capital | Effective interest held | | | |
|------------------------------------|-----------------------|----------|---------------------------------------|-------------------------|-------------------------|------|------|------------|
| | | | | | As at 30 June | | | As at |
| | | | | | 2014 | 2015 | 2016 | 31 October |
| Directly held: | | | | | | | | |
| K's Holdings Co., Ltd. | 27 October 2008 | Japan | Holding company | 8 million Japanese Yen | 100% | 100% | 100% | 100% |
| Indirectly held: | | | | | | | | |
| K's Property Co., Ltd. | 30 March 2001 | Japan | Real estate investment | 10 million Japanese Yen | 100% | 100% | 100% | 100% |
| Okura Co., Ltd. | 3 April 1984 | Japan | Pachinko and Pachislot hall operation | 50 million Japanese Yen | 100% | 100% | 100% | 100% |
| Okura Nishinohon Co., Ltd. | 3 December 2012 | Japan | Pachinko and Pachislot hall operation | 10 million Japanese Yen | 100% | 100% | 100% | 100% |
| Aisen Co., Ltd. | 21 March 2000 | Japan | Dormant | 20 million Japanese Yen | 100% | 100% | 100% | 100% |
| Aratoru Co., Ltd. | 22 February 2007 | Japan | Business consulting | 5 million Japanese Yen | 40%# | 100% | 100% | 100% |
| Adward Co., Ltd. | 26 October 2007 | Japan | Printing services | 5 million Japanese Yen | 40%# | 100% | 100% | 100% |

Note: No audited financial statements were issued for the above companies as there are no statutory requirements to issue statutory financial statements in Japan.

The Group has established a policy to consolidate the companies if the Company has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee.

Aratoru was established on 22 February 2007 and is engaged in the provision of business consulting services to pachinko hall operators. Adward was established on 16 October 2007 and is engaged in the provision of printing services.

On 1 June 2007, K's Holdings Company Limited subscribed for new shares of Aratoru and Adward, which represented 40% of equity interest of each of the companies. At the time of the subscription, Aratoru and Adward did not have substantial business operations. On the same date, Aratoru signed a service agreement with K's Holdings Company Limited for the provision of business consulting services for all the pachinko and pachislot halls operated by K's Group (18 halls in total) and the agreement renews automatically every year with no expiry date.

Based on the service agreement entered between K's Holdings Company Limited and Aratoru, K's Holdings Company Limited has power over Aratoru as it has the right to determine all the decisions in connection with Aratoru's activities. Furthermore, K's Holdings Company Limited is exposed, or has rights, to variable returns through its power over Aratoru as K's Holdings Limited has assumed substantially all the income and operations of Aratoru through the service agreement. For Adward, K's Group has power over Adward and is exposed to its variable returns as Adward's income are substantially derived from K's Group and is considered as an extension of Aratoru.

Based on the above, the management considered that K's Group can control Aratoru and Adward, and therefore, Aratoru and Adward should be consolidated with K's Group.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business is controlled and operated by the Yamamoto Family through the Operating Companies. Pursuant to the Reorganisation, the Listing Business was transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate owner of the Listing Business remains the same. Accordingly, the Reorganisation is regarded as a continuation of the Listing Business and, for the purpose of this report, the Financial Information has been prepared and presented as a continuation of the consolidated financial statements of K's Holdings Co., Ltd. with the results, assets and liabilities recognised and measured at the carrying amounts of the Listing Business under the consolidated financial statements of K's Holdings Co., Ltd. for all periods presented.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied throughout the Relevant Periods, unless otherwise stated.

2.1 Basis of preparation

The Financial Information has been prepared in accordance with IFRS issued by the International Accounting Standard Board (the "IASB") and HKFRS issued by the HKICPA. HKFRS is substantially consistent with IFRS and the accounting policy selections that the Group has made in preparing the Financial Information are such that the Group is able to comply with both IFRS and HKFRS. References to IFRS, International Accounting Standards ("IAS") and Interpretations developed by the IFRS Interpretations Committee ("IFRIC") in the Financial Information should be read as referring to the equivalent HKFRS, Hong Kong Accounting Standards ("HKAS") and Hong Kong (IFRIC) Interpretation ("HK(IFRIC)—Int") as the case may be. Accordingly, there are no differences of accounting practice between IFRS and HKFRS affecting the Financial Information.

The Financial Information has been prepared using the historical cost convention, as modified by the revaluation of financial assets which are carried at fair values.

The preparation of Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4.

(a) *New standards early adopted by the Group*

IFRS 9 is mandatorily effective for annual periods beginning on or after 1 July 2018. The Group decided to early adopt IFRS 9 (2014) from 1 July 2011, being its date of transition to IFRS.

The complete version of IFRS 9 replaces the guidance in IAS 39. IFRS 9 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The incurred loss impairment model used in IAS 39 has been replaced by an expected credit loss model, with the result that a loss event will no longer need to occur before an impairment allowance is recognised. There are no changes to classification and measurement of financial liabilities. Hedge accounting under IFRS 9 requires an economic relationship

between the hedged item and hedging instrument and for the hedged ratio to be the same as the one used by an entity's management for risk management purposes. This replaces the hedge effectiveness test under the current standard. The Group did not apply hedge accounting for any financial years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016.

(b) ***New standards and amendments to existing standards not yet adopted by the Group***

The following are standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 July 2016 or later periods, but have not been early adopted by the Group.

| | Effective for accounting periods beginning on or after | |
|--|---|----------------|
| IAS 7 (Amendment) | Disclosure initiative | 1 July 2017 |
| IAS 12 (Amendment) | Recognition of deferred tax assets for unrealised losses | 1 July 2017 |
| IAS 40 (Amendment) | Transfers of investment property | 1 January 2018 |
| IFRS 10 and IAS 28 (Amendment). | Sale or contribution of assets between an investor and its associate or joint venture | Note |
| IFRS 2 (Amendment) | Share-based payment | 1 January 2018 |
| IFRS 15 | Revenue from contracts with customers | 1 July 2018 |
| IFRS 16 | Leases | 1 July 2019 |
| IFRIC 22 | Foreign currency transactions and advance consideration | 1 January 2018 |
| IFRS (Amendment) | Annual improvements 2014-2016 cycle | 1 January 2017 |

Note: The effective date is postponed indefinitely.

IFRS 15 "Revenue from Contracts with Customers" — This new standard replaces the previous revenue standards: IAS 18 "Revenue" and IAS 11 "Construction Contracts", and the related Interpretations on revenue recognition. IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or

services. Revenue recognition model under the new standard moves away from risks and rewards approach to transfer of control approach. IFRS 15 provides specific guidance on capitalisation of contract cost, license arrangements and principal versus agent considerations. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Group is in the process of assessing the impact of the application of IFRS 15 and based on its preliminary assessment, does not expect the adoption would have a material impact to the Group's results of operations and financial position. The new standard is mandatory for financial years commencing on or after 1 July 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

IFRS 16 will result in operating leases being recognised on the balance sheet, and the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of JPY1,029 million, see note 33(b)(i). The Group is in the process of assessing the impact of the application of IFRS 16 and based on its preliminary assessment, it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 July 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

Management is in the process of making an assessment on the impact of these standards and amendments to existing IFRS and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

(c) *New Hong Kong Companies Ordinance (Cap.622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the Relevant Periods, as a result, there are changes to presentation and disclosures of certain information in the Financial Information.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combinations*

On 30 June 2015, the Group acquired an investment property from a related party at cash consideration of JPY91 million which represents the fair value of the investment property. At the time of acquisition, the investment property was leased to several independent third parties. Accordingly, the acquisition of the investment property constitute an acquisition of business under IFRS 3.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income (Note 2.9). Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) ***Changes in ownership interests in subsidiaries without change of control***

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions - that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) ***Disposal of subsidiaries***

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries are required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Financial Information of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive director of the Group that makes strategic decisions.

2.4 Foreign currency translation

(a) ***Functional and presentation currency***

Items included in the Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Japanese Yen (JPY), which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

2.5 Property, plant and equipment

Land and buildings comprise mainly pachinko and pachislot halls and offices. All property, plant and equipment is stated at historical cost less depreciation except for freehold land which is not subject to amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress is stated at cost less impairment loss. It is not depreciated until completion of the construction and the relevant assets are available for use.

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

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|-------------------------|---------------------------------------|
| - Buildings | 7 to 47 years |
| - Leasehold improvement | Shorter of lease term or useful lives |
| - Equipment and tools | 2 to 20 years |
| - Motor vehicles | 2 to 6 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within "Other (losses)/gains, net" in the profit or loss.

2.6 Investment properties

Investment properties, principally comprising land and buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. The Group adopts the alternative treatment by using the cost model provided under the IAS 40 "Investment Property". Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of investment properties, except for the freehold land which is not subject to depreciation, is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives of 15 to 47 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.7 Intangible assets

(a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) *Computer software*

Computer software is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives, which does not exceed five years.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

(a) *Classification*

The Group classifies its financial assets in the following categories according to IFRS 9 "Financial Instruments": financial assets at amortised costs and financial assets at fair value. Management determines the classification of its financial assets at initial recognition. This classification depends on whether the financial asset is a debt or equity instrument.

Debt instruments

Financial assets at amortised costs are debt instruments that meet the Group's business model for holding the investments to collect contractual cash flows and the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The nature of any derivatives embedded in the debt instrument are considered in determining whether the cash flows of the instrument are solely payment of principal and interest on the principal outstanding and are not accounted for separately. Other debt instruments are held-for-trading and classified as financial assets at fair value through profit or loss.

Equity instruments

All the Group's equity instruments are measured at fair value. Equity instruments that are held for trading are measured at fair value through profit or loss. For all other equity instruments, the Group has made an irrevocable election at initial recognition to recognise changes in their fair value through other comprehensive income.

Financial assets are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting periods. These are classified as non-current assets.

(b) *Recognition, derecognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income.

Debt instruments that fulfil both the business model and the cash flow characteristic conditions are measured at amortised cost using the effective interest method. Other debt instruments are held-for-trading and measured at fair value through profit or loss.

Equity instruments are measured at fair value through profit or loss, except where the equity instruments are not held for trading and are irrevocably elected to measure at fair value through other comprehensive income at initial recognition, in which case, those financial assets are measured at fair value through other comprehensive income and there is no subsequent recycling of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as long as they represent a return on investment.

The Group reclassifies its financial assets when and only when its business model for managing those financial assets changes.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in profit or loss within 'Other (losses)/gains, net' in the period in which they arise. Changes in the fair value of financial assets through other comprehensive income are recognised in other comprehensive income except for the impairment loss (if any) on debt instruments which are accounted for in profit or loss.

Gain or loss (if any) on derecognition or impairment (if any) of debt instruments at amortised cost is recognised in profit or loss.

Interest income from debt instruments at fair value through profit or loss are recognised in the profit or loss. Dividend income from equity instruments included in financial assets at fair value and fair value through other comprehensive income are recognised in the profit or loss when the Group's right to receive payments is established.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.11 Impairment of financial assets

Impairment charges on the Group's investment in debt instruments at amortised cost are calculated based on an expected credit loss model. The Group considers these debt instruments as trade and other receivables in nature and do not have a significant financing component. Therefore, the Group elected to recognise lifetime expected credit losses of these debt instruments as provision for impairment allowance at the end of each reporting period. The Group applies a provision matrix, which is prepared by using historical loss experience on its trade and other receivables and adjusted for information about current conditions and reasonable and supportable forecasts of future economic conditions, to estimate the lifetime expected credit losses. Impairment charge is recognised in the profit or loss.

2.12 Inventories

Inventories represent supplies, including uninstalled pachinko and pachislot machines with useful life typically less than one year, and other consumables which are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.14 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated statements of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade payables

Trade payables are obligations to pay for services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2.17 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statements of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) **Offsetting**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

The Group operates defined benefit plan as post-employment schemes.

(a) **Pension obligations**

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the consolidated statements of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognised in the statements of comprehensive income in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised immediately in profit or loss.

The interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is included in employee benefit expense in the consolidated statements of comprehensive income.

Remeasurements arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(b) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the year end date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.20 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from pachinko and pachislot business represents the gross pay-ins, net of the gross pay-outs to customers. Gross pay-ins represent the amount received from pachinko balls and pachislot tokens rented to customers. Gross pay-outs represent the aggregate costs

of G-prizes and general prizes exchanged by customers. G-prizes are decorative cards with a small embedded piece of gold or silver or coin-shaped pendants of gold or silver which can be sold by customers to a G-prize buyer for cash, and general prizes are generally the types of goods sold in convenience stores, such as snacks, drinks and cigarettes.

Customers rent pachinko balls and pachislot tokens to play the games, and the balls or tokens won can be either exchanged for prizes or saved for subsequent visits. The Group offers both general prizes and G-prizes. Customers who opt to claim G-prizes in exchange for the pachinko balls and pachislot tokens won during play may sell their G-prizes to an independent prize buyer for cash outside of the pachinko hall. Revenue is recognised at the end of each player's visit to a machine.

Vending machine income is recognised on a straight line basis over the accounting periods covered by the terms and conditions as stipulated in the agreement. Vending machine income is recognised in the accounting period in which they are earned.

Rental income from investment properties is recognised on a straight-line basis over the term of the leases.

Interest income is recognised on a time-proportion basis using the effective interest method.

Income from expired prepaid integrated circuit ("IC") and membership cards is recognised upon the expiry of the usage period.

Dividend income is recognised when the right to receive payment is established.

Income from scrap sales of used pachinko machines is recognised when the Group has delivered the used pachinko machines to the purchaser.

2.22 Leases

(a) *As lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(b) ***As lessor***

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

The method for allocating gross earnings to accounting periods is referred to as the “actuarial method”. The actuarial method allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor’s net investment in the lease.

When assets are leased out under an operating lease, the asset is included in the consolidated statements of financial position based on the nature of the asset.

Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

2.23 Dividend distribution

Dividend distribution to the Company’s shareholders is recognised as a liability in the Group’s and the Company’s financial statements in the period in which the dividends are approved by the Company’s shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. The Group does not use any derivative financial instruments for speculative purposes.

Risk management is carried out by management of the Group. Formal and informal management meetings are held to identify significant risks and to develop procedures to deal with any risks in relation to the Group's businesses.

(a) **Market risk**

(i) *Foreign exchange risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates in Japan and its business transactions are principally denominated in Japanese Yen. However, the Group is exposed to foreign exchange risk arising primarily from the transactions in its cash and cash equivalents, deposits and financial assets denominated in US dollar ("USD"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency.

As at 30 June 2014, 2015 and 2016 and 31 October 2016, if USD had weakened/strengthened by 5% against Japanese Yen with all other variables held constant, post-tax profit for the years would have been approximately ¥21 million, ¥32 million, ¥8 million and ¥9 million lower/higher respectively, mainly as a result of foreign exchange losses/gains on translation of USD-denominated cash and cash equivalents, deposits and financial assets.

(ii) *Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from bank balances and borrowings which are carried at variable rates, which expose the Group to cash flow interest rate risk.

As at 30 June 2014, 2015 and 2016 and 31 October 2016, if interest rates were increased or decreased by 50 basis points and all other variables were held constant, the Group's post-tax profit would decrease or increase by approximately, ¥7 million, ¥6 million, ¥5 million and ¥4 million respectively as a result of increase or decrease in net interest expense.

The Group's fair value interest rate risk arises from bank balances and borrowings which are carried at fixed rates, which expose the Group to fair value interest rate risk.

As at 30 June 2014, 2015 and 2016 and 31 October 2016, if interest rates were increased or decreased by 50 basis points and all other variables were held constant, the Group's post-tax profit would increase or decrease by approximately ¥6 million, ¥6 million, and decrease or increase by approximately ¥1 million and nil respectively as a result of increase or decrease in net interest income.

(iii) *Price risk*

The Group is exposed to equity securities price risk because of investments in listed securities held by the Group which are classified on the consolidated statements of financial position as financial assets at fair value through other comprehensive income.

The table below summarises the impact of increases/decreases of the share prices of underlying financial instruments on the Group's equity. The analysis is based on the assumption that the share prices of the underlying financial instruments had increased or decreased by 5% with all other variables held constant.

| | Year ended 30 June | | | Four months ended |
|---|--------------------|----------|----------|-------------------|
| | 2014 | 2015 | 2016 | 31 October |
| | 2014 | 2015 | 2016 | 2016 |
| | ¥million | ¥million | ¥million | ¥million |
| Impact on other components of equity | | | | |
| Share prices: | | | | |
| - increase by 5% | 2 | 8 | 2 | 2 |
| - decrease by 5% | (2) | (8) | (2) | (2) |

(b) *Credit risk*

Credit risk arises mainly from cash deposited at banks, trade receivables, deposits and other receivables, financial assets at fair value through profit or loss and through other comprehensive income.

In respect of cash deposited at banks and financial assets at fair value through profit or loss and through other comprehensive income, the credit risk is considered to be low as the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Approximately 99% of the Groups revenue is received in cash. The Group's credit risk mainly arises from service income from other operations.

The Group has set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these customers. Management makes periodic assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the Financial Information.

(c) ***Liquidity risk***

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets.

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of committed credit facilities from leading banks and the ability to close out market position.

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets and receivables; and long term financing including long-term borrowings. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable the Group to continue its business for the foreseeable future.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal to their carrying amounts as the impact of discounting is not significant.

| The Group | Within 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|------------------|--------------------------|--------------------------|--------------|----------|
| | ¥million | ¥million | ¥million | ¥million | ¥million |
| As at 30 June 2014 | | | | | |
| Trade payables | 33 | — | — | — | 33 |
| Other payables (excluding accruals and provisions) | 1,091 | 1 | 15 | 43 | 1,150 |
| Borrowings | 1,467 | 859 | 1,102 | 1,015 | 4,443 |
| Obligations under finance leases | 409 | 372 | 1,065 | 3,542 | 5,388 |
| Loans from related parties | 186 | — | — | — | 186 |
| Amounts due to related parties | 47 | — | — | — | 47 |
| | 3,233 | 1,232 | 2,182 | 4,600 | 11,247 |
| As at 30 June 2015 | | | | | |
| Trade payables | 27 | — | — | — | 27 |
| Other payables (excluding accruals and provisions) | 930 | 1 | 15 | 43 | 989 |
| Borrowings | 907 | 504 | 1,088 | 705 | 3,204 |
| Obligations under finance leases | 371 | 355 | 1,061 | 3,191 | 4,978 |
| Loans from related parties | 162 | — | — | — | 162 |
| | 2,397 | 860 | 2,164 | 3,939 | 9,360 |
| As at 30 June 2016 | | | | | |
| Trade payables | 23 | — | — | — | 23 |
| Other payables (excluding accruals and provisions) | 839 | 4 | — | 71 | 914 |
| Borrowings | 988 | 484 | 988 | 402 | 2,862 |
| Obligations under finance leases | 354 | 354 | 1,061 | 2,838 | 4,607 |
| Amounts due to related parties | 1 | — | — | — | 1 |
| | 2,205 | 842 | 2,049 | 3,311 | 8,407 |

| The Group | Within 1 | Between 1 | Between 2 | Over 5 years | Total |
|---|--------------|-------------|--------------|--------------|--------------|
| | year | and 2 years | and 5 years | | |
| | ¥million | ¥million | ¥million | ¥million | ¥million |
| As at 31 October 2016 | | | | | |
| Trade payables | 25 | — | — | — | 25 |
| Other payables (excluding accruals and provisions) | 835 | 20 | — | 69 | 924 |
| Borrowings | 621 | 487 | 984 | 302 | 2,394 |
| Obligations under finance leases | 354 | 354 | 1,060 | 2,722 | 4,490 |
| | <u>1,835</u> | <u>861</u> | <u>2,044</u> | <u>3,093</u> | <u>7,833</u> |

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group uses bank borrowings to finance its operations.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (include bank borrowings, loan from a director and obligations under finance leases) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statements of financial position, plus net debt, where applicable.

| | As at 30 June | | | As at |
|--|----------------|----------------|----------------|----------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Borrowings (including loans from related parties) | 4,337 | 3,161 | 2,722 | 2,276 |
| Obligations under finance leases | 3,472 | 3,267 | 3,088 | 3,033 |
| Less: cash and cash equivalents (Note 22) | <u>(3,105)</u> | <u>(2,566)</u> | <u>(1,354)</u> | <u>(1,175)</u> |
| Net debt | 4,704 | 3,862 | 4,456 | 4,134 |
| Total equity | <u>11,669</u> | <u>11,976</u> | <u>7,830</u> | <u>7,863</u> |
| Total capital | <u>16,373</u> | <u>15,838</u> | <u>12,286</u> | <u>11,997</u> |
| Gearing ratio | <u>28.7%</u> | <u>24.4%</u> | <u>36.3%</u> | <u>34.5%</u> |

The decrease in the gearing ratio as at 30 June 2015 resulted primarily from the repayment of bank borrowings (Note 28). The increase in the gearing ratio as at 30 June 2016 resulted from the decrease in total equity as dividend of ¥4,740 million was paid during the year. The decrease in the gearing ratio as at 31 October 2016 resulted primarily from the repayment of bank borrowings (Note 28).

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

| | Level 1 | Level 2 | Level 3 | Total |
|---|-----------|--------------|------------|--------------|
| | ¥million | ¥million | ¥million | ¥million |
| As at 30 June 2014 | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Debt securities | — | 1,089 | 26 | 1,115 |
| - Insurance contracts | — | — | 88 | 88 |
| Financial assets at fair value through other comprehensive income | | | | |
| - Listed securities | 38 | — | — | 38 |
| - Unlisted securities | — | — | 3 | 3 |
| | <u>38</u> | <u>1,089</u> | <u>117</u> | <u>1,244</u> |

| | Level 1 | Level 2 | Level 3 | Total |
|---|------------|--------------|-----------|--------------|
| | ¥million | ¥million | ¥million | ¥million |
| As at 30 June 2015 | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Debt securities | — | 2,062 | 14 | 2,076 |
| Financial assets at fair value through other comprehensive income | | | | |
| - Listed securities | 151 | — | — | 151 |
| - Unlisted securities | — | — | 4 | 4 |
| | <u>151</u> | <u>2,062</u> | <u>18</u> | <u>2,231</u> |
| As at 30 June 2016 | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Debt securities | — | 255 | 4 | 259 |
| Financial assets at fair value through other comprehensive income | | | | |
| - Listed securities | 33 | — | — | 33 |
| - Unlisted securities | — | — | 5 | 5 |
| | <u>33</u> | <u>255</u> | <u>9</u> | <u>297</u> |
| As at 31 October 2016 | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Debt securities | — | 307 | 3 | 310 |
| Financial assets at fair value through other comprehensive income | | | | |
| - Listed securities | 38 | — | — | 38 |
| - Unlisted securities | — | — | 4 | 4 |
| | <u>38</u> | <u>307</u> | <u>7</u> | <u>352</u> |

(a) **Financial instruments in level 1**

The fair value of financial instruments traded in active markets is based on quoted market prices at the statements of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market

price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 represent listed equity investments classified as fair value through other comprehensive income which were not held for trading purpose.

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. As of 30 June 2014, 2015 and 2016 and 31 October 2016, instruments included in level 2 comprise bonds and trust funds issued by financial institutions in Japan which were classified as financial assets at fair value through profit or loss.

(c) *Financial instruments in level 3*

If one or more of the significant inputs is not based on observable market data, the instruments is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

As at 30 June 2014, 2015 and 2016 and 31 October 2016, financial assets at fair value through profit or loss mainly comprise investments in a venture capital fund and life insurance contracts purchased for certain key employees of the subsidiaries.

The venture capital fund is not traded on an active market, and the fair value is determined using valuation techniques. The value is primarily based on the latest available financial account statement of the venture capital fund's as reported by the General Partner of the venture capital fund, unless the Group is aware of reasons that such a valuation may not be the best approximation of fair value. The Group may make adjustments to the value based on considerations such as: the underlying investments of the venture capital fund, the value date of the net asset value provided, cash flows since the last value date, geographic and sector exposures, market movements and the basis of accounting of the underlying of the venture capital fund. The unobservable inputs which significantly impact the fair value are the net asset value advised by the venture capital fund's general partner. No adjustment has been made by the Group on such value.

The fair value of the life insurance contracts purchased for certain key employees of the subsidiaries are determined based on the cash surrender value of the life insurance contracts which is not an observable input. Management estimates the fair value based on the latest information of the life insurance contracts provided by respective insurance companies.

The following table presents the changes in level 3 instruments for the Relevant Periods:

| | Financial assets at fair value through other comprehensive income | Financial assets at fair value through profit or loss | Total |
|---|--|--|--------------|
| | ¥million | ¥million | ¥million |
| Balance at 1 July 2013 | 3 | 116 | 119 |
| Fair value loss on revaluation | — | (2) | (2) |
| Balance at 30 June 2014 | <u>3</u> | <u>114</u> | <u>117</u> |
| Balance at 1 July 2014 | 3 | 114 | 117 |
| Additions of financial assets | 1 | — | 1 |
| Disposals of financial assets | — | (88) | (88) |
| Fair value loss on valuation | — | (12) | (12) |
| Balance at 30 June 2015 | <u>4</u> | <u>14</u> | <u>18</u> |
| Balance at 1 July 2015 | 4 | 14 | 18 |
| Fair value gain/(loss) on valuation | 1 | (10) | (9) |
| Balance at 30 June 2016 | <u>5</u> | <u>4</u> | <u>9</u> |
| Balance at 1 July 2016 | 5 | 4 | 9 |
| Fair value loss on valuation | (1) | (1) | (2) |
| Balance at 31 October 2016 | <u>4</u> | <u>3</u> | <u>7</u> |

There were no transfers between levels 1, 2 and 3 during the Relevant Periods.

No sensitivity analysis is presented since the impact of the reasonable possible changes in the unobservable inputs for the level 3 instruments is insignificant.

3.4 Offsetting financial assets and financial liabilities

As at 30 June 2014, 2015 and 2016 and 31 October 2016, there were no financial assets or financial liabilities which were subject to offsetting, enforceable master netting or similar agreements.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) *Current and deferred income taxes*

The Group is subject to income taxes in Japan and Hong Kong. Judgment is required in determining the provision for income taxes. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates for whether additional taxes may be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimates, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(b) *Fair value of financial instruments*

The fair value of financial instruments that are not traded in an active market (for example, unlisted securities) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(c) ***Impairment assessment of goodwill***

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(d) ***Impairment assessment of property, plant and equipment***

The Group has substantial investments in property, plant and equipment. Judgement is required in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may indicate that the related asset values may not be recoverable; (2) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or value-in-use, which is the net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions used to determine the level, if any, of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment change to the profit or loss.

(e) ***Classification of leases***

The Group classifies leases into finance leases or operating leases in accordance with the accounting policies stated in Note 2.22. Classification as a finance lease or operating lease determines whether the leased asset is capitalised and recognised in the consolidated statement of financial position or charged to the profit or loss. Determining whether a lease transaction is a finance lease or an operating lease is a complex issue and requires substantial judgement as to whether the lease agreement transfers substantially all the risks and rewards of ownership to or from the Group. Careful and considered judgement is required on various complex aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether renewal options are included in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments

5 Revenue and segment information

(a) Revenue

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|---------------|---------------|---------------------------------|--------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million (Unaudited) | ¥million |
| Revenue | | | | | |
| Gross pay-ins..... | 57,827 | 51,001 | 42,988 | 16,465 | 12,610 |
| Less: gross pay-outs..... | (45,324) | (40,209) | (33,311) | (12,990) | (9,698) |
| Revenue from pachinko and pachislot hall business..... | 12,503 | 10,792 | 9,677 | 3,475 | 2,912 |
| Vending machine income | 170 | 156 | 147 | 52 | 48 |
| Property rental..... | 280 | 260 | 265 | 89 | 105 |
| Revenue from other operations..... | 37 | 37 | 9 | 5 | — |
| | <u>12,990</u> | <u>11,245</u> | <u>10,098</u> | <u>3,621</u> | <u>3,065</u> |

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker that are used for making strategic decisions. The chief operating decision-maker is identified as the executive directors of the Group. The executive directors consider the business from a service perspective and assess the performance of the operating segments based on a measure of profit before income tax for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as this Financial Information.

The management has identified three reportable segments based on the types of services, namely (i) pachinko and pachislot hall operation; (ii) property rental; and (iii) others.

Segment assets consist primarily of property, plant and equipment, investment properties, inventories, trade receivables, prepayments, deposits and other receivables, pledged deposits and cash and bank balances. They exclude deferred income tax assets and assets used for corporate functions including financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

Capital expenditure comprises additions to property, plant and equipment, investment properties and intangible assets. Income tax expenses are not included in segment results.

The segment information provided to the executive directors for the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016 are as follows:

| | Year ended 30 June 2014 | | | |
|--|---------------------------------------|-----------------|----------|--------------|
| | Pachinko and pachislot hall operation | Property rental | Others | Total |
| | ¥million | ¥million | ¥million | ¥million |
| Segment revenue from external customers | 12,673 | 280 | 37 | 12,990 |
| Segment results | 1,591 | 101 | (1) | 1,691 |
| Profit before income tax | | | | 1,691 |
| Income tax expense | | | | (682) |
| Profit for the year | | | | <u>1,009</u> |
| Other segment items | | | | |
| Depreciation and amortisation | (786) | (50) | (19) | (855) |
| Finance income | 79 | 2 | — | 81 |
| Finance costs | (266) | (55) | — | (321) |
| Impairment loss on property, plant and equipment | (151) | — | — | (151) |
| Capital expenditures | <u>(393)</u> | <u>—</u> | <u>—</u> | <u>(393)</u> |
| | | | | |
| | Year ended 30 June 2015 | | | |
| | Pachinko and pachislot hall operation | Property rental | Others | Total |
| | ¥million | ¥million | ¥million | ¥million |
| Segment revenue from external customers | 10,948 | 260 | 37 | 11,245 |
| Segment results | 1,802 | 108 | (347) | 1,563 |
| Profit before income tax | | | | 1,563 |
| Income tax expense | | | | (981) |
| Profit for the year | | | | <u>582</u> |
| Other segment items | | | | |
| Depreciation and amortisation | (716) | (48) | (16) | (780) |
| Finance income | 58 | 3 | — | 61 |
| Finance costs | (230) | (47) | — | (277) |
| Impairment loss on property, plant and equipment | (49) | — | — | (49) |
| Capital expenditures | <u>(495)</u> | <u>—</u> | <u>—</u> | <u>(495)</u> |

Year ended 30 June 2016

| | Pachinko and pachislot hall operation | Property rental | Others | Total |
|--|---------------------------------------|-----------------|----------|--------------|
| | ¥million | ¥million | ¥million | ¥million |
| Segment revenue from external customers | 9,824 | 265 | 9 | 10,098 |
| Segment results | 1,250 | 92 | (314) | 1,028 |
| Profit before income tax | | | | 1,028 |
| Income tax expense | | | | (424) |
| Profit for the year | | | | <u>604</u> |
| Other segment items | | | | |
| Depreciation and amortisation | (644) | (54) | (22) | (720) |
| Finance income | 24 | 1 | — | 25 |
| Finance costs | (197) | (49) | (3) | (249) |
| Impairment loss on property, plant and equipment | (19) | — | — | (19) |
| Capital expenditures | <u>(252)</u> | <u>—</u> | <u>—</u> | <u>(252)</u> |

(Unaudited)

Four months ended 31 October 2015

| | Pachinko and pachislot hall operation | Property rental | Others | Total |
|--|---------------------------------------|-----------------|----------|-------------|
| | ¥million | ¥million | ¥million | ¥million |
| Segment revenue from external customers | 3,527 | 89 | 5 | 3,621 |
| Segment results | 252 | 34 | (107) | 179 |
| Profit before income tax | | | | 179 |
| Income tax expense | | | | (71) |
| Profit for the period | | | | <u>108</u> |
| Other segment items | | | | |
| Depreciation and amortisation | (225) | (19) | (7) | (251) |
| Finance income | 14 | — | — | 14 |
| Finance costs | (66) | (17) | (2) | (85) |
| Impairment loss on property, plant and equipment | (14) | — | — | (14) |
| Capital expenditures | <u>(94)</u> | <u>—</u> | <u>—</u> | <u>(94)</u> |

Four months ended 31 October 2016

| | Pachinko and pachislot hall operation | Property rental | Others | Total |
|--|---|--------------------|----------|--------------|
| | ¥million | ¥million | ¥million | ¥million |
| Segment revenue from external customers | 2,960 | 105 | — | 3,065 |
| Segment results | 1 | 43 | — | 44 |
| Profit before income tax | | | | 44 |
| Income tax expense | | | | (18) |
| Profit for the period | | | | <u>26</u> |
| Other segment items | | | | |
| Depreciation and amortisation | (215) | (17) | — | (232) |
| Finance income | 1 | — | — | 1 |
| Finance costs | (59) | (17) | — | (76) |
| Capital expenditures | <u>(160)</u> | <u>—</u> | <u>—</u> | <u>(160)</u> |

The segment assets as at 30 June 2014, 2015 and 2016 and 31 October 2016 are as follows:

| | Pachinko and pachislot hall operation | Property rental | Others | Total |
|---|---|--------------------|----------|---------------|
| | ¥million | ¥million | ¥million | ¥million |
| As at 30 June 2014 | | | | |
| Segment assets | 16,768 | 2,873 | 194 | 19,835 |
| Unallocated assets | | | | 993 |
| Financial assets at fair value through profit or loss | | | | 1,203 |
| Financial assets at fair value through other comprehensive income | | | | 41 |
| Deferred income tax assets | | | | 490 |
| Total assets | | | | <u>22,562</u> |

| | Pachinko and pachislot hall operation | Property rental | Others | Total |
|--|---|--------------------|----------|---------------|
| | ¥million | ¥million | ¥million | ¥million |
| As at 30 June 2015 | | | | |
| Segment assets | 15,622 | 2,633 | 101 | 18,356 |
| Unallocated assets | | | | 1,528 |
| Financial assets at fair value through profit or loss | | | | 2,076 |
| Financial assets at fair value through other comprehensive income | | | | 155 |
| Deferred income tax assets | | | | 842 |
| Total assets | | | | <u>22,957</u> |
| As at 30 June 2016 | | | | |
| Segment assets | 12,041 | 2,657 | 133 | 14,831 |
| Unallocated assets | | | | 964 |
| Financial assets at fair value through profit or loss | | | | 259 |
| Financial assets at fair value through other comprehensive income | | | | 38 |
| Deferred income tax assets | | | | 762 |
| Total assets | | | | <u>16,854</u> |
| As at 31 October 2016 | | | | |
| Segment assets | 11,807 | 2,518 | 111 | 14,436 |
| Unallocated assets | | | | 782 |
| Financial assets at fair value through profit or loss | | | | 310 |
| Financial assets at fair value through other comprehensive income | | | | 42 |
| Deferred income tax assets | | | | 838 |
| Total assets | | | | <u>16,408</u> |

There is no single external customer contributed more than 10% revenue to the Group's revenue for the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016.

The Group is domiciled in Japan and all non-current assets of the Group as at 30 June 2014, 2015 and 2016 and 31 October 2016 are located in Japan.

6 Other income and other (losses)/gains, net

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|--------------|--------------|---------------------------------|------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million (Unaudited) | ¥million |
| Other income | | | | | |
| Income from scrap sales of used pachinko machines . . . | 1,265 | 1,097 | 735 | 202 | 226 |
| Rental income from staff quarters | 15 | 7 | 2 | 2 | 1 |
| Dividend income | 45 | 64 | 18 | 14 | — |
| Income from expired IC card . . | 14 | 12 | 10 | 4 | 3 |
| Others | 15 | 43 | 54 | 18 | 7 |
| | <u>1,354</u> | <u>1,223</u> | <u>819</u> | <u>240</u> | <u>237</u> |
| Other (losses)/gains, net | | | | | |
| Exchange gains/(losses), net . . | 16 | 98 | (26) | (4) | — |
| Losses on disposal of property, plant and equipment, net (Note 31) | (42) | (27) | (42) | (9) | (6) |
| (Losses)/gains on fair value for financial assets at fair value through profit or loss | (40) | 179 | (109) | (133) | 73 |
| Losses on non-refundable G-prize (Note) | — | (105) | — | — | — |
| Recovery from insurance companies | 65 | 43 | 56 | 14 | 8 |
| Others | (12) | (6) | (10) | — | (4) |
| | <u>(13)</u> | <u>182</u> | <u>(131)</u> | <u>(132)</u> | <u>71</u> |

Note: The amount represents the termination payment made to the four G-prize wholesalers.

7 Hall operating expenses and administrative and other operating expenses

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|---------------|--------------|---------------------------------|--------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million (Unaudited) | ¥million |
| Pachinko and pachislot machines expenses (Note) . . | 5,719 | 4,499 | 3,330 | 1,364 | 1,210 |
| Employee benefit expenses (Note 8) | | | | | |
| - Hall operations | 1,093 | 1,012 | 983 | 338 | 386 |
| - Administrative and others . . | 409 | 746 | 606 | 260 | 206 |
| Operating lease rental expense in respect of land and buildings | 1,163 | 1,104 | 1,104 | 363 | 377 |
| Depreciation and amortisation . | 855 | 780 | 720 | 251 | 232 |
| Advertising and promotion expenses | 628 | 548 | 446 | 161 | 137 |
| Equipment and consumables costs | 312 | 189 | 205 | 82 | 57 |
| Impairment loss of property, plant and equipment (Note 13) | 151 | 49 | 19 | 14 | — |
| Repairs and maintenance | 263 | 144 | 172 | 53 | 76 |
| Other taxes and duties | 100 | 121 | 128 | 7 | 5 |
| Outsourcing service expenses . | 559 | 540 | 423 | 157 | 119 |
| Utilities expenses | 416 | 385 | 346 | 130 | 125 |
| G-prize procurement expenses to wholesalers | 207 | 204 | 221 | 76 | 73 |
| Legal and professional fees . . . | 28 | 58 | 52 | 10 | 11 |
| Listing expenses | — | 53 | 379 | 90 | 96 |
| Travel expenses | 44 | 48 | 48 | 14 | 15 |
| Insurance fee | 60 | 24 | 30 | 10 | 11 |
| Others | 393 | 367 | 322 | 99 | 118 |
| | <u>12,400</u> | <u>10,871</u> | <u>9,534</u> | <u>3,479</u> | <u>3,254</u> |

Note: Pachinko and pachislot machines are expensed off in the profit or loss upon installation. The expected useful lives of these machines are less than one year.

8 Employee benefits expenses (including directors' emoluments)

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|--------------|--------------|---------------------------------|------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million (Unaudited) | ¥million |
| Salaries, bonuses and allowances | 1,303 | 1,287 | 1,357 | 470 | 454 |
| Other employee benefits | 199 | 471 | 232 | 128 | 138 |
| | <u>1,502</u> | <u>1,758</u> | <u>1,589</u> | <u>598</u> | <u>592</u> |

(a) Directors' emoluments

The remuneration of the directors of the Company paid or receivable by directors of the Company by the Group during the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016 is set out below:

Year ended 30 June 2014

| Name | Fee | Salaries, allowances and other benefits | Directors' bonus | Total |
|--|-----------|--|---------------------|------------|
| | ¥million | ¥million | ¥million | ¥million |
| Executive directors | | | | |
| Katsuya Yamamoto (Chief executive) (Note) | 90 | — | — | 90 |
| Fumihide Hamada | — | 8 | — | 8 |
| Yutaka Kagawa | — | 6 | — | 6 |
| Toshiro Oe | — | 5 | — | 5 |
| | <u>90</u> | <u>19</u> | <u>—</u> | <u>109</u> |

Year ended 30 June 2015

| Name | Fee | Salaries, allowances and other benefits | Directors' bonus | Total |
|--|----------|--|---------------------|----------|
| | ¥million | ¥million | ¥million | ¥million |
| Executive directors | | | | |
| Katsuya Yamamoto (Chief executive) (Note) | 90 | — | — | 90 |
| Fumihide Hamada | — | 8 | — | 8 |
| Yutaka Kagawa | — | 6 | — | 6 |
| Toshiro Oe | — | 6 | — | 6 |
| | 90 | 20 | — | 110 |

Year ended 30 June 2016

| Name | Fee | Salaries, allowances and other benefits | Directors' bonus | Total |
|--|----------|--|---------------------|----------|
| | ¥million | ¥million | ¥million | ¥million |
| Executive directors | | | | |
| Katsuya Yamamoto (Chief executive) (Note) | 110 | — | — | 110 |
| Fumihide Hamada | — | 8 | — | 8 |
| Yutaka Kagawa | — | 8 | — | 8 |
| Toshiro Oe | — | 9 | — | 9 |
| | 110 | 25 | — | 135 |

Four months ended 31 October 2015 (Unaudited)

| Name | Fee | Salaries, allowances and other benefits | Directors' bonus | Total |
|--|----------|--|---------------------|----------|
| | ¥million | ¥million | ¥million | ¥million |
| Executive directors | | | | |
| Katsuya Yamamoto (Chief executive) (Note) | 42 | — | — | 42 |
| Fumihide Hamada | — | 3 | — | 3 |
| Yutaka Kagawa | — | 3 | — | 3 |
| Toshiro Oe | — | 2 | — | 2 |
| | 42 | 8 | — | 50 |

Four months ended 31 October 2016

| Name | Fee | Salaries, allowances and other benefits | Directors' bonus | Total |
|--|-----------|--|---------------------|-----------|
| | ¥million | ¥million | ¥million | ¥million |
| Executive directors | | | | |
| Katsuya Yamamoto (Chief executive) (Note) | 34 | — | — | 34 |
| Fumihide Hamada | — | 3 | — | 3 |
| Yutaka Kagawa | — | 3 | — | 3 |
| Toshiro Oe | — | 2 | — | 2 |
| | <u>34</u> | <u>8</u> | <u>—</u> | <u>42</u> |

Note: Provision for long term benefit obligations for Katsuya Yamamoto during the years ended 30 June 2014, 2015 and 2016 and for the four months ended 31 October 2016 will be disclosed as director's emoluments when paid upon the retirement of Katsuya Yamamoto. The provision for long term benefit obligations will be subject to change and does not necessarily represent the actual amount to be paid upon retirement.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016 include 1, 1, 1, 1 and 1 director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4, 4, 4, 4 and 4 individuals during the Relevant Periods are as follows:

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|------------|------------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million (Unaudited) | ¥million |
| Salaries, allowances and other benefits | <u>61</u> | <u>223</u> | <u>106</u> | <u>35</u> | <u>35</u> |

Same as disclosed in the director's emoluments, the number of highest paid individuals whose remuneration fell within the following band is as follows:

| | Number of individuals | | | | |
|--|-----------------------|----------|----------|---------------------------------|----------|
| | Year ended 30 June | | | Four months ended 31 October | |
| | 2014 | 2015 | 2016 | 2015 (Unaudited) | 2016 |
| Nil to HK\$1,000,000 (equivalent to Nil to approximately ¥14,925,000) . | 2 | 2 | 1 | 3 | 3 |
| HK\$1,000,001 to HK\$1,500,000 (equivalent to approximately ¥14,925,001 to ¥22,388,000) | 1 | 1 | 1 | 1 | 1 |
| HK\$1,500,001 to HK\$2,000,000 (equivalent to approximately ¥22,388,001 to ¥29,851,000) | 1 | — | — | — | — |
| HK\$2,000,001 to HK\$2,500,000 (equivalent to approximately ¥29,851,001 to ¥37,313,000) | — | — | 1 | — | — |
| HK\$2,500,001 to HK\$3,000,000 (equivalent to approximately ¥37,313,001 to ¥44,776,000) | — | — | — | — | — |
| HK\$3,000,001 to HK\$15,000,000 (equivalent to ¥44,776,001 to ¥223,881,000) | — | 1 | 1 | — | — |
| | <u>4</u> | <u>4</u> | <u>4</u> | <u>4</u> | <u>4</u> |

No inducement for joining the Group or compensation for loss of office was paid or payable to any five highest paid individuals during the Relevant Periods.

9 Finance costs, net

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|--------------|--------------|---------------------------------|-------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million (Unaudited) | ¥million |
| Finance income | | | | | |
| Interest income | 41 | 35 | 21 | 11 | — |
| Interest from debt securities . . . | 40 | 26 | 4 | 3 | 1 |
| | <u>81</u> | <u>61</u> | <u>25</u> | <u>14</u> | <u>1</u> |
| Finance costs | | | | | |
| Obligations under finance leases | (215) | (204) | (193) | (67) | (62) |
| Bank borrowings interest expenses | (98) | (65) | (47) | (16) | (12) |
| Bond interest expenses | (4) | (3) | (3) | (1) | (1) |
| Others | (4) | (5) | (6) | (1) | (1) |
| | <u>(321)</u> | <u>(277)</u> | <u>(249)</u> | <u>(85)</u> | <u>(76)</u> |
| Finance costs, net | <u>(240)</u> | <u>(216)</u> | <u>(224)</u> | <u>(71)</u> | <u>(75)</u> |

10 Income tax expense

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|------------|------------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million (Unaudited) | ¥million |
| Current income tax | | | | | |
| - Japan corporate income tax for the year/period | 721 | 716 | 542 | 125 | 96 |
| Deferred income tax (Note 30) . | (39) | 265 | (118) | (54) | (78) |
| | <u>682</u> | <u>981</u> | <u>424</u> | <u>71</u> | <u>18</u> |

Japan corporate income tax has been calculated on the estimated assessable profit for the Relevant Periods at the rates of taxation prevailing in Japan in which the Group operates.

No provision for Hong Kong profits tax has been made for the Relevant Periods as the Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the income tax rate of Japan as follows:

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|------------|------------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million (Unaudited) | ¥million |
| Profit before income tax | 1,691 | 1,563 | 1,028 | 179 | 44 |
| Tax calculated at applicable Japan corporate income tax rate | 661 | 575 | 360 | 63 | 15 |
| Expenses not deductible for tax purpose | 5 | 5 | 9 | 2 | 4 |
| Income not subject to tax purpose | (1) | (5) | (—) | — | — |
| Tax effect of deductible temporary differences not recognised | 73 | 99 | 26 | 25 | 25 |
| Utilisation of previously unrecognised deductible temporary differences | (49) | (37) | (15) | (11) | (27) |
| Recognition of previously unrecognised deductible temporary differences | (7) | (95) | (5) | (19) | (5) |
| Tax losses not recognised | — | 9 | 1 | — | — |
| Utilisation of previously unrecognised tax losses | (8) | (91) | (7) | (7) | — |
| Recognition of previously unrecognised tax losses | (12) | (160) | (—) | — | — |
| Effect of changes in tax rates | 15 | 52 | 24 | 5 | (3) |
| Taxable temporary differences relating to investments in subsidiaries (Note) | — | 629 | 35 | 6 | 3 |
| Other | 5 | — | (4) | 7 | 6 |
| Tax expense | <u>682</u> | <u>981</u> | <u>424</u> | <u>71</u> | <u>18</u> |

Note: For the year ended 30 June 2015, the amount represents the deferred income tax liabilities arising from withholding income tax which result in an increase in income tax of ¥629 million. As part of the Reorganisation, the Company was incorporated in Hong Kong on 16 June 2015 serving as a listing vehicle of the Group. The dividend distributed to the Company is subject to 5% of withholding income tax based on Japan tax law as the dividend recipient was incorporated outside Japan. The income tax of ¥629 million was calculated at 5% of the distributable reserve of the Group's subsidiaries as at 30 June 2015. Subsequent to the Reorganisation, the deferred income tax attributable to the distributable reserve of the Group is remeasured at each of the reporting date.

The Group is subject to national corporate income tax, inhabitants tax, and enterprise tax in Japan, which, in aggregate, resulted in effective statutory income tax rates approximately 39.1%, 36.8%, 35.0%, 35.0% and 34.5% for the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016, respectively. The effective tax rate was approximately 40.3%, 62.8%, 41.2%, 39.1% and 40.9% for the respective years/periods. During the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016, the Group's effective tax rate was higher than the applicable statutory tax rate due to movements in deferred income tax arising from changes in the Group's various subsidiaries' abilities to generate future taxable profits to utilise the deductible temporary differences that the relevant subsidiaries have recorded.

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on 31 March 2014. As a result, 10% of temporary restoration corporation surtax was no longer applicable for fiscal years beginning on or after 1 April 2014. The Group measured the current income tax for the year ended 30 June 2015 based on revised applicable income tax rate. For the year ended 30 June 2014, the relevant deferred tax assets and liabilities had been remeasured at tax rate that was expected to apply to the periods when the related assets and liabilities are realised or settled.

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 2 of 2015) were promulgated on 31 March, 2015. The corporate tax rate of Japan was reduced from 25.5% to 23.9% from fiscal years beginning on or after 1 April 2015. The Group will apply the revised applicable income tax rate to measure the current income tax for the year ended 30 June 2016. For the year ended 30 June 2015, the relevant deferred tax assets and liabilities have been remeasured at tax rate that is expected to apply to the periods when the related assets and liabilities are realised or settled.

As a result of the 2016 Tax Reform passed on 29 March 2016, the applicable effective tax rate was reduced to 34.5% for the years ending 30 June 2017 and 2018, and to 31% for the year ending 30 June 2019 and the years afterward. As at 30 June 2016, the relevant deferred income tax assets and liabilities have been remeasured at tax rate that is expected to apply to the periods when the related assets and liabilities are realised or settled.

11 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods. In determining the weighted average number of ordinary shares in issue during the Relevant Periods, 8,000,000 shares of the Company, which were resulted from the issue and allotment 8,000,000 shares by the Company in connection with the Reorganisation, had been treated as if those shares were in issue since 1 July 2013.

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|------------|------------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million (Unaudited) | ¥million |
| Profit attributable to shareholders of the Company (¥million) | <u>1,020</u> | <u>562</u> | <u>604</u> | <u>108</u> | <u>26</u> |
| Weighted average number of ordinary shares in issue (million)..... | <u>8</u> | <u>8</u> | <u>8</u> | <u>8</u> | <u>8</u> |
| Basic and diluted earnings per share (Japanese Yen) | <u>128</u> | <u>70</u> | <u>76</u> | <u>14</u> | <u>3</u> |

The basic earnings per share is calculated on the profit attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016. In determining the weighted average number of ordinary shares in issue, the 8,000,000 shares issued during the Reorganisation as described in note 1.2 were deemed to have been in issue since 1 July 2013. The earnings per shares has not taken into account the bonus issue of 367,000,000 shares pursuant to the written resolution passed by the shareholders on 10 April 2017 as the bonus issue will not become effective until the Listing.

No diluted earnings per share is presented as there was no potential dilutive share during the Relevant Periods. Diluted earnings per share is equal to the basic earnings per share.

12 Dividends

The Company distributed final dividends to its shareholders for the year ended 30 June 2016. A subsidiary distributed final dividends to its shareholders for the years ended 30 June 2014 and 2015.

| | Year ended 30 June | | | | Four months ended 31 October | | | | | |
|----------------------------------|--------------------|----------------|--------------------|----------------|------------------------------|----------------|--------------------|----------------|--------------------|----------------|
| | 2014 | | 2015 | | 2016 | | 2015 | | 2016 | |
| | Dividend per share | Total dividend | Dividend per share | Total dividend | Dividend per share | Total dividend | Dividend per share | Total dividend | Dividend per share | Total dividend |
| | ¥ | ¥million | ¥ | ¥million | ¥ | ¥million | ¥ | ¥million | ¥ | ¥million |
| K's Holdings Co., Ltd. | 25 | 2 | 25 | 2 | — | — | — | — | — | — |
| Okura Holdings Limited | — | — | — | — | 592.5 | 4,740 | — | — | — | — |
| | | <u>2</u> | | <u>2</u> | | <u>4,740</u> | | <u>—</u> | | <u>—</u> |
| | | | | | | | | | | |

(Unaudited)

13 Property, plant and equipment - Group

| | Freehold land | Buildings | Leasehold improvements | Equipment and tools | Motor vehicles | Construction in progress | Total |
|---|---------------|--------------|------------------------|---------------------|----------------|--------------------------|---------------|
| | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million |
| At 1 July 2013 | | | | | | | |
| Cost | 3,351 | 6,795 | 3,615 | 2,795 | 78 | 80 | 16,714 |
| Accumulated depreciation and provision for impairment | (157) | (2,421) | (1,860) | (2,037) | (36) | — | (6,511) |
| Net book amount | <u>3,194</u> | <u>4,374</u> | <u>1,755</u> | <u>758</u> | <u>42</u> | <u>80</u> | <u>10,203</u> |
| Year ended 30 June 2014 | | | | | | | |
| Opening net book amount | 3,194 | 4,374 | 1,755 | 758 | 42 | 80 | 10,203 |
| Additions | — | 3 | 56 | 318 | 15 | — | 392 |
| Transfer | — | — | 80 | — | — | (80) | — |
| Disposals | (141) | (123) | (38) | (25) | (6) | — | (333) |
| Impairment (Note 7) | (62) | (55) | (18) | (16) | — | — | (151) |
| Depreciation | — | (288) | (191) | (314) | (10) | — | (803) |
| Closing net book amount | <u>2,991</u> | <u>3,911</u> | <u>1,644</u> | <u>721</u> | <u>41</u> | <u>—</u> | <u>9,308</u> |
| At 1 July 2014 | | | | | | | |
| Cost | 3,109 | 6,645 | 3,407 | 2,730 | 60 | — | 15,951 |
| Accumulated depreciation and provision for impairment | (118) | (2,734) | (1,763) | (2,009) | (19) | — | (6,643) |
| Net book amount | <u>2,991</u> | <u>3,911</u> | <u>1,644</u> | <u>721</u> | <u>41</u> | <u>—</u> | <u>9,308</u> |
| Year ended 30 June 2015 | | | | | | | |
| Opening net book amount | 2,991 | 3,911 | 1,644 | 721 | 41 | — | 9,308 |
| Additions | 78 | 22 | 71 | 130 | — | — | 301 |
| Disposals | — | — | (9) | (19) | (3) | — | (31) |
| Transfer to investment properties | (8) | (1) | — | — | — | — | (9) |
| Impairment (Note 7) | — | — | (39) | (10) | — | — | (49) |
| Depreciation | — | (283) | (174) | (260) | (9) | — | (726) |
| Closing net book amount | <u>3,061</u> | <u>3,649</u> | <u>1,493</u> | <u>562</u> | <u>29</u> | <u>—</u> | <u>8,794</u> |
| At 1 July 2015 | | | | | | | |
| Cost | 3,173 | 6,651 | 3,454 | 2,770 | 54 | — | 16,102 |
| Accumulated depreciation and provision for impairment | (112) | (3,002) | (1,961) | (2,208) | (25) | — | (7,308) |
| Net book amount | <u>3,061</u> | <u>3,649</u> | <u>1,493</u> | <u>562</u> | <u>29</u> | <u>—</u> | <u>8,794</u> |

| | Freehold land | Buildings | Leasehold improvements | Equipment and tools | Motor vehicles | Construction in progress | Total |
|---|---------------|--------------|------------------------|---------------------|----------------|--------------------------|--------------|
| | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million |
| Year ended 30 June 2016 | | | | | | | |
| Opening net book amount | 3,061 | 3,649 | 1,493 | 562 | 29 | — | 8,794 |
| Additions | — | 6 | 24 | 185 | 19 | — | 234 |
| Disposals | — | — | (28) | (14) | (15) | — | (57) |
| Impairment (Note 7) | — | — | (13) | (6) | — | — | (19) |
| Depreciation | — | (268) | (157) | (215) | (8) | — | (648) |
| Closing net book amount | <u>3,061</u> | <u>3,387</u> | <u>1,319</u> | <u>512</u> | <u>25</u> | <u>—</u> | <u>8,304</u> |
| At 30 June 2016 | | | | | | | |
| Cost | 3,173 | 6,682 | 3,427 | 2,842 | 42 | — | 16,166 |
| Accumulated depreciation and provision for impairment | (112) | (3,295) | (2,108) | (2,330) | (17) | — | (7,862) |
| Net book amount | <u>3,061</u> | <u>3,387</u> | <u>1,319</u> | <u>512</u> | <u>25</u> | <u>—</u> | <u>8,304</u> |
| Four months ended 31 October 2016 | | | | | | | |
| Opening net book amount | 3,061 | 3,387 | 1,319 | 512 | 25 | — | 8,304 |
| Additions | — | — | 32 | 127 | — | 1 | 160 |
| Disposals | — | — | (4) | (3) | — | — | (7) |
| Depreciation | — | (82) | (52) | (71) | (2) | — | (207) |
| Closing net book amount | <u>3,061</u> | <u>3,305</u> | <u>1,295</u> | <u>565</u> | <u>23</u> | <u>1</u> | <u>8,250</u> |
| At 31 October 2016 | | | | | | | |
| Cost | 3,173 | 6,682 | 3,450 | 2,965 | 42 | 1 | 16,313 |
| Accumulated depreciation and provision for impairment | (112) | (3,377) | (2,155) | (2,400) | (19) | — | (8,063) |
| Net book amount | <u>3,061</u> | <u>3,305</u> | <u>1,295</u> | <u>565</u> | <u>23</u> | <u>1</u> | <u>8,250</u> |

Depreciation expenses of ¥763 million, ¥683 million, ¥621 million, ¥217 million (unaudited) and ¥199 million have been charged in “hall operating expenses” and ¥40 million, ¥43 million, ¥27 million, ¥10 million (unaudited) and ¥8 million have been charged in “administrative and other operating expenses” for the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016, respectively.

The net carrying amount of the Group’s property, plant and equipment that were pledged for the banking facilities granted to the Group for the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016 has been disclosed in Note 28.

The Group's property, plant and equipment held under finance leases included in the total amount of buildings were as follows:

| | As at 30 June | | | As at |
|---|---------------|--------------|--------------|--------------|
| | | | | 31 October |
| | 2014 | 2015 | 2016 | 2016 |
| | ¥million | ¥million | ¥million | ¥million |
| Buildings | | | | |
| Cost — capitalised finance leases | 3,738 | 3,738 | 3,738 | 3,738 |
| Accumulated depreciation | (1,632) | (1,828) | (2,006) | (2,060) |
| | <u>2,106</u> | <u>1,910</u> | <u>1,732</u> | <u>1,678</u> |

The Group carried out reviews of the recoverable amounts of each cash-generating unit ("CGU"), which is determined as each individual pachinko and pachislot hall.

As at 30 June 2014 and 2015 some of the CGUs in Japan are performing below management's expectations of their initial budget and continuously making operating losses, and are projected to continuously incur losses in the future periods, the directors have reviewed the recoverability of the relevant carrying amounts of these loss-making CGUs.

The recoverable amount of a CGU is determined based on the value-in-use of calculation. The key assumptions underlying the value-in-use calculations included the five-year revenue growth rates, the long-term growth rate beyond year five and discount rates. The five-year revenue growth rates are based on financial budgets of the relevant halls approved by management.

Details of the key assumptions are set out below:

| | As at 30 June | | | As at |
|---|--------------------|--------------------|------|------------|
| | | | | 31 October |
| | 2014 | 2015 | 2016 | 2016 |
| Five-year revenue growth rates | -21.5% to 29.6% | -19.9% to 29.6% | N/A | N/A |
| Long term growth rates beyond year five . . | 0% | 0% | N/A | N/A |
| Discount rates | 9.8% | 9.8% | N/A | N/A |

As at 30 June 2014, property, plant and equipment of loss-making CGUs were impaired up to recoverable amounts and the Group recognised provision of JPY 151 million.

As at June 2015, the recoverable amount calculated based on the value in use exceeded carrying amount by JPY12 million other than those CGUs for which the Group has made impairment provision of ¥49 million to reduce the property, plant and equipment relevant carrying value to recoverable amounts. In the event that the Group's business continues to experience a general decline in the long term beyond the five year forecast period, the headroom will be reduced to nil if the long term growth rate beyond year five is adjusted to -0.4% as at 30 June 2015. A rise in discount rate to 13.1% as at 30 June 2015, would also remove the remaining headroom.

As at 30 June 2016, management assessed and considered that none of the CGUs have impairment indicator other than a CGU where management has determined that the remaining carrying value of ¥19 million should be fully impaired.

As at 31 October 2016, management assessed and considered that none of the CGUs have impairment indicator.

The discount rates applied by the Group are rates that reflect current market assessment of the time value of money and the risk specific to the CGU. Revenue growth rate is based on past practices and expectations on market and operational development.

As a result of the impairment review, the carrying amounts of certain CGUs exceeded their recoverable amounts. Accordingly, impairment loss of approximately ¥151 million, ¥49 million, ¥19 million, ¥14 million (unaudited) and nil have been recognised for the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016, respectively.

14 Investments in subsidiaries — Company

| | As at 30 June | | As at |
|---|---------------|---------------|---------------|
| | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million |
| Unlisted equity investment, at cost | <u>11,968</u> | <u>11,968</u> | <u>11,968</u> |

Details of the Company's directly and indirectly held subsidiaries as at 30 June 2014, 2015 and 2016 and 31 October 2016 are explained in Note 1.2.

15 Investment properties — Group

| | As at 30 June | | | As at |
|--|---------------|--------------|--------------|--------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| | | | | ¥million |
| At cost | | | | |
| At beginning of year/period | 2,731 | 2,387 | 2,440 | 2,394 |
| Additions (Note) | — | 93 | 4 | — |
| Disposals | (294) | (1) | — | — |
| Transfer from property, plant and equipment | — | 9 | — | — |
| Depreciation | (50) | (48) | (50) | (17) |
| At end of year/period | 2,387 | 2,440 | 2,394 | 2,377 |
| At end of year/period | | | | |
| Cost | 3,538 | 3,656 | 3,660 | 3,660 |
| Accumulated depreciation | (767) | (823) | (873) | (890) |
| Provision for impairment | (384) | (393) | (393) | (393) |
| | 2,387 | 2,440 | 2,394 | 2,377 |

Note: The balance as at 30 June 2015 includes ¥91 million for the acquisition of the investment property which constitutes an acquisition of business as described in note 35.

The investment properties that have been pledged to secure general facilities granted to the Group are disclosed in Note 28. The Group had no unprovided contractual obligations for future repairs and maintenance as at 30 June 2014, 2015 and 2016 and 31 October 2016.

Investment properties are situated in Japan and rented out under operating leases. Amounts recognised in profit and loss for investment properties are as follows:

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|------------|------------|---------------------------------|-----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million (Unaudited) | ¥million |
| Rental income | 280 | 260 | 256 | 78 | 75 |
| Direct operating expenses from the properties that generated rental income | (91) | (84) | (71) | (18) | (18) |
| | <u>189</u> | <u>176</u> | <u>185</u> | <u>60</u> | <u>57</u> |

The Group's investment properties were valued as at 30 June 2014, 2015 and 2016 and 31 October 2016 by an independent professionally qualified valuer, DTZ Cushman & Wakefield Limited ("DTZ"), who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. The valuation was determined using the investment approach, which largely used observable and unobservable inputs, including market rent, capitalisation rate and estimation in vacancy rate after expiry of current lease, or the direct comparison approach, which largely used comparables occurred in the real estate market.

The Group's finance department includes a team that reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the executive directors. Discussions of valuation processes and results are held between the executive directors, the valuation team and valuers at least annually.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assess property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

Where the valuation results indicate that the carrying amount of the investment properties exceed its recoverable amount, impairment loss will be recognised by the Group. The fair value of the investment properties at 30 June 2014, 2015 and 2016 and 31 October 2016 is ¥2,597 million, ¥2,687 million, ¥2,646 million and ¥2,640 million, respectively. No impairment loss was recognised.

16 Intangible assets — Group

| | <u>Goodwill</u> | <u>Computer software</u> | <u>Total</u> |
|--------------------------------|-----------------|------------------------------|--------------|
| | ¥million | ¥million | ¥million |
| At 1 July 2013 | | | |
| Cost | 740 | 9 | 749 |
| Accumulated amortisation | — | (4) | (4) |
| Net book amount | <u>740</u> | <u>5</u> | <u>745</u> |
| Year ended 30 June 2014 | | | |
| Opening net book amount | 740 | 5 | 745 |
| Additions | — | 1 | 1 |
| Amortisation (Note 7) | — | (2) | (2) |
| Closing net book amount | <u>740</u> | <u>4</u> | <u>744</u> |
| At 1 July 2014 | | | |
| Cost | 740 | 10 | 750 |
| Accumulated amortisation | — | (6) | (6) |
| Net book amount | <u>740</u> | <u>4</u> | <u>744</u> |
| Year ended 30 June 2015 | | | |
| Opening net book amount | 740 | 4 | 744 |
| Additions | — | 101 | 101 |
| Amortisation (Note 7) | — | (6) | (6) |
| Closing net book amount | <u>740</u> | <u>99</u> | <u>839</u> |
| At 1 July 2015 | | | |
| Cost | 740 | 111 | 851 |
| Accumulated amortisation | — | (12) | (12) |
| Net book amount | <u>740</u> | <u>99</u> | <u>839</u> |

| | Goodwill | Computer software | Total |
|--|------------|----------------------|------------|
| | ¥million | ¥million | ¥million |
| Year ended 30 June 2016 | | | |
| Opening net book amount | 740 | 99 | 839 |
| Additions | — | 14 | 14 |
| Amortisation (Note 7) | — | (22) | (22) |
| Closing net book amount | <u>740</u> | <u>91</u> | <u>831</u> |
| At 1 July 2016 | | | |
| Cost | 740 | 125 | 865 |
| Accumulated amortisation | — | (34) | (34) |
| Net book amount | <u>740</u> | <u>91</u> | <u>831</u> |
| Four months ended 31 October 2016 | | | |
| Opening net book amount | 740 | 91 | 831 |
| Amortisation (Note 7) | — | (8) | (8) |
| Closing net book amount | <u>740</u> | <u>83</u> | <u>823</u> |
| At 31 October 2016 | | | |
| Cost | 740 | 125 | 865 |
| Accumulated amortisation | — | (42) | (42) |
| Net book amount | <u>740</u> | <u>83</u> | <u>823</u> |

Intangible assets represent computer software and goodwill arising from purchase of a pachinko and pachislot hall from certain third parties during the year ended 30 June 2013. Amortisation expenses relating to computer software of ¥2 million, ¥6 million, ¥22 million, ¥7 million (unaudited) and ¥8 million have been charged in “hall operating expenses” for the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016, respectively.

Goodwill arising from acquisition is allocated to the relevant CGU expected to benefit from the business combination. A CGU which is determined as each individual pachinko and pachislot hall. Management reviews annually whether the carrying amount of a CGU is higher than the recoverable amount which results in impairment of goodwill. The recoverable amount of a CGU is determined based on value-in-use calculation.

The key assumptions underlying the value-in-use calculations included the five-year revenue growth rates, the long-term growth rate beyond year five and discount rates. The five-year revenue growth rates are based on financial budgets of the relevant halls approved by management. Details of the key assumptions are set out below:

| | As at 30 June | | | As at 31 October |
|---|--------------------|-------------------|------------------|---------------------|
| | 2014 | 2015 | 2016 | 2016 |
| Five-year revenue growth rates | -13.3% to 13.1% | -13.3% to 7.3% | -5.7% to 7.3% | -5.7% to 7.3% |
| Long term growth rates beyond year five . . . | 0% | 0% | 0% | 0% |
| Discount rates | 9.8% | 9.8% | 9.8% | 9.8% |

As a result of the impairment review, the recoverable amounts of the CGUs in which goodwill has been allocated are higher than their carrying amounts as at 30 June 2014, 2015 and 2016 and 31 October 2016. As a result, no impairment loss was charged during the Relevant Periods.

The recoverable amount calculated based on the value in use exceeded carrying amount by JPY4,230 million, JPY4,155 million, JPY4,015 million and JPY4,031 million as at 30 June 2014, 2015 and 2016 and 31 October 2016 respectively. In the event that the Group's business continues to experience a general decline in the long term beyond the five year forecast period, the headroom will be reduced to nil if the long term growth rate beyond year five is adjusted to - 12.0%, -12.4%, -12.5% and -11.9% as at 30 June 2014, 2015 and 2016 and 31 October 2016. A rise in discount rate to 30.4%, 30.6%, 30.0% and 30.7% as at 30 June 2014, 2015 and 2016 and 31 October 2016, would also remove the remaining headroom.

17 Financial instruments by category — Group

| | As at 30 June | | | As at |
|---|---------------|--------------|--------------|--------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| | | | | ¥million |
| Financial assets | | | | |
| Financial assets at fair value | | | | |
| Fair value through profit or loss | 1,203 | 2,076 | 259 | 310 |
| Fair value through other comprehensive income | 41 | 155 | 38 | 42 |
| | <u>1,244</u> | <u>2,231</u> | <u>297</u> | <u>352</u> |
| Financial assets at amortised cost | | | | |
| Trade receivables | 2 | — | — | — |
| Deposits and other receivables (including amounts due from related parties) | 3,839 | 3,308 | 1,758 | 1,835 |
| Bank deposits | 784 | 500 | 100 | 100 |
| Cash and cash equivalents | 3,105 | 2,566 | 1,354 | 1,175 |
| | <u>7,730</u> | <u>6,374</u> | <u>3,212</u> | <u>3,110</u> |
| | <u>8,974</u> | <u>8,605</u> | <u>3,509</u> | <u>3,462</u> |
| Financial liabilities | | | | |
| Financial liabilities at amortised cost | | | | |
| Trade payables | 33 | 27 | 23 | 25 |
| Other payables | 1,167 | 1,019 | 914 | 924 |
| Amounts due to related parties | 47 | — | 1 | — |
| Borrowings (including loans from related parties) | 4,337 | 3,161 | 2,722 | 2,276 |
| Obligations under finance leases | 3,472 | 3,267 | 3,088 | 3,033 |
| | <u>9,056</u> | <u>7,474</u> | <u>6,748</u> | <u>6,258</u> |

18 Financial assets at fair value - Group

(a) Financial assets at fair value through profit or loss

| | As at 30 June | | | As at |
|-------------------------------------|---------------|--------------|------------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Unlisted securities | | | | |
| - Debt securities | 1,115 | 2,076 | 259 | 310 |
| - Insurance contracts | 88 | — | — | — |
| Less: non-current portion | (184) | (284) | (34) | (43) |
| Current portion | <u>1,019</u> | <u>1,792</u> | <u>225</u> | <u>267</u> |

Change in fair value of financial assets at fair value through profit or loss are recorded in “other (losses)/gains, net” in profit or loss (Note 6).

The fair value of certain debt securities are within level 2 of fair value hierarchy (Note 3.3).

The fair value of certain debt securities and the insurance contracts are within level 3 of fair value hierarchy (Note 3.3).

(b) Financial assets at fair value through other comprehensive income

| | As at 30 June | | | As at |
|-------------------------------|---------------|------------|-----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Listed securities | | | | |
| - Equity securities | 38 | 151 | 33 | 38 |
| Unlisted securities | | | | |
| - Equity securities | <u>3</u> | <u>4</u> | <u>5</u> | <u>4</u> |
| | <u>41</u> | <u>155</u> | <u>38</u> | <u>42</u> |

Changes in fair values of financial assets at fair value through other comprehensive income are recorded in “investment revaluation reserves” in the consolidated statements of change in equity.

The fair value of all equity securities is based on the current bid prices and recent transaction prices in an active market.

19 Inventories — Group

| | As at 30 June | | | As at |
|--|---------------|----------|----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Uninstalled pachinko and pachislot machines..... | 100 | 82 | 101 | 44 |

The cost of inventories recognised as expenses and included in “hall operating expense” amounted to ¥5,719 million, ¥4,499 million, ¥3,330 million, ¥1,364 million (unaudited) and ¥1,210 million for the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016, respectively.

20 Trade receivables — Group

| | As at 30 June | | | As at |
|-------------------------|---------------|----------|----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Trade receivables | 2 | — | — | — |

Trade receivables represent income receivable from service provided to third parties. The credit terms granted by the Group generally ranged from 0 to 30 days.

The creation and release of provision for impaired receivables have been included in “administrative and other operating expenses” in the profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

As at 30 June 2014, 2015 and 2016 and 31 October 2016, the ageing analysis of the trade receivables, based on invoice date, is as follows:

| | As at 30 June | | | As at |
|-------------------------|---------------|----------|----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Less than 30 days | 1 | — | — | — |
| 31-90 days | — | — | — | — |
| Over 90 days | 1 | — | — | — |
| | <u>2</u> | <u>—</u> | <u>—</u> | <u>—</u> |

As at 30 June 2014, 2015 and 2016 and 31 October 2016, trade receivables of ¥1 million, nil, nil and nil were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables, based on due date, is as follows:

| | As at 30 June | | | As at |
|--------------------------|---------------|----------|----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Overdue but not impaired | | | | |
| Over 90 days | <u>1</u> | <u>—</u> | <u>—</u> | <u>—</u> |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group and the Company do not hold any collateral as security.

The carrying amounts of trade receivables approximate their fair values as at 30 June 2014, 2015 and 2016 and 31 October 2016, and are denominated in Japanese Yen.

21 Prepayments, deposits and other receivables — Group

| | As at 30 June | | | As at |
|--|---------------|--------------|--------------|--------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| | | | | ¥million |
| Non-current portion | | | | |
| Rental and other deposits | 1,853 | 1,758 | 1,751 | 1,848 |
| Long-term loans | 1 | — | — | — |
| | <u>1,854</u> | <u>1,758</u> | <u>1,751</u> | <u>1,848</u> |
| Current portion | | | | |
| Prepayment for prizes in operation for pachinko and pachislot halls | 225 | 166 | 167 | 183 |
| Prepaid expenses | 188 | 225 | 253 | 322 |
| Other receivables | 124 | 55 | 55 | 56 |
| Other tax receivables | — | 48 | 6 | — |
| Rental and other deposits | 120 | 63 | 34 | 33 |
| Less: allowance for impairment of other receivables | (46) | — | — | — |
| | <u>611</u> | <u>557</u> | <u>515</u> | <u>594</u> |

The carrying amounts of prepayments, deposits and other receivables of the Group approximate their fair values as at 30 June 2014, 2015 and 2016 and 31 October 2016 and are denominated in Japanese Yen.

Certain deposits and other receivables have been pledged to secure general facilities granted to the Group (Note 28).

22 Cash and cash equivalents - Group

| | As at 30 June | | | As at |
|--|---------------|----------|----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Non-current portion | | | | |
| Pledged deposits | 100 | — | — | — |
| Current portion | | | | |
| Bank deposits with maturity of more than three months | 281 | — | 100 | 100 |
| Pledged deposits | 403 | 500 | — | — |
| | 684 | 500 | 100 | 100 |
| Cash on hand | 362 | 367 | 347 | 322 |
| Cash at bank | 2,743 | 2,199 | 1,007 | 853 |
| Cash and cash equivalents | 3,105 | 2,566 | 1,354 | 1,175 |
| Total cash and bank balances | 3,889 | 3,066 | 1,454 | 1,275 |

Notes:

- (a) The pledged bank deposits are held in designated bank accounts mainly for the Group's banking facilities (Note 28).
- (b) The carrying amounts of bank deposits with maturity over 3 months, bank deposits with maturity less than 3 months, cash and bank balances and pledged deposits are denominated in the following currencies:

| | As at 30 June | | | As at |
|-----------------|---------------|----------|----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Currency type | | | | |
| JPY | 3,744 | 2,705 | 1,400 | 1,252 |
| USD | 145 | 352 | 42 | 12 |
| Other | — | 9 | 12 | 11 |
| | 3,889 | 3,066 | 1,454 | 1,275 |

23 Share capital — Group and Company

The capital of the Group as at 1 July 2013 and 30 June 2014 represented the paid-in capital of K's Holdings Limited Company, K's Holdings Co., Ltd. and Monaco Holdings Co., Ltd.. Upon the incorporation of the Company on 16 June 2015, the Listing Business has been transferred to the Company.

The capital as at 30 June 2015 and 2016 and 31 October 2016 represented the share capital of the Company.

| | Number of Shares | Capital |
|--|---------------------|---------------|
| | (million) | ¥million |
| At 16 June 2015 (date of incorporation of the Company) | 8 | 8 |
| - Transfer of Listing Business to the Company | — | 11,960 |
| At 30 June 2015 and 2016 and 31 October 2016 | <u>8</u> | <u>11,968</u> |

24 Reserves

(a) Reserves movement — Company

| | Note | Retained earnings | Total |
|--|------|----------------------|----------------|
| | | ¥million | ¥million |
| At 1 July 2014 | | — | — |
| Loss for the year | | — | — |
| At 30 June 2015 | | <u>—</u> | <u>—</u> |
| At 1 July 2015 | | — | — |
| Dividend income from a subsidiary | | 5,070 | 5,070 |
| Withholding tax | | (254) | (254) |
| Dividend payment | 12 | <u>(4,740)</u> | <u>(4,740)</u> |
| At 30 June 2016, 1 July 2016 and 31 October 2016 | | <u>76</u> | <u>76</u> |

(b) Capital reserve — Group

Capital reserve deficit of approximately ¥6,430 million represented (i) the difference between the carrying value of the Listing Business and the share capital of the Company upon formation of the Company and transfer of the Listing Business to the Company and (ii) the difference between the consideration paid for acquiring the subsidiaries and the share capitals of acquired subsidiaries under common control.

(c) *Legal reserve — Group*

The Japan Companies Act provides that a 10% dividend paid during the year shall be appropriated as legal reserve (a component of either capital surplus or retained earnings) until an aggregate amount of legal capital reserve and legal retained earnings equals 25% of share capital. The legal reserve may be used to reduce a deficit or transfer to share capital upon approval of the general meeting of shareholders.

(d) *Investment revaluation reserve — Group*

Investment revaluation reserve represents the cumulative net change in the fair value of financial assets through other comprehensive income held at the end of the reporting period.

25 *Trade payables — Group*

The ageing analysis of the trade payables based on invoice dates as at 30 June 2014, 2015 and 2016 and 31 October 2016 were as follows:

| | As at 30 June | | | As at |
|-----------------------------|---------------|-----------|-----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| | | | | ¥million |
| Less than 30 days | 30 | 27 | 23 | 25 |
| 30-90 days | 3 | — | — | — |
| | <u>33</u> | <u>27</u> | <u>23</u> | <u>25</u> |

The carrying amounts of trade payables approximate their fair values as at 30 June 2014, 2015 and 2016 and 31 October 2016 and are denominated in Japanese Yen.

26 Accruals, provisions and other payables - Group

| | As at 30 June | | | As at |
|--|---------------|--------------|--------------|--------------|
| | | | | 31 October |
| | 2014 | 2015 | 2016 | 2016 |
| | ¥million | ¥million | ¥million | ¥million |
| Non-current portion | | | | |
| Provision for reinstatement costs | 362 | 359 | 347 | 348 |
| Rental deposits receipt in advance | 59 | 59 | 75 | 89 |
| | <u>421</u> | <u>418</u> | <u>422</u> | <u>437</u> |
| Current portion | | | | |
| Payable for pachinko and pachislot machines | 489 | 336 | 222 | 283 |
| Accrued staff costs | 163 | 176 | 150 | 154 |
| Accrued advertising expenses | 64 | 51 | 46 | 42 |
| Accrued bonuses | 75 | 74 | 69 | 54 |
| Accrued outsourcing fee | 70 | 84 | 76 | 67 |
| Other taxes payables | 313 | 282 | 190 | 85 |
| Rental deposits receipt in advance | 2 | 1 | 15 | 2 |
| Unearned revenue | 25 | 17 | 12 | 13 |
| Unutilised balls and tokens | 90 | 132 | 181 | 205 |
| Consumables payable | 57 | 78 | 81 | 55 |
| Utilities payable | 57 | 50 | 42 | 46 |
| Consideration for business combination . . . | 26 | — | — | — |
| Listing expenses payable | — | — | 73 | 121 |
| Other payables | 32 | 34 | 23 | 25 |
| | <u>1,463</u> | <u>1,315</u> | <u>1,180</u> | <u>1,152</u> |

The carrying amounts of other payables approximate their fair values as at 30 June 2014, 2015 and 2016 and 31 October 2016 and are denominated in Japanese Yen.

27 Employee benefit obligations - Group

| | As at 30 June | | | As at 31 October |
|---|---------------|--------------|--------------|---------------------|
| | 2014 | 2015 | 2016 | 2016 |
| | ¥million | ¥million | ¥million | ¥million |
| Long term benefit obligations for Yamamoto Family..... | 869 | 1,037 | 1,054 | 1,124 |
| Retirement benefit obligations for employees..... | 33 | 31 | 33 | 31 |
| | <u>902</u> | <u>1,068</u> | <u>1,087</u> | <u>1,155</u> |

As at 30 June 2014, 2015 and 2016 and 31 October 2016, long term benefit obligations for Yamamoto family represents the provision on the lump-sum payment to three, three, two and two Yamamoto Family members as a recognition of their contribution to the Group respectively. Specific amount of provision is made for each relevant Yamamoto Family member based on his respective expected final salary upon retirement multiplied by an index according to his rank in the Group and his number of years of service in the Group, using projected unit credit method. The defined benefit retirement plans of the Group are measured at present value which are determined with reference to the valuation performed by IIC Partners Co., Ltd., an independent qualified professional valuer. The valuation was carried out by projected unit credit method.

The Group's defined benefit retirement plans are the unfunded pension plans for full-time employees upon retirement.

- (a) Movements of the liability in connection with long term benefit obligations for Yamamoto Family recognised in the consolidated statements of financial position are as follows:

| | As at 30 June | | | As at 31 October |
|---|---------------|--------------|--------------|---------------------|
| | 2014 | 2015 | 2016 | 2016 |
| | ¥million | ¥million | ¥million | ¥million |
| At the beginning of the year/period | 802 | 869 | 1,037 | 1,054 |
| Provision recognised during the year/period | 67 | 168 | 70 | 70 |
| Payment during the year/period | — | — | (53) | — |
| | <u>869</u> | <u>1,037</u> | <u>1,054</u> | <u>1,124</u> |

(b) Movements of the liability in connection with retirement benefit obligations for employees recognised in the consolidated statements of financial position are as follows:

| | As at 30 June | | | As at |
|----------------------------------|---------------|-----------|-----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| At beginning of year/period..... | 31 | 33 | 31 | 33 |
| Current service cost | 3 | 2 | 3 | 1 |
| Benefit paid | (2) | (2) | (2) | (1) |
| Actuarial gains/(losses)..... | 1 | (2) | 1 | (2) |
| At end of year/period..... | <u>33</u> | <u>31</u> | <u>33</u> | <u>31</u> |

(c) Expense recognised in profit or loss is as follows:

| | As at 30 June | | | As at |
|----------------------------|---------------|----------|----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Current service cost | <u>3</u> | <u>2</u> | <u>3</u> | <u>1</u> |

(d) Item recognised in other comprehensive income is as follows:

| | As at 30 June | | | As at |
|---|---------------|------------|----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Actuarial gains/(losses) recognised | <u>1</u> | <u>(2)</u> | <u>1</u> | <u>(2)</u> |

(e) The principal actuarial assumptions adopted at each of the reporting period are as follows:

| | As at 30 June | | | As at |
|---------------------|---------------|--------------|--------------|--------------|
| | 2014 | 2015 | 2016 | 31 October |
| | | | | 2016 |
| Discount rate | <u>1.00%</u> | <u>1.10%</u> | <u>0.20%</u> | <u>0.50%</u> |

Through its defined benefit plans, the Group is exposed to discount rate risk. A decrease in discount rate will increase plan liabilities.

No sensitivity analysis is presented since the impact of a reasonable possible change in discount rate to the plan liabilities is insignificant.

28 Borrowings — Group

| | As at 30 June | | | As at |
|------------------------------------|---------------|--------------|--------------|--------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Non-current portion | | | | |
| Bank loans | 2,501 | 1,989 | 1,680 | 1,626 |
| Bonds | 247 | 148 | 89 | 59 |
| | <u>2,748</u> | <u>2,137</u> | <u>1,769</u> | <u>1,685</u> |
| Current portion | | | | |
| Bank loans | 1,233 | 762 | 893 | 531 |
| Bonds | 100 | 100 | 60 | 60 |
| Loans from insurance company | 73 | — | — | — |
| | <u>1,406</u> | <u>862</u> | <u>953</u> | <u>591</u> |
| Total borrowings | <u>4,154</u> | <u>2,999</u> | <u>2,722</u> | <u>2,276</u> |

As at 30 June 2014, 2015 and 2016 and 31 October 2016, the Group's borrowings were repayable as follows:

| | As at 30 June | | | As at |
|-----------------------------|---------------|--------------|--------------|--------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Within 1 year | 1,406 | 862 | 953 | 591 |
| Between 1 and 2 years | 801 | 464 | 452 | 457 |
| Between 2 and 5 years | 1,059 | 1,048 | 955 | 952 |
| Over 5 years | 888 | 625 | 362 | 276 |
| | <u>4,154</u> | <u>2,999</u> | <u>2,722</u> | <u>2,276</u> |

The average effective interest rates (per annum) at end of each reporting period were set out as follows:

| | As at 30 June | | | As at 31 October |
|----------------------|---------------|-------|-------|---------------------|
| | 2014 | 2015 | 2016 | 2016 |
| Bank loans | 1.91% | 1.67% | 1.44% | 1.47% |
| Bonds | 1.30% | 1.24% | 1.23% | 1.23% |

At the end of each reporting period, the total borrowings are pledged by certain assets and their carrying values are shown as below:

| | As at 30 June | | | As at 31 October |
|---|---------------|--------------|--------------|---------------------|
| | 2014 | 2015 | 2016 | 2016 |
| | ¥million | ¥million | ¥million | ¥million |
| Property, plant and equipment | 4,452 | 3,244 | 3,258 | 3,265 |
| Investment properties | 691 | 678 | 651 | 649 |
| Bank deposits | 503 | 500 | — | — |
| Financial assets at fair value through other comprehensive income - listed equity securities. | 37 | 38 | 32 | 37 |
| | <u>5,683</u> | <u>4,460</u> | <u>3,941</u> | <u>3,951</u> |

The Group's borrowings of ¥4,041 million and ¥2,768 million as at 30 June 2014 and 2015 respectively were guaranteed by the directors, namely Mr. Katsuya Yamamoto, Mr. Katsumitsu Yamamoto, Mrs. Hisae Yamamoto and Mrs. Maki Yamamoto. This personal guarantee was replaced by corporate guarantee on 9 February 2016.

No borrowings were guaranteed by the directors as at 30 June 2016 and 31 October 2016.

The carrying amounts of borrowings of the Group and the Company approximate their fair values as at 30 June 2014, 2015 and 2016 and 31 October 2016 and are denominated in Japanese Yen.

During the Relevant Periods, the principal amounts of bonds issued by the Group carried at fixed interest rate per annum are as follows:

| Issue date | Principal amount | Interest rate | Due date |
|-------------------------|---------------------|----------------|---------------|
| | ¥million | | |
| 31 March 2011 | 200 | 6 months TIBOR | 31 March 2016 |
| 31 July 2013 | 300 | 6 months TIBOR | 31 July 2018 |

29 Obligations under finance leases — Group

| | As at 30 June | | | As at |
|---|---------------|--------------|--------------|--------------|
| | | | | 31 October |
| | 2014 | 2015 | 2016 | 2016 |
| | ¥million | ¥million | ¥million | ¥million |
| Gross finance lease liabilities minimum lease payments | | | | |
| No later than 1 year | 409 | 371 | 354 | 354 |
| Later than 1 year and no later than 2 years | 372 | 355 | 354 | 354 |
| Later than 2 year and no later than 5 years | 1,065 | 1,061 | 1,061 | 1,060 |
| Later than 5 years | 3,542 | 3,191 | 2,838 | 2,722 |
| | 5,388 | 4,978 | 4,607 | 4,490 |
| Future finance charges on finance leases . . | (1,916) | (1,711) | (1,519) | (1,457) |
| Present values of finance lease liabilities . . | <u>3,472</u> | <u>3,267</u> | <u>3,088</u> | <u>3,033</u> |

The present values of finance lease liabilities are as follows:

| | As at 30 June | | | As at |
|---|---------------|--------------|--------------|--------------|
| | | | | 31 October |
| | 2014 | 2015 | 2016 | 2016 |
| | ¥million | ¥million | ¥million | ¥million |
| No later than 1 year | 205 | 179 | 171 | 175 |
| Later than 1 year and no later than 2 years | 179 | 173 | 182 | 186 |
| Later than 2 year and no later than 5 years | 551 | 582 | 618 | 630 |
| Later than 5 years | 2,537 | 2,333 | 2,117 | 2,042 |
| Total finance lease liabilities | 3,472 | 3,267 | 3,088 | 3,033 |
| Less: Amount included in current liabilities . | (205) | (179) | (171) | (175) |
| Non-current portion | <u>3,267</u> | <u>3,088</u> | <u>2,917</u> | <u>2,858</u> |

Assets arranged under finance leases represent buildings for pachinko and pachislot halls. The average lease term is 18 years with effective interest rate ranged from 6.23% to 6.24% per annum as at 30 June 2014, 2015 and 2016 and 31 October 2016.

30 Deferred income tax — Group

The net movement on the deferred income tax account is as follows:

| | As at 30 June | | | As at |
|---|---------------|------------|------------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| At 1 July..... | 447 | 489 | 214 | 356 |
| Credited/(charged) to other comprehensive income..... | 3 | (10) | 24 | (2) |
| Credited/(charged) to profit or loss | 39 | (265) | 118 | 78 |
| Deferred income tax assets | <u>489</u> | <u>214</u> | <u>356</u> | <u>432</u> |

Deferred income tax assets

The summary of the balance comprises temporary differences, is as follows:

| | As at 30 June | | | As at |
|---|----------------|----------------|----------------|----------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Property, plant and equipment | 1,117 | 1,092 | 1,030 | 1,045 |
| Pachinko and pachislot machines | 619 | 599 | 524 | 585 |
| Financial assets at fair value through profit and loss | 30 | 2 | 32 | 4 |
| Financial assets at fair value through other comprehensive income | — | — | 13 | 13 |
| Retirement benefit plans..... | 11 | 11 | 11 | 11 |
| Losses carried forward | 17 | 153 | 92 | 64 |
| Other | 100 | 202 | 116 | 137 |
| Total deferred income tax assets | <u>1,894</u> | <u>2,059</u> | <u>1,818</u> | <u>1,859</u> |
| Set-off of deferred income tax liabilities pursuant to set-off provisions | <u>(1,404)</u> | <u>(1,217)</u> | <u>(1,056)</u> | <u>(1,021)</u> |
| Net deferred income tax assets | <u>490</u> | <u>842</u> | <u>762</u> | <u>838</u> |

The movement in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

| | Property, plant and equipment | Pachinko and pachislot machines | Financial assets at fair value through profit and loss | Financial assets at through other comprehen- sive income | Retirement benefit plans | Losses carried forward | Other provisions | Total |
|--|-------------------------------------|--|---|--|--------------------------------|------------------------------|---------------------|--------------|
| | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million |
| Balance at 1 July 2013 | 1,222 | 646 | 12 | — | 11 | 6 | 94 | 1,991 |
| (Charged)/credited to profit or loss | (105) | (27) | 18 | — | — | 11 | 6 | (97) |
| Balances at 30 June 2014 and 1 July 2014 | 1,117 | 619 | 30 | — | 11 | 17 | 100 | 1,894 |
| Charged to other comprehensive income | — | — | — | — | (1) | — | — | (1) |
| (Charged)/credited to profit or loss | (25) | (20) | (28) | — | 1 | 136 | 102 | 166 |
| Balances at 30 June 2015 and 1 July 2015 | 1,092 | 599 | 2 | — | 11 | 153 | 202 | 2,059 |
| Credited to other comprehensive income | — | — | — | 13 | — | — | — | 13 |
| (Charged)/credited to profit or loss | (62) | (75) | 30 | — | — | (61) | (86) | (254) |
| Balances at 30 June 2016 and 1 July 2016 | 1,030 | 524 | 32 | 13 | 11 | 92 | 116 | 1,818 |
| Credited/(charged) to profit or loss | 15 | 61 | (28) | — | — | (28) | 21 | 41 |
| Balances at 31 October 2016 | <u>1,045</u> | <u>585</u> | <u>4</u> | <u>13</u> | <u>11</u> | <u>64</u> | <u>137</u> | <u>1,859</u> |

Deferred income tax liabilities

The summary of the balance comprises temporary differences, is as follows:

| | As at 30 June | | | As at |
|--|---------------|----------|----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Property, plant and equipment | (1,309) | (1,122) | (1,006) | (977) |
| Asset retirement obligation | (48) | (37) | (28) | (30) |
| Financial assets at fair value through profit and loss | (24) | (35) | (2) | (1) |
| Financial assets at fair value through other comprehensive income | (2) | (11) | (—) | (2) |
| Taxable temporary differences relating to investments in subsidiaries | — | (629) | (404) | (406) |
| Others | (22) | (11) | (22) | (11) |
| Total deferred income tax liabilities | (1,405) | (1,845) | (1,462) | (1,427) |
| Set-off of deferred income tax assets pursuant to set-off provisions | 1,404 | 1,217 | 1,056 | 1,021 |
| Net deferred income tax liabilities | (1) | (628) | (406) | (406) |

| | Property, plant and equipment | Asset retirement obligation | Financial assets at fair value through profit and loss | Financial assets at fair value through other comprehensive Income | Taxable temporary differences relating to investments in subsidiaries | Others | Total |
|---|-------------------------------------|-----------------------------------|---|--|--|-------------|----------------|
| | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million |
| Balance at 1 July 2013. | (1,443) | (56) | (21) | (5) | — | (19) | (1,544) |
| Credited to other comprehensive income | — | — | — | 3 | — | — | 3 |
| Credited/(charged) to profit or loss | 134 | 8 | (3) | — | — | (3) | 136 |
| Balances at 30 June 2014 and 1 July 2014 | (1,309) | (48) | (24) | (2) | — | (22) | (1,405) |
| Charged to other comprehensive income | — | — | — | (9) | — | — | (9) |
| Credited/(charged) to profit or loss | 187 | 11 | (11) | — | (629) | 11 | (431) |
| Balances at 30 June 2015 and 1 July 2015 | (1,122) | (37) | (35) | (11) | (629) | (11) | (1,845) |
| Credited to other comprehensive income | — | — | — | 11 | — | — | 11 |
| Credited/(charged) to profit or loss | 116 | 9 | 33 | — | 225 | (11) | 372 |
| Balances at 30 June 2016 and 1 July 2016 | (1,006) | (28) | (2) | — | (404) | (22) | (1,462) |
| Charged to other comprehensive income | — | — | — | (2) | — | — | (2) |
| Credited/(charged) to profit or loss | 29 | (2) | 1 | — | (2) | 11 | 37 |
| Balance as at 31 October 2016 | <u>(977)</u> | <u>(30)</u> | <u>(1)</u> | <u>(2)</u> | <u>(406)</u> | <u>(11)</u> | <u>(1,427)</u> |

The Group takes into account the probability that deductible temporary differences or tax losses carried forward can be utilised against future taxable profits on recognition of deferred income tax assets. In assessing recoverability of deferred income tax assets, the Group takes into account scheduled reversal of deferred income tax liabilities, projected future taxable profit and tax planning.

As a result of the assessment of the recoverability of deferred income tax assets, the Group does not recognise deferred income tax assets for a portion of deductible temporary differences or tax losses carried forward. The amounts of deductible temporary differences and tax losses carried forward for which deferred income tax assets that are not recognised as of 30 June 2014, 2015 and 2016 and 31 October 2016 are as follows:

| | As at 30 June | | | As at |
|--|---------------|--------------|--------------|--------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Deductible temporary differences | 5,405 | 4,508 | 2,596 | 2,570 |
| Losses carried forward | 619 | 315 | 1 | 1 |
| Total | <u>6,024</u> | <u>4,823</u> | <u>2,597</u> | <u>2,571</u> |

The expiration of tax losses carried forward for which deferred income tax assets are not recognised is as follows:

| | As at 30 June | | | As at |
|-----------------------------------|---------------|------------|----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| 1st Year | — | — | — | — |
| 2nd Year | — | 2 | — | — |
| 3rd Year | 2 | — | — | — |
| 4th Year | 1 | 1 | — | — |
| 5th Year and thereafter | 616 | 312 | 1 | 1 |
| Total | <u>619</u> | <u>315</u> | <u>1</u> | <u>1</u> |

31 Cash generated from operations

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|--------------|--------------|---------------------------------|------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million (Unaudited) | ¥million |
| Profit before income tax | 1,691 | 1,563 | 1,028 | 179 | 44 |
| Adjustments for: | | | | | |
| Depreciation of property, plant and equipment and investment properties | 853 | 774 | 698 | 244 | 224 |
| Losses on disposals of property, plant and equipment | 42 | 27 | 42 | 9 | 7 |
| Impairment loss of property, plant and equipment | 151 | 49 | 19 | 14 | — |
| Impairment loss for other receivables and prepayment | 46 | — | — | — | — |
| Amortisation of intangible assets | 2 | 6 | 22 | 7 | 8 |
| Other employment benefit . . . | 68 | 168 | 18 | 71 | 71 |
| Interest income | (81) | (61) | (25) | (14) | (1) |
| Interest expenses | 321 | 277 | 249 | 85 | 76 |
| Losses/(gains) on fair value change on financial assets through profit and loss | 40 | (179) | 109 | 133 | (73) |
| Changes in working capital: | | | | | |
| Inventories | 196 | 18 | (19) | (78) | 57 |
| Trade receivables | 4 | 2 | — | — | — |
| Prepayment, deposit and other receivables | 149 | 168 | 171 | (10) | (144) |
| Trade payables | (8) | (6) | (4) | (4) | 2 |
| Accruals, provisions and other payables | (64) | (125) | (131) | 33 | (13) |
| Amounts due to related parties | 34 | (47) | 1 | — | (1) |
| Cash generated from operations | <u>3,444</u> | <u>2,634</u> | <u>2,178</u> | <u>669</u> | <u>257</u> |

In the consolidated statements of cash flows, proceeds from disposals of property, plant and equipment and investment properties comprise:

| | Year ended 30 June | | | Four months ended 31 October | |
|---|--------------------|----------|----------|---------------------------------|----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million (Unaudited) | ¥million |
| Net book amount | 627 | 32 | 57 | 9 | 7 |
| Losses on disposals of property, plant and equipment and investment properties | (42) | (27) | (42) | (9) | (7) |
| Proceeds from disposals of property, plant and equipment and investment properties | 585 | 5 | 15 | — | — |

32 Contingencies — Group and Company

As at 30 June 2014, 2015 and 2016 and 31 October 2016, the Group and the Company did not have any significant contingent liabilities.

33 Commitments

(a) Capital commitments

The outstanding capital commitments of the Group not provided for in the Financial Information as at 30 June 2014, 2015 and 2016 and 31 October 2016 are as follows:

| | As at 30 June | | | As at 31 October |
|---|---------------|----------|----------|---------------------|
| | 2014 | 2015 | 2016 | 2016 |
| | ¥million | ¥million | ¥million | ¥million |
| Property, plant and equipment - Capital expenditure contracted for but not yet incurred | 7 | 32 | 9 | 17 |

(b) *Operating lease commitments — Group*(i) *As a lessee*

As at 30 June 2014, 2015 and 2016 and 31 October 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises and pachinko and pachislot halls as follows:

| | As at 30 June | | | As at |
|--|---------------|------------|------------|--------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| | | | | ¥million |
| No later than one year | 771 | 738 | 722 | 971 |
| Later than one year and no later than five years | 34 | 22 | 17 | 17 |
| Over five years | 51 | 47 | 43 | 41 |
| | <u>856</u> | <u>807</u> | <u>782</u> | <u>1,029</u> |

(ii) *As a lessor*

As at 30 June 2014, 2015 and 2016 and 31 October 2016, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

| | As at 30 June | | | As at |
|----------------------------------|---------------|-----------|-----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| | | | | ¥million |
| No later than one year | <u>50</u> | <u>50</u> | <u>65</u> | <u>66</u> |

34 **Related party transactions**

For the purposes of this Financial Information, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following individuals and companies were related parties that had transactions or balances with the Group during the years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2015 and 2016:

| Name of related parties | Relationship with the Company/Group |
|-------------------------|---|
| Katsuya Yamamoto | Executive Director of the Company, and the Chairman |
| Maki Yamamoto | Close family member of the Chairman |
| Kai Yamamoto | Close family member of the Chairman |
| Kinya Yamamoto | Close family member of the Chairman |
| Kakuya Yamamoto | Close family member of the Chairman |
| Katsumitsu Yamamoto | Close family member of the Chairman |
| Hisae Yamamoto | Close family member of the Chairman |
| Satoshi Maeda | Key management personnel |
| Ichikura Co., Ltd. | Entity controlled by the Chairman |
| Argent Co., Ltd. | Entity controlled by key management personnel ^(Note) |
| Enjoy Co., Ltd. | Entity controlled by key management personnel ^(Note) |
| All Co., Ltd. | Entity controlled by key management personnel ^(Note) |

Note: Since 4 August 2014, Enjoy Co., Ltd. is no longer controlled by the Group's key management personnel. Since 15 June 2015, Argent Co., Ltd. and All Co., Ltd. are no longer controlled by the Group's key management personnel.

Other than those transactions and balances disclosed elsewhere in the Financial Information, the following transactions were carried out with related parties during the Relevant Periods:

(a) **Transactions with related parties**

The following transactions were undertaken by the Group with related parties during the Relevant Periods and all of them are discontinued transactions:

| | Year ended 30 June | | | Four months ended 31 October | |
|------------------------------|--------------------|----------|----------|---------------------------------|----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million | ¥million |
| Rental income received from: | | | | | |
| - Katsuya Yamamoto | 2 | — | — | — | — |
| - Maki Yamamoto | 2 | 2 | — | — | — |
| Sale of motor vehicle to: | | | | | |
| - Maki Yamamoto | — | — | 1 | — | — |

| | Year ended 30 June | | | Four months ended 31 October | |
|--|--------------------|----------|----------|---------------------------------|----------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| | ¥million | ¥million | ¥million | ¥million (Unaudited) | ¥million |
| Purchases land and investment property from: | | | | | |
| - Katsumitsu Yamamoto | — | 169 | — | — | — |
| - Hisae Yamamoto | — | 23 | — | — | — |
| Purchases of services from: | | | | | |
| - Argent Co., Ltd. | — | 48 | — | — | — |
| - Enjoy Co., Ltd. | 7 | — | — | — | — |
| - All Co., Ltd. | 72 | 80 | — | — | — |
| Interest income received from: | | | | | |
| - Katsuya Yamamoto | 14 | 16 | 14 | — | — |
| - Katsumitsu Yamamoto | 13 | 7 | — | — | — |
| - Hisae Yamamoto | 5 | 2 | — | — | — |
| - Maki Yamamoto | 1 | 1 | — | — | — |
| - Ichikura Co., Ltd. | — | 1 | — | — | — |
| - Argent Co., Ltd. | 1 | 2 | — | — | — |
| - Enjoy Co., Ltd. | — | 1 | — | — | — |

All of the above transactions with related parties were conducted in the ordinary course of the business of the Group based on the terms mutually agreed between the relevant parties.

(b) **Amounts due from related parties**

| | As at 30 June | | | As at 31 October |
|-------------------------------------|---------------|--------------|----------|---------------------|
| | 2014 | 2015 | 2016 | 2016 |
| | ¥million | ¥million | ¥million | ¥million |
| Amount due from a director: | | | | |
| - Katsuya Yamamoto | 912 | 1,377 | — | — |
| Amounts due from related parties: | | | | |
| - Katsumitsu Yamamoto | 618 | — | — | — |
| - Hisae Yamamoto | 228 | — | — | — |
| - Maki Yamamoto | 46 | 50 | — | — |
| Amounts due from related companies: | | | | |
| - Ichikura Co., Ltd. | 5 | 58 | — | — |
| - Argent Co., Ltd. | 82 | — | — | — |
| - Enjoy Co., Ltd. | 21 | — | — | — |
| - All Co., Ltd. | 3 | — | — | — |
| Total | <u>1,915</u> | <u>1,485</u> | <u>—</u> | <u>—</u> |

Amount due from a director represented loans and interest and rental receivables. The loans were unsecured, interest-bearing at 2%-3% per annum and repayable on demand. As at 30 June 2014 and 2015, there was no impairment for the amount due from a director as the amount have not past due and they have no history of default in payment. The amount was fully repaid on 22 December 2015.

Amounts due from related parties represented loans and interest and rental receivables. The loans were unsecured, interest-bearing at 2%-3% per annum and repayable on demand.

As at 30 June 2014 and 2015, there was no impairment for the amounts due from related parties as the amounts have not past due and they have no history of default in payment. Amounts due from related companies represented loans which were unsecured, interest-bearing at 2-2.5% per annum and repayable on demand.

Amount due from a director, amounts due from related parties and amounts due from related companies are non-trade in nature.

(c) **Amounts due to related parties**

| | As at 30 June | | | As at |
|-----------------------------------|---------------|----------|----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Amount due to a related party: | | | | |
| - Katsumitsu Yamamoto | 1 | — | — | — |
| - Satoshi Maeda | — | — | 1 | — |
| Amounts due to related companies: | | | | |
| - Argent Co., Ltd. | 32 | — | — | — |
| - Enjoy Co., Ltd. | 6 | — | — | — |
| - All Co., Ltd. | 8 | — | — | — |
| Total | <u>47</u> | <u>—</u> | <u>1</u> | <u>—</u> |

Amount due to a related party as at 30 June 2014 was unsecured, interest-bearing at 2-3% per annum and repayable on demand. The amount was fully repaid on 30 June 2015. Amount due to a related party as at 30 June 2016 was unsecured, non interest bearing and repayable on demand.

Amounts due to related companies as at 30 June 2014 represented other payables which were unsecured, non-interest bearing and repayable on demand. The amounts were fully repaid on 30 June 2015.

Amount due to a related party and amounts due to related companies are non-trade in nature.

(d) Loans from related parties

The amounts represented loans from a director and a related party which were unsecured, interest-bearing at 1.35% and 0.925% per annum and repayable on demand. The amounts were fully repaid on 30 June 2015 and 18 December 2015, respectively.

| | As at 30 June | | | As at |
|--|---------------|------------|----------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Loans from related parties (short-term loans and other payables) | | | | |
| - Katsuya Yamamoto | 170 | 162 | — | — |
| - Satoshi Maeda | 13 | — | — | — |
| Total | <u>183</u> | <u>162</u> | <u>—</u> | <u>—</u> |

(e) Key management compensation

Key management includes executive directors and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

| | As at 30 June | | | As at |
|------------------------------|---------------|------------|------------|------------|
| | 2014 | 2015 | 2016 | 31 October |
| | ¥million | ¥million | ¥million | 2016 |
| Executive compensation | <u>164</u> | <u>326</u> | <u>190</u> | <u>60</u> |

(f) Guarantees by directors and shareholders

As at 30 June 2014 and 2015, the Group's banking facilities were secured by personal guarantee provided by the director of the Company, Mr. Katsuya Yamamoto. This personal guarantee was replaced by corporate guarantee on 9 February 2016.

35 Business combination

On 30 June 2015, the Group acquired an investment property from a related party at cash consideration of JPY91 million which represents the fair value of the investment property. At the time of acquisition, the investment property was leased to several independent third parties. Accordingly, the acquisition of the investment property constitute an acquisition of business under IFRS 3.

The revenue and profit included in the consolidated statement of comprehensive income since 30 June 2015 contributed by the investment property was nil.

Had the investment property been consolidated from 1 July 2014, the consolidated statement of comprehensive income would show pro-forma revenue of approximately JPY11,253 million and a profit of approximately JPY583 million.

36 Subsequent events

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 October 2016:

(a) Bonus issue

Pursuant to the written resolutions of the shareholders dated 10 April 2017, amongst others, subject to the share offer becomes unconditional, 367,000,000 shares will be allotted and issued to Katsuya Yamamoto by way of a bonus issue immediately prior to the completion of the share offer.

(b) Acquisition of assets

On 23 January 2017, the Group has entered into a sale and purchase agreement to acquire a property located in Nagasaki, being a potential site to establish a pachinko and pachislot hall, through the purchase of all the outstanding shares of a company (the "Target Asset") incorporated under the laws of Japan in February 2017. The consideration of the acquisition is approximately ¥3,100,000,000. The acquisition of the Target Asset is considered an acquisition of asset and will be accounted for as purchase of a property upon completion which took place in February 2017.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 October 2016 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 October 2016.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following information does not form part of the accountant's report prepared by PricewaterhouseCoopers, Certified Public Accountants, the Reporting Accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountant's report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the net tangible assets of the Group attributable to the shareholders of the Company as at 31 October 2016 as if the Share Offer had taken place on 31 October 2016.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 October 2016 or at any future dates following the Share Offer. It is prepared based on the consolidated net assets of the Group as at 31 October 2016 as set out in the accountant's report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the accountant's report.

| | Audited consolidated net tangible assets of the Group attributable to the shareholders of the Company as at 31 October 2016 | Estimated net proceeds from the Share Offer | Unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company | Unaudited pro forma adjusted net tangible assets per Share | |
|--|--|--|---|---|------------------|
| | (Note 1) ¥million | (Note 2) ¥million | ¥million | (Note 3) ¥ | (Note 5) HK\$ |
| Based on an Offer Price of HK\$0.90 per Share | <u>7,040</u> | <u>999</u> | <u>8,039</u> | <u>16.08</u> | <u>1.19</u> |
| Based on an Offer Price of HK\$1.20 per Share | <u>7,040</u> | <u>1,485</u> | <u>8,525</u> | <u>17.05</u> | <u>1.26</u> |

Notes:

- (1) *The audited consolidated net tangible assets attributable to the shareholders of the Company as at 31 October 2016 extracted from the accountant's report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the shareholders of the Company as at 31 October 2016 approximately ¥7,863 million, with an adjustment for the intangible assets as at 31 October 2016 of approximately ¥823 million.*
- (2) *The estimated net proceeds from the Share Offer are based on the indicative Offer Price of HK\$0.90 and HK\$1.20 per Share after deduction of the underwriting fees and other related expenses payable by the Company.*
- (3) *The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 500,000,000 Shares were in issue assuming that the Share Offer has been completed on 31 October 2016 but takes no account of any options which may be granted under the Share Option Scheme and any Share which may be issued or repurchased by the Company pursuant to the general mandate to issue Shares or the general mandate to repurchase Shares.*
- (4) *No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 October 2016.*
- (5) *For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Japanese Yen are converted into Hong Kong dollars at a rate of HK\$1.00 to ¥13.5. No representation is made that Japanese Yen amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.*

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

TO THE DIRECTORS OF OKURA HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Okura Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 October 2016, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 28 April 2017, in connection with the proposed share offer of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed share offer of the Company on the Group's financial position as at 31 October 2016 as if the proposed share offer of the Company had taken place at 31 October 2016. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the year ended 31 October 2016, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plans and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed share offer of the Company at 31 October 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 April 2017

This appendix contains a summary of the Articles of Association. The principal objective is to provide prospective investors with an overview of the Articles of Association. As the information set out below is in summary form, it does not contain all of the information that may be important to prospective investors. As stated in Appendix VII to this prospectus, a copy of the Articles of Association is available for inspection.

The Articles of Association were conditionally adopted by our sole Shareholder on 10 April 2017 and became effective on the Listing Date. The following is a summary of certain provisions of the Articles of Association. The powers conferred or permitted by the Articles of Association are subject to the provisions of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and other ordinances, subsidiary legislation and the Listing Rules.

ALTERATION OF CAPITAL

Our Company may from time to time by ordinary resolution alter its share capital in any one or more of the ways set out in section 170 of the Companies Ordinance, including but not limited to:

- (a) increasing its share capital by allotting and issuing new shares in accordance with the Companies Ordinance;
- (b) increasing its share capital without allotting and issuing new shares, if the funds or other assets for the increase are provided by the members of our Company;
- (c) capitalising its profits, with or without allotting and issuing new shares;
- (d) allotting and issuing bonus shares with or without increasing its share capital;
- (e) converting all or any of its share into a larger or smaller number of existing shares;
- (f) dividing its shares into several classes and attaching thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions, provided always that where our Company issues shares which do not carry voting rights, the words “non-voting” shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words “restricted voting” or “limited voting”;
- (g) cancelling shares:
 - (A) that, at the date of the passing of the resolution for cancellation, have not been taken or agreed to be taken by any person; or
 - (B) that have been forfeited; or

- (h) making provision for the issue and allotment of shares which do not carry any voting rights.

Our Company may by special resolution reduce its share capital in any manner and with, and subject to, any incident authorised, and consent required by law.

PURCHASE OF OWN SHARES AND WARRANTS

Our Company may exercise any powers conferred or permitted by the Companies Ordinance or any other ordinances from time to time to purchase or otherwise acquire its own shares (including any redeemable shares), or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase or other acquisition made or to be made by any person of any shares in our Company and should our Company purchase or otherwise acquire its own shares, neither our Company nor the Directors shall be required to select the shares to be purchased or otherwise acquired rateably or in any other particular manner as between the holders of shares of the same class or as between them and the holders of shares of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares provided always that any such purchase or other acquisition or financial assistance shall only be made or given in accordance with any relevant rules or regulations issued by the Stock Exchange, the SFC or the relevant regulator or authorities from time to time in force.

“Shares” referred to above include shares, warrants and any other securities convertible into shares which are issued from time to time by our Company.

VARIATION OF RIGHTS

Subject to the provisions of the Companies Ordinance, if at any time the capital of our Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied, either while our Company is a going concern or during or in contemplation of a winding-up, either with the consent in writing of the holders of 75% of the total voting rights of holders of shares in that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class, but not otherwise. To every such separate meeting the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, except that:

- (a) the necessary quorum at such meeting (other than an adjourned meeting) shall be no less than two persons together holding or representing by proxy at least one-third in the total voting rights of the issued shares of the class in question;
- (b) at any adjourned meeting the necessary quorum shall be two persons holding shares of that class or by proxy (whatever the number of shares held by them);

- (c) the holders of the shares of that class shall, on a poll, have one vote in respect of every share of that class held by them respectively; and
- (d) any holder of shares of that class present in person or by proxy may demand a poll.

TRANSFERS OF SHARES

The instrument of transfer of any share shall be in writing and in any usual form or in any other form which the Directors approve including the standard form of transfer as prescribed by the Stock Exchange and shall be executed by or on behalf of the transferor and by or on behalf of the transferee. If the transferor or transferee is a clearing house or its nominee, the instrument of transfer shall be executed by hand or by machine imprinted signature(s) or by such other manner of execution as the Directors may approve from time to time. The transferor shall be deemed to remain the holder of the share(s) concerned until the name of the transferee is entered in the register in respect thereof. Nothing in the Articles of Association shall preclude the Directors from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person. Shares of different classes shall not be comprised in the same instrument of transfer.

The Directors may, in their absolute discretion, refuse to register the transfer of a share which is not fully paid. The Directors may also refuse to register a transfer of a share unless the instrument of transfer:

- (a) is lodged, duly stamped, at the registered office of our Company or at such other place as the Directors may appoint and is accompanied by the certificate for the share to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and a fee as permitted under the rules prescribed by the Stock Exchange;
- (b) is in respect of only one class of share;
- (c) is in favour of not more than four transferees;
- (d) the shares concerned are free of any lien in favour of our Company; and
- (e) such other conditions as the Directors may from time to time impose for the purpose of guarding against losses arising from forgery are satisfied.

If the Directors refuse to register a transfer of a share, they shall within two months after the date on which the transfer was lodged with our Company send to the transferee notice of the refusal in accordance with the Companies Ordinance. If the Directors refuse to register a transfer of a share, the transferee or transferor may request a statement of the reasons for the refusal. If such a request is made, our Company shall, within 28 days after receiving the request: (a) send the person who made the request a statement of reasons; or (b) register the transfer.

No transfer may be made to an infant or to a person of unsound mind or under other legal disability.

GENERAL MEETINGS

Our Company shall, in respect of each financial year of our Company, hold a general meeting as its annual general meeting in accordance with the requirements of the Companies Ordinance in addition to any other meetings in that year, and shall specify the meeting as such in the notices calling it. Subject to such requirements, the Directors shall determine the date, time and place at which each annual general meeting shall be held.

The Directors may convene a general meeting whenever they think fit. General meetings shall also be convened by the Directors on the requisition of members pursuant to the provisions of the Companies Ordinance. The Directors may, whenever they think fit, convene a general meeting, and general meetings shall also be convened on such requisition, or in default, may be convened by such requisitionists, as provided by the Companies Ordinance. If at any time there are not within Hong Kong sufficient Directors capable of acting to form a quorum, any Director or any two or more members of our Company representing at least 10% of the total voting rights of all members having a right to vote at general meetings, may convene a general meeting in the same manner as nearly as possible, as that in which meetings may be convened by the Directors.

NOTICE OF GENERAL MEETINGS

Subject to section 578 of the Companies Ordinance, an annual general meeting shall be called by notice in writing of at least 21 clear days (or such longer period as may be required by the Listing Rules), and a general meeting other than an annual general meeting shall be called by notice in writing of at least 14 clear days (or such longer period as may be required by the Listing Rules), shall be given in the manner mentioned in the Articles of Association to all members, to the Directors and to the auditors of our Company for the time being. Notice of a general meeting shall be given to such persons as are, under the Articles of Association, entitled to receive such notices from our Company.

The notice shall specify the place, the day and the time of meeting (and if the meeting is to be held in two or more places, the principal place of the meeting and the other place or places of the meeting) and, in the case of special business the general nature of such business, and in the case of an annual general meeting shall specify the meeting as such. If a resolution (whether or not a special resolution) is intended to be moved at the meeting, the notice must include notice of the resolution, and include or be accompanied by a statement containing any information or explanation that is reasonably necessary to indicate the purpose of the resolution. For notice of a general meeting, there shall appear on every such notice with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him and that a proxy need not be a member of our Company.

The accidental omission to give notice of a meeting or a resolution intended to be moved at a general meeting to, or the non-receipt of notice of a meeting or a resolution intended to be moved at a general meeting by, any person entitled to receive notice shall not invalidate any resolution(s) passed or the proceedings at that meeting. In cases where instruments of proxy are sent out with notices, the accidental omission to send such instruments of proxy to, or the non-receipt of such instruments of proxy by, any person entitled to receive notice shall not invalidate any resolution(s) passed or the proceedings at that meeting.

Subject to the provisions of the Companies Ordinance, a meeting of our Company shall, notwithstanding that it is called by shorter notice than that specified in the Articles of Association, be deemed to have been duly called if it so agreed:

- (a) in the case of an annual general meeting, by all the members entitled to attend and vote thereat; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% of the total voting rights at the meeting of all the members.

VOTING AT GENERAL MEETINGS

Subject to any rights or restrictions attached to any shares, and to the Articles of Association and the Companies Ordinance, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative at any general meeting shall have one vote only, and on a poll every member shall have one vote for every fully paid-up share of which he is the holder.

Subject to the rules prescribed by the Stock Exchange from time to time, any vote of shareholders at a general meeting shall be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. For the purposes of the Articles of Association, procedural and administrative matters are those that (i) are not on the agenda of the general meeting or in any supplementary circular that may be issued by our Company to its members; and (ii) relate to the chairman's duties to maintain the orderly conduct of the meeting and/or allow the business of the meeting to be properly and effectively dealt with, whilst allowing all members a reasonable opportunity to express their views. A poll shall be taken as the chairman directs, and he may appoint scrutineers (who need not be members) and fix a time and place for declaring the result of the poll. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

On any resolution where a vote is not required under the Companies Ordinance, the Listing Rules or the Articles of Association to be held on a poll, a poll may be demanded before or on the declaration of the result of the show of hands:

- (a) by the chairman of the meeting;

- (b) by not less than five members having the right to vote at the meeting;
- (c) by a member or members present in person or by proxy, or a duly authorised representative of a corporation which is a member, representing not less than 5% of the total voting rights of all the members having the right to vote at the meeting; or
- (d) by a member or members holding shares conferring a right to vote at the meeting on which an aggregate sum has been paid up equal to not less than 5% of the total sum paid up on all the shares conferring that right,

and a demand for a poll by a person as proxy for a member shall be as valid as if the demand were made by the member himself.

Without prejudice to the generality of the Articles of Association, if a clearing house (or its nominee) is a member of our Company, it (or, as the case may be, its nominee) may authorise such person or persons as it thinks fit to act as its proxy or proxies or its representative or representatives at any meeting of our Company or at any meeting of any class of member of our Company provided that, if more than one person is so authorised, the instrument of proxy or authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person so authorised under the provisions of the Articles of Association will be deemed to have been duly authorised without the need of producing any documents of title, notarised authorisation and/or further evidence to substantiate that it is so authorised and shall be entitled to exercise the same powers on behalf of the clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise as if such person were an individual member of our Company, and where a show of hands is allowed, each such person shall be entitled to a separate vote notwithstanding any contrary provision as provided in the Articles of Association.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

DIRECTORS NEED NOT BE MEMBERS

A Director shall not require a share qualification. A Director who is not a member of our Company shall nevertheless be entitled to attend and speak at all general meeting of our Company.

BORROWING POWERS OF DIRECTORS

The Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of

such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and, in particular by the issue of debentures, bonds or other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

DIRECTORS' APPOINTMENT, REMOVAL AND RETIREMENT

Our Company may by ordinary resolution elect any person to be a Director. No person (other than a Director retiring at the meeting or in accordance with the Articles of Association) shall be appointed or re-appointed as a Director at any general meeting unless:

- (a) he is recommended by the Directors; or
- (b) any of the following occurs:
 - (A) a notice executed by a member qualified to attend and vote on the appointment or reappointment has been given to our Company of the intention to propose that person for appointment or reappointment, stating the particulars which would, if he was appointed or reappointed, be required to be included in our Company's register of directors, together with notice executed by that person of his willingness to be appointed or reappointed;
 - (B) the minimum length of the period during which the notices referred to in (A) are given is at least seven days; or
 - (C) the period for lodgement of the notices referred to in (A) will commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

Subject to any express terms to the contrary in the relevant resolution for appointing any Director under the Articles of Association, any Director so elected by our Company shall be elected for a term of not more than approximately three years expiring at the conclusion of the annual general meeting of our Company held in the third year following the year of his appointment.

Without prejudice to the power of our Company in general meeting in accordance with any of the provisions of the Articles of Association to appoint any person to be a Director, the Board may, at any time, and from time to time, appoint any person to be a Director, either to fill a casual vacancy or by way of addition to their number. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of our Company, and shall then be eligible for re-appointment.

Subject to the Articles of Association, at each annual general meeting, one-third of the Directors (excluding those Director(s) who are not subject to the rotation requirement under the Articles of Association) or, if their number is not three or a multiple of three, the number which is nearest to and is at least one-third, shall retire from office by rotation. A retiring Director shall be eligible for re-election.

Any Director who holds the position as an executive Director shall not be subject to the foregoing retirement-rotation requirement, but for the avoidance of doubt, the Articles of Association shall not prejudice the power of shareholders in general meeting to remove any such Director.

Our Company may, at any general meeting convened and held in accordance with the Companies Ordinance, by ordinary resolution, remove a Director (including an executive Director) at any time before the expiration of his period of office (but such removal shall be without prejudice to any claim to damages for breach of any contract of service between the Director and our Company) provided that the notice of such meeting convened for the purpose of removing a Director shall contain a statement of the intention so to do and be served on such Director 28 days before the meeting and on the members, at least 14 days before the meeting. At such meeting such Director shall be entitled to be heard on the motion of his removal and, subject to the Articles of Association, our Company may, by ordinary resolution, appoint another person instead of him. A person so appointed shall be subject to retirement at the same time as if he had become a Director on the day on which the Director in whose place he is appointed was last appointed or reappointed as a Director.

REMUNERATION AND EXPENSES OF DIRECTORS

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Directors may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing shall not apply to a Director who holds any salaried employment or office in our Company except in the case of sums paid in respect of Directors' fees.

The Directors may also be paid all reasonable travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Directors or of committees of the Directors or general meetings or separate meetings of the holders of any class of shares or otherwise in connection with the discharge of their duties as Directors.

Any Director who performs services which the Directors consider go beyond the ordinary duties of a Director may be paid such special remuneration (whether by way of bonus, commission, participation in profits or otherwise) as the Directors, or a committee of the Directors, may determine. In particular, the remuneration of a managing Director, joint managing Director, deputy managing Director or other executive Director or a Director appointed to any other office in the management of our Company shall from time to time be fixed by the Directors, or a committee of the Directors, and may be by way of lump sum or by way of salary, bonus, commission, participation in profits or otherwise and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors, or a committee of the Directors may from time to time decide. Such remuneration shall be in addition to his remuneration as a Director.

DIRECTORS' INTERESTS

A Director (including his connected entities) who is in any way, whether directly or indirectly, interested in a transaction, arrangement or contract or proposed transaction, arrangement or contract with our Company shall declare the nature and extent of his interest or his connected entities' interest at a meeting of the Directors at which the question of entering into the transaction, arrangement or contract is first taken into consideration, if he knows his interest then exists, or in any other case as soon as reasonably practicable, and in any event at the first meeting of Directors after he knows that he is or has become so interested.

Save as otherwise provided by the Articles of Association, a Director and his alternate shall not vote (nor shall be counted in the quorum) at a meeting of the Directors on any resolution approving any transaction, contract or arrangement or concerning a matter in which he or any of his close associate(s) has, directly or indirectly, a material interest (other than an interest in shares, debentures or other securities of, or otherwise in or through, our Company), unless his interest arises only because the case falls within one or more of the following sub-paragraphs:

- (a) the resolution relates to the giving to him or his close associate(s) of a guarantee, security, or indemnity in respect of money lent to, or an obligation incurred by him or any of them at the request of or for the benefit of, our Company or any of its subsidiaries;
- (b) the resolution relates to the giving to a third party of a guarantee, security, or indemnity in respect of an obligation of our Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
- (c) his interest arises by virtue of his or his close associate(s) being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any shares in or debentures or other securities of or by our Company or any other corporation which our Company may promote or be interested in subscription, purchase or exchange;
- (d) the resolution relates to an arrangement for the benefit of the employees of our Company or any of its subsidiaries, including but without being limited to the adoption, modification or operation of any pension fund, or retirement, death or disability benefit scheme, which relates to both Directors, his close associate(s) and employees of our Company or any of its subsidiaries and does not accord to any Director or his close associate(s) as such any privilege or advantage not generally accorded to the employees to whom the arrangement relates;

- (e) any transaction, contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in those shares, debentures or other securities of our Company;
- (f) the resolution relates to an arrangement concerning the adoption, modification or operation of any employee's share scheme, share incentive scheme or share option scheme involving the issue or grant of options over shares or other securities by our Company to, or for the benefit of, the employees of our Company or its subsidiaries under which the Director or his close associate(s) may benefit;
- (g) any contract, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his close associate(s), officer or employee pursuant to the Articles of Association; or
- (h) any proposal concerning any other company in which the Director or his close associate(s) is interested only, whether directly or indirectly, as an officer or executive or shareholder or in which he or any of his close associate(s) is beneficially interested in shares of that company, provided that he and any of his close associate(s) are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his close associate(s) is derived) or of the voting rights.

A Director may:

- (a) hold any other office or place of profit under our Company (other than the office of auditor) in conjunction with his office of Director, for such period and on such terms (as to remuneration or otherwise) as the Directors may determine and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other Article;
- (b) act by himself or his firm in a professional capacity for our Company (otherwise than as auditor), and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;
- (c) continue to be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or in which our Company may be interested as a shareholder or otherwise, and subject to the Companies Ordinance, no such Director shall be accountable to our Company for any remuneration or other benefit received by him as a director or officer of, or from his interest in, such other company. The Directors may exercise the voting powers conferred by the shares in any other company held or owned by our Company, or exercisable by them as directors of such other company in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them as directors, managing directors, joint managing directors, deputy managing directors, executive directors, managers or other officers of such

company) and any Director may vote in favour of the exercise of such voting rights in the manner aforesaid notwithstanding that he may be, or is about to be appointed as a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid.

Subject to the Companies Ordinance and the Articles of Association, no Director or intended Director shall be disqualified by his office from contracting with our Company either with regard to his tenure of any such other office or place of profit or as vendor, purchaser or otherwise, nor shall any such transaction, arrangement or contract, or any transaction, arrangement or contract entered into by or on behalf of our Company in which any Director (including his connected entities) is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company for any profit realised by any such transaction, arrangement or contract by reason of such Director holding that office or of the fiduciary relation thereby established, provided that such Director shall disclose the nature and extent of his (including his connected entities) interest in any transaction, arrangement or contract in which he is interested as required by and subject to the provisions of the Companies Ordinance.

A Director shall not be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

DIVIDENDS

Our Company may by ordinary resolution declare dividends but no dividend shall exceed the amount recommended by the Directors. No dividend shall be payable except out of the profits or other distributable reserves of our Company available for distribution. No dividend or other moneys payable on or in respect of a share in the capital of our Company shall bear interest against our Company.

Our Company may retain any dividends or other moneys payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise in relation to the shares of our Company.

Except as otherwise provided by the Articles of Association or the rights attached to shares or the terms of issue thereof, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. If any share is issued on terms that it ranks for dividend as from a particular date, it shall rank for dividend accordingly. In any other case (and except as aforesaid), dividends shall be apportioned and paid proportionately

to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For the purpose of this paragraph, an amount paid up on a share in advance of a call shall be treated, in relation to any dividend declared after the payment but before the call, as not paid up on the share.

The Directors may pay interim dividends if it appears to them that they are justified by the profits of our Company available for distribution. If the share capital is divided into different classes, the Directors may pay interim dividends on shares which confer deferred or non-preferred rights with regard to dividend as well as on shares which confer preferential rights with regard to dividend, and provided that the Directors act bona fide they shall not incur any liability to the holders of shares conferring preferred rights for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferred rights. The Directors may also resolve to pay at half-yearly or other suitable intervals to be settled by them any dividend which may be payable at a fixed rate if they are of the opinion that the reserves of our Company justify the payment.

Whenever the Directors or our Company have resolved that a dividend be paid or declared on the share capital of our Company, the Directors may further resolve either:

- (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted shall be of the same class or classes as the class or classes already held by the members entitled thereto, provided that these members will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment or;
- (b) that members entitled to such dividend shall be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit.

The basis of any such allotment shall be determined by the Directors. The Directors, after determining the basis of allotment, shall give not less than two weeks' notice in writing to the members of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective.

The shares allotted pursuant to the provisions above shall rank *pari passu* in all respects with the shares then in issue save only as regards participation:

- (a) in the relevant dividend (or the right to receive or to elect to receive an allotment of shares in lieu thereof as aforesaid); or
- (b) in any other distributions, bonuses or rights paid, made, declared or announced prior to or contemporaneously with the payment or declaration of the relevant dividend.

Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared, the Directors may resolve that such dividend be satisfied wholly or in part

by the distribution of specific assets of any kind and in particular of paid up shares, debentures or warrants to subscribe securities of our Company or any other corporation to which our Company is entitled, or in any one or more of such ways, with or without offering any rights to members to elect to receive such dividend in cash.

Any dividend unclaimed for one year after having become payable may be invested or otherwise made use of by the Directors for the benefit of our Company until claimed. Any dividend which has remained unclaimed for six years after having become payable shall, if the Directors so resolve, be forfeited and cease to remain owing by our Company.

INDEMNITY

Subject to the provisions of the Companies Ordinance, but without prejudice to any indemnity to which a Director may otherwise be entitled every Director, former Director, responsible person, officer or auditor of our Company shall be indemnified out of the assets of our Company against any liability, loss or expenditure incurred by him in defending any proceedings, whether civil or criminal, which relate to anything done or omitted to be done or alleged to have been done or omitted to be done by him as a Director, former Director, responsible person, officer or auditor of our Company.

The above paragraph shall not apply to:

- (a) any liability of the Director, former Director, responsible person, officer or auditor to pay:
 - (i) a fine imposed in criminal proceedings; or
 - (ii) a sum payable by way of a penalty in respect of non-compliance with any requirement of a regulatory nature; or
- (b) any liability incurred by the Director, former Director, responsible person, officer or auditor:
 - (i) in defending criminal proceedings in which the Director, former Director, responsible person, officer or auditor is convicted;
 - (ii) in defending civil proceedings brought by our Company, or an associated company of our Company, in which judgment is given against the Director, former Director, responsible person, officer or auditor;
 - (iii) in defending civil proceedings brought on behalf of our Company by a member of our Company or of an associated company of our Company, in which judgment is given against the Director, former Director, responsible person, officer or auditor;

- (iv) in defending civil proceedings brought on behalf of an associated company of our Company by a member of the associated company or by a member of an associated company of the associated company, in which judgment is given against the Director, former Director, responsible person, officer or auditor; or
- (v) in connection with an application for relief under section 903 or 904 of the Companies Ordinance in which the Court refuses to grant the Director, former Director, responsible person, officer or auditor relief.

WINDING UP

The Directors shall have power in the name and on behalf of our Company to present a petition to the Court for our Company to be wound up.

If our Company is wound up, the liquidator may, with the sanction of a special resolution and any other sanction required by law, divide amongst the members in specie the whole or any part of the assets of our Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he may with the like sanction determine, but no member shall be compelled to accept any assets upon which there is a liability.

UNTRACED MEMBERS

Without prejudice to the rights of our Company, our Company may cease sending such cheques for dividend entitlement or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions or after the first occasion on which a cheque or warrant is returned undelivered.

Our Company shall be entitled to sell in such manner as the Directors think fit any share held by a member, or any share to which a person is entitled by transmission, if:

- (a) all cheques or warrants, being not less than three in total number, in respect of the shares in question sent during the relevant period in the manner authorised by the articles of our Company have remained uncashed or unclaimed;
- (b) so far as it is aware at the end of the relevant period, our Company has not at any time during the relevant period received any indication of the existence of the shareholder who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law;
- (c) at the end of the relevant period, our Company has caused an advertisement in English in one English language newspaper and in Chinese in one Chinese language daily newspaper and by notice to the Stock Exchange (if shares of the class concerned are listed on that exchange) gives notice of its intention to sell such shares;

- (d) our Company has not during the further period of three months after the date of the advertisement and prior to the sale of the shares received any communication from the member or person concerned.

For the purpose of the foregoing, “relevant period” means the period commencing 12 years before the date of publication of the advertisement referred to in sub-paragraph (c) above and ending at the expiry of the period referred to in that paragraph.

The manner, timing and terms of any sale of shares pursuant to this Article (including, but not limited to, the price or prices at which the same is made) shall be such as the Directors determine, based upon advice from such bankers, brokers or other persons consulted by them for the purpose as the Directors consider appropriate, to be reasonably practicable having regard to all the circumstances, including the number of shares to be disposed of and the requirement that the disposal be made without delay, and the Directors shall not be liable to any person for any of the consequences of reliance on such advice.

To give effect to the sale of any share pursuant to the above paragraph our Company may appoint any person to execute an instrument of transfer of the share, and the instrument shall be as effective as if it had been executed by the registered holder of or person entitled by transmission to, the share. The purchaser shall not be bound to see to the application of the proceeds of sale, nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings relating to the sale. Our Company shall be indebted to the member or other person entitled to the share for an amount equal to the net proceeds of the sale, but no trust or duty to account shall arise and no interest shall be payable in respect of the proceeds of sale. Any sale under the above paragraphs shall include any additional shares, which during the relevant period or during any period ending on the date when all the requirements of sub-paragraphs (a) to (d) above have been satisfied, have been issued in respect of those held at the beginning of such relevant period and shall be valid and effective notwithstanding that the member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this prospectus received from DTZ Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of value of the property interests of the Company as at 28 February 2017.



16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

28 April 2017

The Board of Directors
Okura Holdings Limited
Level 11, Admiralty Centre Tower II
18 Harcourt Road, Admiralty
Hong Kong

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

Crosby Securities Limited
5th Floor, AXA Centre
151 Gloucester Road
Wan Chai
Hong Kong

Dear Sirs,

Instructions, purpose and date of valuation

In accordance with your instructions for us to value certain properties in which Okura Holdings Limited (referred to as the “Company”) and its subsidiaries (together referred to as the “Group”) have interests in Japan (as more particularly described in the attached valuation certificates), we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of such properties as at 28 February 2017.

Definition of market value

Our valuation of the each of the properties represents its market value which in accordance with The HKIS Valuation Standards (2012 Edition) issued by The Hong Kong

Institute of Surveyors is defined as “the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Valuation basis and assumption

In valuing the properties, we have complied with the requirements set out in Chapter 5 published by The Stock Exchange of the Hong Kong Limited and The HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

Our valuations exclude any estimated price inflated or deflated by special terms or circumstances such as a typical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuation of the properties in Japan, we have assumed that, unless otherwise stated, the 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. We have relied on the information and advice given by the Group regarding the title to each of the properties and the interests of the Group in the properties. In valuing the properties, we have assumed that 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.

In respect of the properties situated in Japan, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the Group are set out in the notes of the respective valuation certificate.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Method of valuation

Regarding the properties in Group I which are held by the Group for investment in Japan, we have mainly used Capitalisation Approach by capitalising the current rent passing derived from the existing tenancies or, where appropriate, Market Approach by making reference to comparable sales evidence as available in the relevant market.

In respect of the property in Group II which is held by the Group for operation in Japan, due to the specific nature of the property and absence of market evidence, we have adopted Depreciated Replacement Cost (“DRC”) Approach. DRC Approach is based on an estimate of the market value of the land in its existing use, plus the current cost of replacement of the improvements, less allowance for physical deterioration and all relevant forms of

obsolescence and optimisation. For the land portion, we have made reference to comparable land sales evidence as available in the relevant market. DRC Approach is subject to service potential of the entity from the use of assets as a whole. The market value arrived using DRC Approach applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Source of information

We have been provided by the Group with extracts of documents in relation to the titles to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a considerable extent on the information given by the Group. We have been provided by the Group with extracts of documents in relation to the titles to the properties. In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group regarding the title to each of the properties and the interests of the Group in the properties. We have also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of land and buildings, completion date of buildings, number of car parking spaces, particulars of occupancy, site and floor areas, interest attributable to the Group and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificates are based on the information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

Title investigation

We have been provided with extracts of documents relating to the titles of the properties in Japan, but no searches have been made in respect of the properties. We have not searched the original documents to verify ownership or to ascertain any amendment which may not appear on the copies handed to us. We are also unable to ascertain the title of the properties in Japan and we have therefore relied on the advice given by the Group regarding the Group's interests in Japan properties.

Site inspection

We inspected the exterior and, wherever possible, the interior of each of the properties. However, no structural survey has been made, but in the course of our valuation, we did not note any serious defects. We are, however, not able to report that the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services.

We have not made any investigations into past or present uses, either of the property interests or any neighbouring land to establish whether there is any contamination or potential for contamination or buried cultural treasures to the property interests. We have assumed that no contamination or other adverse environment matters or buried cultural treasures exist in relation to the property interests that are sufficient to affect their values. Commensurate with our comments set out above, we have made no allowance in these valuations for any effect in respect of actual or potential contamination of land or buildings or buried cultural treasures. However, a purchaser in the market would, in practice, undertake further investigations than those undertaken by us. If it is subsequently established that contamination or buried cultural treasures exist at any of the properties or on any neighbouring land or that any of the premises have been, or are being, put to any contaminative use, then this might reduce the values now reported.

Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

Currency

Unless otherwise stated, all monetary sums stated in our valuations are in Japanese Yen, the official currency of Japan.

We enclose herewith a summary of our valuations and our valuation certificates.

Yours faithfully,

for and on behalf of

DTZ Cushman & Wakefield Limited

Andrew K.F. Chan

MSc, MRICS, MHKIS, MCIREA, RPS(GP)

Regional Director, Valuation & Advisory Services, Greater China

Note: Mr. Andrew K.F. Chan is a Registered Professional Surveyor with over 29 years of experience in Asian countries including Japan.

SUMMARY OF VALUATIONS

| Property | Market value in existing state as at 28 February 2017 (¥) | Attributable interest to the Group (%) | Market value in existing state as at 28 February 2017 attributable to the Group (¥) |
|--|--|---|--|
| Group I — Properties held by the Group for investment in Japan | | | |
| 1. K's Town, 818-4 and other tracts, Aza-Iwasaki, Motomurago, Togitsucho, Nishisonogi-gun, Nagasaki-ken, Japan ケイズタウン 長崎県西彼杵郡時津町元村郷字岩崎 818番4外 | 523,000,000 | 100 | 523,000,000 |
| 2. Former Dino, 863-6 and other tracts, Aza-Tsugiiishi, Motomurago, Togitsucho, Nishisonogi-gun, Nagasaki-ken, Japan 旧ディノ 長崎県西彼杵郡時津町元村郷字継石 863番6外 | 168,000,000 | 100 | 168,000,000 |
| 3. Tonoo 100-Yen Parking, 84-1 and other tracts, Tonoocho, Sasebo-shi, Nagasaki-ken, Japan とのお100円パーキング 長崎県佐世保市戸尾町84番1外 | 411,000,000 | 100 | 411,000,000 |
| 4. Direx (Mikatsuki), 2371 and other tracts, Aza-Otera, Chokanda, Mikatsukicho, Ogi-shi, Saga-ken, Japan 佐賀県小城市三日月町長神田字大 寺2371外 | 163,000,000 | 100 | 163,000,000 |

| Property | Market value in existing state as at 28 February 2017 (¥) | Attributable interest to the Group (%) | Market value in existing state as at 28 February 2017 attributable to the Group (¥) |
|--|--|---|--|
| 5. Apple Park Sumiyoshi, 1525, Sumiyoshimachi, Nagasaki-shi, Nagasaki-ken, Japan アップルパーク住吉 長崎県長崎市住吉町1525番 | 134,000,000 | 100 | 134,000,000 |
| Sub-total of Group I: | 1,399,000,000 | | 1,399,000,000 |
| Group II — Property held by the Group for operation in Japan | | | |
| 6. Fukuya Dejima-ten 372-1 and 6 other tracts, Dejimamachi, Nagasaki-shi, Nagasaki-ken, Japan 福屋出島店 長崎県長崎市出島町372番1外 | 1,870,000,000 | 100 | 1,870,000,000 |
| Sub-total of Group II: | 1,870,000,000 | | 1,870,000,000 |
| Grand-total : | <u>3,269,000,000</u> | | <u>3,269,000,000</u> |

VALUATION CERTIFICATE

Group I — Properties held by the Group for investment in Japan

| Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 28 February 2017 |
|--|--|---|--|
| 1. K's Town 818-4 and other tracts, Aza-Iwasaki, Motomurago, Togitsucho, Nishisonogi-gun, Nagasaki-ken, Japan ケイズタウン 長崎県西彼杵郡 時津町元村郷字 岩崎818番4外 | The property is situated on a site of 4,430.76 sq.m.. The land is leased to an independent third party by the Group. The lessee of the land then constructed retail buildings on the site in November 2008 and leased the buildings to the sitting tenants. The subject property is in roadside commercial area consisting of automobile sales shops and retail buildings. The property is held freehold. | As at the date of valuation, the land was owned by the Group and leased to an independent third party for a term of 20 years and 7 days from 28 November 2008. The current total monthly rent is ¥3,710,000. The independent third party then constructed retail buildings and leased to the sitting tenants. | ¥523,000,000 (100% interest attributable to the Group : ¥523,000,000) |

Notes:-

- (1) The owners of the land with an area of 4,430.76 sq.m. are Okura Co., Ltd. and K's Property Co., Ltd.
- (2) The property is subject to a revolving mortgage for a maximum amount of ¥0.768 billion.
- (3) Inspection of the property was carried out by our valuer, Mr. Yasuhiro Takebe on 21 December 2016. Yasuhiro is a licensed Real Estate Appraiser in Japan and has more than 14 years of valuation experience.
- (4) Our key assumptions of the valuation are:

| Portion | Actual Rent per month | Capitalisation Rate |
|---------|-----------------------|---------------------|
| Land | ¥837 per sq.m. | 6.5% |

In undertaking our valuation, we have made reference to lettings of similar properties within the same district with appropriate adjustments for the differences between the comparable properties and the subject property such as location and time etc. The monthly rental levels of the comparable properties range from ¥787 to ¥877 per sq.m..

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 6% to 7% for this type of property. The capitalisation rate adopted is reasonable having regard to the analysed yields.

VALUATION CERTIFICATE

| Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 28 February 2017 |
|---|---|---|---|
| 2. Former Dino, 863-6 and other tracts, Aza-Tsugiishi, Motomurago, Togitsucho, Nishisonogi-gun, Nagasaki-ken, Japan 旧ディノ 長崎県西彼杵郡 時津町元村郷字 継石863番6外 | The property is situated on a site of 3,154.64 sq.m.. Both the building and the land are owned by the Group. The subject is a 4-storey retail building with parking space on 3rd and 4th floors. When it was initially constructed in 1989, its gross floor area was 2,701.1 sq.m.. As a result of the additional construction in 1996, the gross floor area was expanded to 4,071.41 sq.m.. The property is of a steel framed structure. The subject property is in roadside commercial area consisting of automobile sales shops and retail buildings. The property is held freehold. | As at the date of valuation, portions of the subject building was leased to an independent third party for a term of 10 years from March 2007. The current total monthly rent is ¥2,300,000. The building is currently used for retail purpose. | ¥168,000,000 (100% interest attributable to the Group : ¥168,000,000) |

Notes:-

- (1) The owner of the land with an area of 3,154.64 sq.m. is K's Property Co., Ltd.
- (2) The owner of the building with an area of 4,071.41 sq.m. is Okura Co., Ltd. (registered as K's Co., Ltd. in the official registry, and changed corporate name from K's Co., Ltd. to Okura Co., Ltd. in 2012).
- (3) The property is subject to 3 mortgages for maximum amounts of ¥0.4 billion, ¥0.5 billion, and ¥0.6 billion respectively.
- (4) Inspection of the property was carried out by our valuer, Mr. Yasuhiro Takebe on 21 December 2016. Yasuhiro is a licensed Real Estate Appraiser in Japan and has more than 14 years of valuation experience.
- (5) Our key assumptions of the valuation are:

| Portion | Actual Rent per month | Capitalisation Rate |
|-----------------------|-----------------------|---------------------|
| Building and its site | ¥565 per sq.m. | 12% |

In undertaking our valuation, we have made reference to lettings of similar properties within the same district with appropriate adjustments for the differences between the comparable properties and the subject property such as location, age and quality of the building, etc. The monthly rental levels of the comparable properties range from ¥671 to ¥1,667 per sq.m..

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 11% to 13% for this type of property. The capitalisation rate adopted is reasonable having regard to the analysed yields.

VALUATION CERTIFICATE

| Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 28 February 2017 |
|---|--|---|---|
| 3. Tonoo 100-Yen Parking, 84-1 and other tracts, Tonoocho, Sasebo-shi, Nagasaki-ken, Japan とのお100円パーキング 長崎県佐世保市戸尾町84番1外 | The property is situated on a site of 1,765.72 sq.m.. The subject property is a land owned by K's Property and used as a coin parking lot. The subject property is in commercial area in Sasebo city consisting of retail and office buildings along the arterial roads. The property is held freehold. | As at the date of valuation, the property was occupied as a coin parking lot. | ¥411,000,000 (100% interest attributable to the Group : ¥411,000,000) |

Notes:-

- (1) The owner of the land with an area of 1,765.72 sq.m. is K's Property Co., Ltd.
- (2) The property is subject to a mortgage for a maximum amount of ¥2.1 billion.
- (3) Inspection of the property was carried out by our valuer, Mr. Yasuhiro Takebe on 22 December 2016. Yasuhiro is a licensed Real Estate Appraiser in Japan and has more than 14 years of valuation experience.
- (4) In valuing the property, we have adopted Market Approach at a unit rate of ¥233,000 per sq.m..

In undertaking our valuation, we have made reference to prices of land within the district with appropriate adjustments for the differences between the comparable properties and the subject property such as location and time etc.. The prices of transacted land range from about ¥198,000 per sq.m. to ¥335,000 per sq.m.. The unit rate assumed by us is consistent with the relevant comparables after due adjustments.

VALUATION CERTIFICATE

| Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 28 February 2017 |
|--|--|--|--|
| 4. Direx (Mikatsuki), 2371 and other tracts, Aza-Otera, Chokanda, Mikatsukicho, Ogi-shi, Saga-ken, Japan ダイレックス (三日月) 佐賀県小城市三日月町長神田字大寺2371外 | The property is situated on a site of 9,057.99 sq.m.. The land is partly owned and partly leased by K's Property Co., Ltd. K's Property Co., Ltd. then leased the land to an independent third party (DIREX Corporation), who then constructed the retail building. The subject property is in roadside commercial area consisting of takeout restaurants, DVD/book stores and retail buildings. The property is held partly freehold and partly leasehold. | As at the date of valuation, the land was leased by K's Property Co., Ltd. to an independent third party (DIREX Corporation) which constructed a retail building and operates a grocery store/supermarket, for a term of 20 years from 7 April 2011. The current total monthly rent is JPY1,600,000. | ¥163,000,000 (100% interest attributable to the Group : ¥163,000,000) |

Notes:-

- (1) The owner of the land with an area of 4,453.66 sq.m. is K's Property Co., Ltd.
- (2) K's Property Co., Ltd. has leasehold interests in the land with an area of 4,604.33 sq.m.. The lessors are two individuals.
- (3) Inspection of the property was carried out by our valuer, Mr. Yasuhiro Takebe on 22 December 2016. Yasuhiro is a licensed Real Estate Appraiser in Japan and has more than 14 years of valuation experience.
- (4) Our key assumptions of the valuation are:

| Portion | Actual Rent per month | Capitalisation Rate |
|---------|-----------------------|---------------------|
| Land | ¥177 per sq.m. | 8% |

In undertaking our valuation, we have made reference to lettings of similar properties within the same district with appropriate adjustments for the differences between the comparable properties and the subject property such as location and time etc.. The monthly rental levels of the comparable properties range from ¥150 to ¥300 per sq.m..

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 7% to 9% for this type of property. The capitalisation rate adopted is reasonable having regard to the analysed yields.

VALUATION CERTIFICATE

| Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 28 February 2017 |
|---|--|---|---|
| 5. Apple Park Sumiyoshi, 1525, Sumiyoshimachi, Nagasaki-shi, Nagasaki-ken, Japan | The property is situated on a site of 867.67 sq.m. The subject property is a land owned by K's Property Co., Ltd., and used as a coined parking lot. | As at the date of valuation, the property was occupied as a coined parking lot. | ¥134,000,000 (100% interest attributable to the Group : ¥134,000,000) |
| アップルパーク 住吉 長崎県長崎市 住吉町1525番 | The subject property is in commercial area in Nagasaki city consisting of retail/retail-cum-residential buildings behind the major arterial roads. The property is held freehold. | | |

Notes:-

- (1) The owner of the land with an area of 867.67 sq.m. is K's Property Co., Ltd.
- (2) The property is subject to a revolving mortgage for a maximum amount of ¥600 million.
- (3) Inspection of the property was carried out by our valuer, Mr. Yasuhiro Takebe on 21 December 2016. Yasuhiro is a licensed Real Estate Appraiser in Japan and has more than 14 years of valuation experience.
- (4) In valuing the property, we have adopted Market Approach at a unit rate of ¥154,000 per sq.m..

In undertaking our valuation, we have made reference to prices of land within the area with appropriate adjustments for the differences between the comparable properties and the subject property such as location and time etc.. The prices of transacted land range from about ¥104,000 per sq.m. to ¥125,000 per sq.m.. The unit rate assumed by us is consistent with the relevant comparables after due adjustments.

VALUATION CERTIFICATE

Group II — Property held by the Group for operation in Japan

| Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 28 February 2017 |
|--|---|---|---|
| 6. Fukuya Dejima-ten 372-1 and 6 other tracts, Dejimamachi, Nagasaki-shi, Nagasaki-ken, Japan 福屋出島店 長崎県長崎市 出島町372番1外 | The property is situated on a site of 2,098.85 sq.m.. The property consists of two buildings including a 7-storey steel-structure retail building with parking space having a gross floor area of 6,891.71 sq.m., and a 2-storey steel-structure retail building having a gross floor area 674.13 sq.m.. Both the land and the buildings are owned by the Group. The subject property is in busy commercial area in Nagasaki city consisting of retail and office buildings. The property is held freehold. | As at the date of valuation, the property was intended to be used as a pachinko hall. | ¥1,870,000,000 (100% interest attributable to the Group : ¥1,870,000,000) |

Notes:-

- (1) The owner of the land with an area of 2,098.85 sq.m. is Okura Kyusyu K.K.
- (2) The owner of the building with an area of 7,565.84 sq.m. is Okura Kyusyu K.K.
- (3) The property is subject to a revolving mortgage for a maximum amount of ¥3 billion.
- (4) Inspection of the property was carried out by our valuer, Mr. Yasuhiro Takebe on 21 December 2016. Yasuhiro is a licensed Real Estate Appraiser in Japan and has more than 14 years of valuation experience.
- (5) In valuing the property, we have adopted Market Approach at a unit rate of ¥612,000 per sq.m. for the land portion of the property.

In undertaking our valuation, we have made reference to sales prices of land within the same district which have characteristics comparable to the property with appropriate adjustments for the differences between the comparable properties and the subject property such as location and time etc.. The prices of similar parcels of land range from about ¥324,000 per sq.m. to ¥446,000 per sq.m.. The unit rate assumed by us is consistent with the relevant comparables after due adjustments.

**APPENDIX V SUMMARY OF REVIEW OF ANTI-MONEY LAUNDERING
PROCEDURES, SYSTEMS AND CONTROLS**



羅兵咸永道

The Board of Directors
Okura Holdings Limited
Level 11, Admiralty Centre Tower 2
18 Harcourt Road, Admiralty
Hong Kong

28 April 2017

INDEPENDENT ASSURANCE REPORT

To: The Directors of Okura Holdings Limited

We have been engaged to perform a limited assurance engagement on the design and operation of certain anti-money laundering (“AML”) controls of Okura Holdings Limited (“the Company”, and, together with its subsidiaries, the “Group”) which have been put in place for the period 1 April 2015 to 31 December 2016 to achieve selected internal control objectives that have been adopted by the directors of the Company (the “Directors”). These selected internal control objectives have been determined by the Directors of the Company with reference to relevant principles or requirements of the guidance paper entitled “International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation” (the “FATF Guidance Paper”) issued by the Financial Action Task Force (“FATF”) in 2012 and relevant principles or requirements of the Act on Control and Improvement of Amusement Business etc. (風俗営業等の規制及び業務の適正化等に関する法律) of Japan (Act No. 122 of 1948) (“the Amusement Business Law”). The AML controls which have been put in place by the Directors of the Company are designed to achieve the internal control objectives.

Internal Control Objectives

The following internal control objectives (the “Internal Control Objectives”) have been adopted by Directors of the Company with reference to relevant principles or requirements of the FATF Guidance Paper and the Amusement Business Law mentioned above.

*PricewaterhouseCoopers Ltd, 22/F Prince's Building, Central, Hong Kong
T: (852) 2289 8888, F: (852) 2810 9888, www.pwc.com*

APPENDIX V SUMMARY OF REVIEW OF ANTI-MONEY LAUNDERING PROCEDURES, SYSTEMS AND CONTROLS

1. *Governance*

- 1.1 Appropriate management oversight is in place with a focus on the mechanism for determining and assigning general and specific responsibilities to different levels of management to ensure the effective maintenance of AML controls and mitigation of risks.
- 1.2 Appropriate AML risk assessment and classification processes are in place to ensure that risks are assessed and mitigated on a periodic basis.
- 1.3 Contracts between the Group and G-prize wholesalers are periodically reviewed, particularly in relation to how the G-prize wholesalers are paid by the Group in exchange for the G-prizes.

2. *Policies and procedures*

- 2.1 AML policies and procedures are in place commensurate with the money laundering risks present which are regularly updated and effectively circulated for awareness purposes.

3. *Due diligence*

- 3.1 Appropriate due diligence procedures are conducted (including but not limited to background checks with respect to criminal records, employment history and financial information) and documented on the Group's senior management, potential incoming management, shareholders and pachinko hall operators to amongst other things, identify and avoid connections to anti-social forces (as defined in the Amusement Business Law) and ensure high standards of integrity. Such procedures include screening of individuals against external search engines such as SP Networks Co., Ltd. (株式会社エスピーネットワーク) to identify high risk individuals.
- 3.2 Appropriate due diligence is conducted on the Group, G-prize wholesalers and G-prize buyers to ensure (i) neither party has the ability to exercise control (indirectly or directly) over the other, (ii) G-prizes are purchased at market value and are not directly returned from the G-prize buyer to the pachinko halls and (iii) none of the Company, G-prize wholesaler or G-prize buyer are connected with anti-social forces (as defined under relevant Japan law).
- 3.3 Written representations are obtained on a periodic basis from the G-prize wholesalers confirming (i) their independence from the Group (ii) their independence from the G-prize buyers with whom they conduct business and (iii) their shareholders, directors and G-prize buyers with whom they conduct business do not have any connections with anti-social forces (as defined under relevant Japan law).

APPENDIX V SUMMARY OF REVIEW OF ANTI-MONEY LAUNDERING PROCEDURES, SYSTEMS AND CONTROLS

- 3.4 Written representations are obtained on a periodic basis from G-prize buyers confirming their independence from the Group and G-prize wholesalers and that G-prizes are only paid for using cash and not bank transfers, cheques or equivalents.
- 3.5 External reputable corporate data research agencies are engaged to provide enhanced due diligence information for any potentially suspicious customers or those customers with whom there is an intention to conduct transactions exceeding a predefined transaction threshold of ¥500,000.

4. ***Transaction monitoring***

- 4.1 For any pachinko hall IC members and other customers the nature of transactions are monitored on an on-going basis to help identify any suspicious or unusual behaviour.
- 4.2 In pachinko halls, there is continuous monitoring of the automated systems in place, including but not limited to the Company's G-prize management system, information technology system and pachinko hall computers, as well as analysis of financial and operating data, to monitor and detect unusual fluctuations that may indicate suspicious activity.
- 4.3 The adequacy and appropriateness of automated system parameters and thresholds of relevant systems are reviewed periodically.
- 4.4 Each pachinko hall is required to compare the number of balls/tokens played, with those exchanged into G-prizes to detect any balls/tokens that were exchanged into G-prizes without being played.
- 4.5 Pachinko hall operators are required to conduct periodic checks of machines throughout operating hours to detect any balls/tokens used for any purpose other than play in machines.
- 4.6 Pachinko halls have surveillance cameras in place to record play or attempted tampering of pachinko/pachislot machines.
- 4.7 Pachinko hall managers are rotated on a periodic basis amongst different pachinko halls to help prevent collusion amongst staff.
- 4.8 Recording of customer identification information and notification of the Company's management are in place for any transaction in which pachinko balls totalling ¥ 500,000 or more are exchanged for G-Prizes (per transaction).

5. ***Suspicious transaction reporting***

- 5.1 Sufficient customer information is retained and assessed by the Company to enable effective evaluation of suspicious transactions or behaviour.

APPENDIX V SUMMARY OF REVIEW OF ANTI-MONEY LAUNDERING PROCEDURES, SYSTEMS AND CONTROLS

5.2 Appropriate guidance is in place to ensure the timeliness, appropriateness and quality of both internal reporting to the Company's headquarters and external disclosure to relevant authorities.

5.3 Whistleblowing procedures are established to receive and assess internal reports of suspicious activities.

6. *Record keeping*

6.1 Customer and transactions information is appropriately documented and maintained.

7. *Internal audit functions*

7.1 Internal audit exercises adequate oversight of key aspects relating to the prevention and detection of money laundering with respect to the pachinko operations. This includes (i) an inspection of each pachinko hall at least once every two months, (ii) periodic reviews of the Company's compliance framework and effectiveness of its AML measures, (iii) verification and testing of the Company's compliance with AML measures and (iv) reporting any findings to the Company's Audit Committee.

8. *Staff awareness and training*

8.1 Mandatory and regular AML training programs are conducted to provide staff with sufficient knowledge of AML policies and procedures to help facilitate the detection of suspicious or unusual transactions and behaviour.

Directors' responsibility for the AML controls

The Directors are responsible for determining the Internal Control Objectives and designing, implementing, effectively operating and maintaining AML controls to achieve the Internal Control Objectives related to the FATF Guidance Paper and the Amusement Business Law.

Practitioner's responsibility

It is our responsibility to express a conclusion on the design and operation of the Company's AML controls to achieve the Internal Control Objectives for the period 1 April 2015 to 31 December 2016 based on our work performed and to report our conclusion solely to you, as a body in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Within the scope of the engagement we did not provide any assurance of the Company's compliance with the FATF Guidance Paper and the Amusement Business Law.

APPENDIX V SUMMARY OF REVIEW OF ANTI-MONEY LAUNDERING PROCEDURES, SYSTEMS AND CONTROLS

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance as to whether any matters come to our attention that causes us to believe that the AML controls were not designed and operated in all material respects, to achieve the Internal Control Objectives for the period 1 April 2015 to 31 December 2016.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. The procedures selected depend on the practitioner’s judgment, including the assessment of the risks as to whether the AML controls were designed and operated in all material respects, to achieve the Internal Control Objectives. Within the scope of our work we performed amongst others the following procedures:

- Conducted interviews with key management personnel for corroborative enquiry purposes and to gain an understanding of the governance around AML and how training on AML has been implemented by the Company;
- Reviewed policies and procedures to obtain an understanding of the design of AML controls in place;
- Reviewed other relevant documentation pertaining to the above mentioned control objectives to the extent that it was relevant to the design of AML controls in place; and
- Tested internal controls through a combination of inspection and observation of control procedures on a sample basis as deemed appropriate.

Inherent limitation

We draw attention to the fact that the procedures performed, and the report, includes certain inherent limitations that can influence the reliability of the information. Accordingly, errors or irregularities may occur and may not be detected. Such procedures cannot guarantee protection against fraudulent collusion. It should be noted that we cannot guarantee that any regulatory authority would not reach an alternative conclusion (based upon its own interpretation of the legislation, regulations and prevailing industry practices), nor can our findings be considered legal advice. Furthermore, our conclusion is based on historical information and the projection of any information or conclusions contained in this report to any future period would be inappropriate.

**APPENDIX V SUMMARY OF REVIEW OF ANTI-MONEY LAUNDERING
PROCEDURES, SYSTEMS AND CONTROLS**

Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the AML controls put in place by the Company were not designed and operated in all material respects, to achieve the Internal Control Objectives for the period 1 April 2015 to 31 December 2016.

Restriction on use and distribution

Our Report is intended solely for the use of the Company in connection with the submission to The Stock Exchange of Hong Kong Limited and to the Securities and Futures Commission and for inclusion in the prospectus of the Company in connection with its proposed listing. This report may not be suitable for other purposes. This report is not intended to be, and should not be distributed to or used for any other purpose.

Yours faithfully

For and on behalf of PricewaterhouseCoopers Limited
Jennifer Ho

Director

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation of our Company**

Our Company was incorporated in Hong Kong as a company with limited liability under the Companies Ordinance on 16 June 2015. A summary of various provisions of our Articles of Association are set out in Appendix III to this prospectus.

Our registered office is Level 11, Admiralty Centre Tower II, 18 Harcourt Road, Admiralty, Hong Kong, and we have a principal place of business in Japan at 7F, 13-10 Motofuna-machi, Nagasaki-shi, Nagasaki, Japan 850-0035.

2. Changes in the capital structure of our Company

On the date of incorporation, 8,000,000 Shares of ¥1.00 each were allotted and issued to Mr. Yamamoto. Please refer to the section headed “History and Development” of this prospectus for details relating to the issue and the transfer of shares in the issued capital of our Company. Save as disclosed in this prospectus, there has been no alteration in our share capital since the date of our incorporation.

Pursuant to the written resolutions of our sole Shareholder dated 10 April 2017, amongst others, subject to the Share Offer becomes unconditional, 367,000,000 Shares will be issued to Mr. Yamamoto by way of the Bonus Issue. Assuming that the Share Offer becomes unconditional and the Offer Shares are issued but prior to any Shares being issued pursuant to any option that may be granted under the Share Option Scheme, the total number of Shares issued by us will be 500,000,000 Shares.

3. Subsidiaries and changes in capital structure of our subsidiaries

Our subsidiaries are referred to in the Accountant’s Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in Appendix I to this prospectus, our Company has no other subsidiaries.

Please refer to the section headed “History and Development” of this prospectus for details relating to the changes to the capital structure of our subsidiaries during the Track Record Period. Save as disclosed in this prospectus, there had been no change to the capital structure of our subsidiaries within the two years immediately prior to the issue of this prospectus.

4. Reorganisation

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation and our Company became the holding company of our Group. Please refer to the section headed “History and Development” of this prospectus for details.

Following the completion of the Reorganisation, our Company became the ultimate holding company of our principal operating subsidiaries.

5. Resolutions in writing of our sole Shareholder passed on 10 April 2017

Pursuant to the written resolutions passed by our sole Shareholder on 10 April 2017, amongst others:

- (a) the Articles of Association were approved and adopted with effect from the Listing Date;
- (b) conditional on (i) the Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme); and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise:
 - (i) 367,000,000 Shares to be allotted credited as fully paid for nil consideration to Mr. Yamamoto, being the only holder of Shares whose names appeared on the register of members of our Company at the close of business on 10 April 2017 (or as they may direct) (the “**Bonus Issue**”) and the Shares to be allotted and issued pursuant to the resolution shall rank *pari passu* in all respects with the existing issued Shares (other than the Bonus Issue) and our Directors or any committee of the Board were authorised to give effect to the Bonus Issue;
 - (ii) the Listing and the Share Offer were approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer;
 - (iii) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised, subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant thereto and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;

- (iv) a general unconditional mandate (the “**Issuing Mandate**”) was given to the Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or under the Share Offer, or issue of Shares upon exercise of rights of subscription or conversion attaching to any warrants of our Company or any securities which are convertible into Shares, Shares with an aggregate number of not exceeding the sum of (aa) 20% of the total number of Shares in issue immediately following completion of the Share Offer and the Bonus Issue but excluding (where applicable) any Shares which may be issued pursuant to any options that may be granted under the Share Option Scheme and (bb) the number of Shares which may be purchased by our Company pursuant to the authority granted to the Directors as referred to in sub-paragraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Ordinance to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors, whichever occurs first;

- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors to exercise all powers of our Company to purchase Shares with an aggregate number of not exceeding 10% of the total number of Shares in issue immediately following the completion of the Share Offer and the Bonus Issue but excluding (where applicable) any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Ordinance to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and

- (vi) the general mandate was extended to allot, issue and deal with Shares to include the number of Shares which may be purchased or repurchased pursuant to paragraph (v) above;

- (c) the form and substance of each of the service contracts (including the duration thereof) made between our Executive Directors and our Company were approved.

B. REPURCHASE OF OUR SHARES

This sub-section sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by us of our own securities.

1. Provisions under the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(a) Shareholders' approval

Under the Listing Rules, all proposed repurchase of securities (which, under the Listing Rules and the Companies Ordinance, must be fully paid-up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

(b) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with our Articles of Association and the Listing Rules and the applicable laws of the place of incorporation of the relevant listed company. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by us may be made out of our funds which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of shares made for the purpose of the repurchase.

(c) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring our company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(d) ***Status of repurchased shares***

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(e) ***Suspension of repurchase***

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the inside information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (ii) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(f) ***Reporting requirements***

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

(g) ***Core connected persons***

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their close associates and a core connected person is prohibited from knowingly selling his securities to the company.

2. Reasons for repurchases

Our Directors believe that it is in the best interest of our Company and our Shareholders as a whole to have general authority from our Shareholders to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net value and the assets of our Company and/or the earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders as a whole.

3. Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our Articles of Association, the Listing Rules and the applicable laws and regulations from time to time in force. On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent that would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

4. General

Exercise in full of the Repurchase Mandate, on the basis of 500,000,000 Shares in issue upon completion of the Share Offer (taking into no account any options that may be granted under the Share Option Scheme), could accordingly result in up to 50,000,000 Shares being repurchased by us during the period prior to the earliest of:

- (a) the conclusion of our Company's next annual general meeting unless by ordinary resolution at that meeting, the authority is renewed, either unconditionally or subject to conditions;
- (b) the expiration of the period within which our Company is required by the applicable law or our Articles of Association to hold our next annual general meeting; or
- (c) when varied, revoked or renewed by a resolution of our Shareholders in a general meeting.

None of our Directors nor, to the best of their knowledge after having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to us or our subsidiaries. Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, our Articles of Association and the applicable laws and regulations from time to time in force.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of us increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a result of any repurchases pursuant to the Repurchase Mandate.

No core connected person has notified us that he or she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:




- (a) the investment agreement dated 16 June 2015 between Okura Holdings Limited and Katsuya Yamamoto in relation to the allotment and issue of 8,000,000 ordinary shares of Okura Holdings Limited to Katsuya Yamamoto (山本勝也) for a consideration of ¥8,000,000 and the sale of 100% of the issued shares in K's Holdings Co., Ltd. for a consideration of ¥8,000,000;
- (b) the stock purchase and sale agreement dated 29 June 2015 between Satoshi Maeda (前田諭志) as seller and K's Holdings Co., Ltd. (株式会社ケース・ホールディングス) as buyer, in relation to the sale and purchase of 300 shares of Aratoru Co., Ltd. (アラトル株式会社) and 300 shares of Adward Co., Ltd. (アドワード株式会社) ("**Sold Shares**");
- (c) the agreement for settlement of trading value dated 10 September 2015 between Satoshi Maeda (前田諭志) as seller and K's Holdings Co., Ltd. (株式会社ケース・ホールディングス) as buyer in relation to the calculation and settlement of consideration for the stock purchase and sale agreement between the same parties in relation to the Sold Shares;
- (d) the merger agreement dated 11 September 2015 between K's Property Co., Ltd. (株式会社ケイズプロパティ), EQU Co., Ltd. (株式会社EQU), SU Limited Company (有限会社エスユー), K's works Co., Ltd. (株式会社K's works), KPA Co., Ltd. (株式会社KPA), and K's Value Co., Ltd. (株式会社ケース・バリュー) in relation to the merger of the parties;

- (e) the shares transfer agreement dated 23 January 2017 between Okura Co., Ltd.* (王蔵株式会社) as purchaser and Lumax Networks Co., Ltd.*(株式会社ルマックスネットワークス) as seller in relation to the transfer of all shares of the company established by the seller through an incorporation-type company split for a consideration of ¥3,086,252,720;
- (f) the Deed of Non-Competition dated 10 April 2017 entered into between Katsuya Yamamoto and our Company regarding non-competition undertakings given by him in favour of our Company;
- (g) the Deed of Indemnity dated 10 April 2017 entered into between Katsuya Yamamoto and our Company pursuant to which Katsuya Yamamoto agreed to give certain indemnities in favour of our Company; and
- (h) the Public Offer Underwriting Agreement.

2. Our material intellectual property rights

(a) Trademarks

As at the Latest Practicable Date, we were the registered owner of the following trademarks which we believe are material to our business:

| Trademark | Place of Registration | Class(es) | Registration number | Registration date | Expiry date |
|--|-----------------------|-----------|---------------------|-------------------|------------------|
| (i)  | Hong Kong | 35, 41 | 303530619 | 9 September 2015 | 8 September 2025 |
| (ii) ケイズアラザ | Japan | 41 | 4771118 | 14 May 2004 | 14 May 2024 |
| (iii) ビッグアップル | Japan | 41 | 5153086 | 18 July 2008 | 18 July 2018 |
| (iv)  | Japan | 41 | 5898311 | 18 November 2016 | 18 November 2026 |
| (v)  | Japan | 41 | 5898312 | 18 November 2016 | 18 November 2026 |

As at the Latest Practicable Date, we had applied for the registration of the following trademarks which we believe are material to our business:

| Trademark | Place of application for registration | Class | Application number | Date of application |
|---|--|-------|--------------------|---------------------|
| (i) ユーパーク YOUPARK | Japan | 41 | 商願2017-3489 | 17 January 2017 |
| (ii) ビッグアップル ドット ユーパーク BIGAPPLE. YOUPARK | Japan | 41 | 商願2016-3504 | 17 January 2017 |

(b) **Domain names**

As at the Latest Practicable Date, we were the registered owner of the following domain names, which we believe are material to our business:

| Domain Name | Name of registrant | Date of registration | Date of expiry |
|----------------------------------|--------------------|----------------------|----------------|
| www.okura-holdings.com | Company | 12 April 2016 | 12 April 2018 |
| www.ks-group.com | Okura Japan | 22 June 2000 | 22 June 2017 |

D. FURTHER INFORMATION ABOUT OUR DIRECTORS, CHIEF EXECUTIVE OFFICER AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) *Interests of the Directors and the chief executive in our share capital and our associated corporations following the Share Offer*

The table below sets out the interests of our Directors and chief executive immediately following the completion of the Share Offer (taking into no account any options that may be granted under the Share Option Scheme) in the Shares, underlying Shares or debentures of us or any of our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the

SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed:

| Name of Director(s)/ Chief Executive Officer | Capacity/nature of interest | Relevant company (including associated corporation) | Number and class of Shares | Approximate percentage of shareholding in the total issued share capital of the relevant company |
|---|--------------------------------|--|----------------------------------|---|
| Mr. Yamamoto ¹ | Beneficial interest | Our Company | 375,000,000 Shares | 75.0% |

Note:

(1) *Mr. Yamamoto is an Executive Director, the Chief Executive Officer of the Company and the Chairman of the Board.*

(b) *Interests of the substantial shareholders in the Shares which are discloseable under Division 2 and 3 of Part XV of the SFO*

Immediately following the completion of the Share Offer (taking into no account any options that may be granted under the Share Option Scheme), so far as our Directors are aware, the following persons (not being a Director or a Chief Executive Officer of ours) will have an interests or short position in the Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

| Name | Capacity/nature of interest | Relevant company (including associated corporation) | Number and class of Shares held | Approximate percentage of shareholding in the total issued share capital of the relevant company |
|-------------------------------------|--------------------------------|--|---------------------------------------|---|
| Mr. Yamamoto ¹ | Beneficial interest | Our Company | 375,000,000 Shares | 75.0% |

Note:

(1) *Mr. Yamamoto is an Executive Director, the Chief Executive Officer of the Company and the Chairman of the Board.*

Save as disclosed in this prospectus, our Directors are not aware of any persons who will, immediately following completion of the Share Offer (without taking into account any options that may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances in the general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

2. Directors' service agreements and letters of appointment

Each of our Executive Directors has entered into a service agreement with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other. Each of our Independent Non-Executive Directors has entered into an appointment letter with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

3. Agency fees or commission

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms had been granted in connection with the issue or sale of any share or loan capital of us or any of our subsidiaries.

4. Related party transactions

For details of our related party transactions, please see Note 34 in the Accountant's Report set out in Appendix I to this prospectus.

E. DISCLAIMERS

Save as disclosed herein:

- (a) none of our Directors or our Chief Executive Officer has any interest or short position in the shares, underlying shares or debentures of us or any of our associated corporation (within the meaning of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;

- (b) none of our Directors or experts referred to in “Qualifications of experts” in this Appendix has any direct or indirect interest in the promotion of us, or in any assets which had within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any members of our Group;
- (c) none of our Directors or experts referred to in “Qualifications of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking into account Shares which may be taken up under the Share Offer, none of our Directors knows of any person (not being a Director or Chief Executive Officer of us) who will, immediately following the completion of the Share Offer, have an interest of short position in the shares or underlying shares of us which would fall to be disclosed to us under the provisions of Division of 2 and 3 of Part XV of the SFO or to be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of our Group;
- (f) none of the experts referred to in “Qualifications of Experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (g) so far as is known to the Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or shareholders who are interested in more than 5% of our share capital have any interests in the five largest customers or the five largest suppliers of our Group.

F. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by way of resolutions in writing of the sole Shareholder dated 10 April 2017 (“**Adoption Date**”). The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to enable our Company to grant options to Eligible Participants (as defined in paragraph 2 below) as incentives or rewards for their contribution or potential contribution to our Group.

2. Eligible participants

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph 5 below to any full-time or part-time employees, or potential employees, executives or officers (including executive, non-executive and independent non-executive Directors) of our Company or any of its subsidiaries and any suppliers, customers, agents and advisers who, in the sole opinion of the Board, will contribute or have contributed to our Company and/or any of its subsidiaries (the “**Eligible Participant**”).

3. Acceptance of an Offer of Options

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the option duly signed by the grantee, together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such remittance shall in no circumstances be refundable and shall be deemed as part payment of the exercise price. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it must be accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option in the manner as set out in this paragraph. To the extent that the offer to grant an option is not accepted by the acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs 11, 13, 14 and 15 below, an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given. Within 30 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to our Company or the approved independent financial adviser as the case may be pursuant to paragraph 17 below, our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

4. Maximum number of Shares

The maximum number of Shares in respect of which options under the Share Option Scheme and any other share option schemes of our Company may be granted is 10% of the Shares in issue immediately upon completion of the Share Offer, being 50,000,000 Shares (the “**Scheme Limit**”), excluding for this purpose the number of Shares which would be issued on the exercise in full of the options granted under the Share Option Scheme or any other schemes of our Company but not cancelled, lapsed or exercised; the number of Shares which have been allotted and issued pursuant to the exercise of any options granted under the Share Option Scheme or any other schemes of our Company; and the number of cancelled Shares. Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (a) renew this limit at any time to 10% of the Shares in issue (the “**New Scheme Limit**”) as at the date of the approval by our Shareholders in a general meeting; and/or
- (b) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The Scheme Limit or the New Scheme Limit shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph 17 below whether by way of capitalisation issue, rights issue, sub-division or consolidation of shares or reduction of share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

5. Price of Shares

The exercise price in relation to each option offered to an Eligible Participant shall, subject to the adjustments referred to in paragraph 17, be determined by the Board (or its committee) in its sole discretion, save that such price shall not be less than the highest of:

- (a) the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of grant, which must be a day when the Stock Exchange is open for business of dealing in securities;

- (b) the average of the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five business days (as defined in the Listing Rules) immediately preceding the date of grant; and
- (c) for the purpose of determining the exercise price where the Shares have been listed on the Stock Exchange for less than five business days (as defined in the Listing Rules) preceding the date of the grant, the issue price of the Shares in connection with such listing shall be deemed to be the closing price of the Shares for each business day (as defined in the Listing Rules) falling within the period before Listing.

6. Granting Options to Connected Persons

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by our Independent Non-executive Directors (excluding any Independent Non-executive Director who is the grantee of the options). If the Board determines to offer to grant options to a substantial shareholder or an Independent Non-executive Director or any of their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under the Share Option Scheme and any other schemes of our Company in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the Shares in issue or such other percentage as may be from time to time provided under the Listing Rules, of the Shares in issue on the date of such grant; and
- (b) having an aggregate value, based on the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of each grant, in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules,

such grant will be subject to the approval of the Independent Non-executive Directors as referred to in this paragraph, the issue of a circular by our Company to our Shareholders and the approval of our Shareholders in general meeting on a poll at which all core connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

- (a) the details of the number and terms (including the exercise price) of the options to be granted to each Eligible Participant which must be fixed before the shareholders' meeting and the date of the grant, which shall be the date of Board meeting at which the Board proposes to grant the proposed options to such Eligible Participant;

- (b) a recommendation from the Independent Non-executive Directors (excluding any Independent Non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (c) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (d) the information required under Rule 2.17 of the Listing Rules.

7. Restrictions on the times of grant of Options

A grant of options may not be made after inside information has come to our Company's knowledge until our Company has announced such information. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (a) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for our Company to publish an announcement of the results for any year, or half-year period in accordance with the Listing Rules, and where our Company has elected to publish them, any quarterly or any other interim period,

and ending on the actual date of publication of the results for such year, half-year, quarterly or interim period (as the case may be).

No options shall be granted during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

8. Rights are personal to Grantee

An option and an offer to grant an option is personal to the grantee and is not transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option held by him or any offer relating to the grant of an option made to him or attempt to do so (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

9. Time of exercise of Option and duration of the Share Option Scheme

Unless otherwise provided in the respective grantee's offer document, each of the grantees to whom an option has been granted under the Share Option Scheme shall be entitled to exercise his/her option in the manner set out in his/her offer document, provided that such period of time shall not exceed a period of ten years commencing on the Commencement Date.

10. Performance target

A grantee may be required to achieve performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

11. Rights on ceasing employment/death

If the grantee of an option ceases to be an Eligible Participant:

- (a) by any reason other than death, ill-health, injury, disability or termination of his relationship with our Company and/or any of its subsidiaries on one or more of the grounds specified in paragraph 12 below, the grantee may exercise the option up to his entitlement at the date of cessation of being an Eligible Participant (to the extent not already exercised) within a period of one month (or such longer period as the Board may determine) following the date of such cessation (which shall be, in relation to a grantee who is an Eligible Participant by reason of his employment with our Company or any of its subsidiaries, the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not); or
- (b) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of our Board) and none of the events which would be a ground for termination of his relationship with our Company and/or any of its subsidiaries under paragraph 12 has occurred, the grantee or his personal representative(s) shall be entitled within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the options in full (to the extent not already exercised).

12. Rights on dismissal

If the grantee of an option ceases to be an Eligible Participant by reason of his resignation or dismissal, or by reason of the termination of his relationship with our Company and/or any of the subsidiaries on any one or more of the grounds that he has been guilty of serious misconduct, or has been convicted of any criminal offence involving his integrity or honesty or in relation to an employee or consultant of our Company and/or any of its subsidiaries (if so determined by our Board) on any other ground on which an employer would be entitled to unilaterally terminate his employment or service at common law or pursuant to any applicable laws or under the grantee's service contract with our Company or the relevant subsidiary, the

grantee's options will lapse on the date on which he ceases to be an Eligible Participant. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the relationship of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive.

13. Rights on takeover

If a general offer (whether by way of takeover offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all our Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror (as defined in the Takeovers Code)), our Company shall use its best endeavours to procure that such offer is extended to all the grantees (on the same terms *mutatis mutandis*, and assuming that they shall become, by the exercise in full of the options granted to them, Shareholders). If such offer, having been approved in accordance with the applicable laws and regulatory requirements, becomes or is declared unconditional, the grantee (or his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional.

14. Rights on winding-up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company, give notice thereof to all grantees and thereupon, each grantee (or in the case of the death of the grantee, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days (as defined in the Listing Rules) prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

15. Rights on compromise or arrangement between our Company and its members or creditors

If a compromise or arrangement between our Company and its members and/or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give a notice to all the grantees of the options on the same day as it despatches to its members and/or creditors of our Company a notice summoning the meeting to consider such a compromise or arrangement and each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12 noon (Hong Kong time) on the business day

(as defined in the Listing Rules) immediately prior to the date of the proposed meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. Our Board shall endeavour to procure that the Shares issued as a result of the exercise of options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court) the rights of the grantees to exercise their respective options shall with effect from the date of the making of the order by the relevant court be restored in full, as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

16. Ranking of Shares

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person nominated by the grantee) as the holder thereof. Subject to the aforesaid, the Shares to be allotted upon the exercise of an option shall be subject to all the provisions of the Articles and shall rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of our Company as attached to the fully-paid Shares in issue on the date of issue and rights in respect of any dividend or other distributions paid or made on or after the date of issue. Shares issued on the exercise of an option shall not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

17. Effect of alterations to capital

In the event of any alteration in the capital structure of our Company whilst any option may become or remain exercisable, whether by way of capitalisation issue, rights issue, open offer (if there is a price-dilutive element), subdivision, consolidation of shares or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the exercise price per Share of each outstanding option and/or the Scheme Limit, the New Scheme Limit and the Maximum Limit as the auditors of our Company or an independent financial adviser shall certify in writing to be in their/his opinion fair and reasonable and in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes

(the “**Supplemental Guidance**”). The capacity of the auditors of our Company or the approved independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificates shall, in the absence of manifest error, be final and conclusive and binding on our Company and the grantees.

Any such alterations shall be made on the basis that a grantee shall have the same proportion of the equity capital of our Company (as interpreted in accordance with the Supplemental Guidance) as that to which he was entitled to subscribe had he exercised all the options held by him immediately before such adjustments and the aggregate exercise price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event. Any adjustment to be made in accordance with this paragraph shall comply with the Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time. In respect of any adjustments required by this paragraph 17, other than any made on a capitalisation issue, the auditors or the approved independent financial adviser, as the case may be, shall confirm to the Board in writing that the adjustments satisfy the requirements set out in Rule 17.03(13) of the Listing Rules and the note thereto and the Supplemental Guidance and/or such other requirement prescribed under the Listing Rules from time to time. In no circumstance shall the exercise price be less than the par value of the Shares.

18. Expiry of Option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the date of expiry of the option as may be determined by the Board;
- (b) the expiry of any of the periods referred to in paragraphs 11, 13, 14 and 15;
- (c) the date on which the scheme of arrangement of our Company referred to in paragraph 15 becomes effective;
- (d) subject to paragraph 14, the date of commencement of the winding-up of our Company;
- (e) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee’s resignation or dismissal, or by termination of his relationship with our Company and/or any of its subsidiaries on any one or more of the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his integrity or honesty in relation to an employee or consultant of our Company and/or any of its subsidiaries (if so determined by the Board) or any other grounds on which an employer would be entitled to unilaterally terminate his employment or service at common law or pursuant to any applicable laws or under

the grantee's service contract with our Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the relationship of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or

- (f) the date that is 30 days after the date on which the grantee is terminated by our Company and/or any of the subsidiaries on a ground other than those set forth in paragraph 18(e); and
- (g) the date on which the Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph 8 above or the option is cancelled in accordance with paragraph 20 below.

19. Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (a) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (b) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted (except any alterations which take effect automatically under the terms of the Share Option Scheme),

must be made with the prior approval of our Shareholders in general meeting at which any persons to whom or for whose benefit the Shares may be issued under the Share Option Scheme and their respective associates shall abstain from voting, provided that the amended terms of the Share Option Scheme or the options shall remain in compliance with Chapter 17 of the Listing Rules and no alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration or to reduce the proportion of the equity capital to which any person was entitled pursuant to such option prior to such alteration, except with (i) the consent in writing of grantees holding in aggregate options which if exercised in full on the date immediately preceding that on which such consent is obtained would entitle them to the issue of three-fourths of all Shares which would fall to be issued upon the exercise of all options outstanding on that date, or (ii) the sanction of a special resolution. Written notice of any alterations made in accordance with paragraph 19 shall be given to all grantees.

20. Cancellation of Options

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event any option is cancelled pursuant to paragraph 8.

21. Termination of the Share Option Scheme

Our Company may by resolution in general meeting or the Board at any time resolve to terminate the operation of the Share Option Scheme and in such event, no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

22. Administration of the Board

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided therein) shall be final and binding on all parties.

23. Conditions of the Share Option Scheme

The Share Option Scheme is conditional on:

- (a) the passing of the necessary resolutions by our Shareholders to approve and adopt the rules of the Share Option Scheme;
- (b) the Listing Committee granting the listing of, and permission to deal in, the Shares falling to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (c) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, following the waiver(s) of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and
- (d) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in this paragraph 23 are not satisfied within six calendar months from the Adoption Date:

- (a) the Share Option Scheme shall forthwith terminate;
- (b) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (c) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

24. Disclosure in annual and interim reports

Our Board shall procure that details of the Share Option Scheme and other schemes of our Company and its subsidiaries are disclosed in its annual and interim reports in compliance with the Listing Rules in force from time to time.

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 50,000,000 Shares in total.

G. OTHER INFORMATION**1. Litigation**

As at the Latest Practicable Date, save as disclosed in the paragraph headed “Legal proceedings” under the section headed “Business” of the prospectus, we were not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial conditions.

2. Preliminary expenses and the Sponsor’s fees

Our preliminary expenses were approximately ¥0.3 million and were paid by us.

The Sponsor will be paid by our Company an aggregate fee of HK\$4.25 million to act as the sponsor to the Listing.

3. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit had been paid, allotted or given or was proposed to be paid, allotted or given to any promoter in connection with the Share Offer and the related transactions described in this prospectus.

4. Application for Listing

The Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares: (i) in issue; (ii) to be issued pursuant to the Share Offer; and (iii) to be issued upon exercise of any options which may be granted under the Share Option Scheme, being up to 10% of the Shares in issue on the Listing Date. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

5. No material adverse change

Our Directors confirm that save as disclosed in this prospectus, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 31 October 2016 (the date of the latest audited consolidated financial statements of our Group) and up to the date of this prospectus.

6. Agency fees and commissions received

The Underwriters will receive an underwriting commission as referred to in the paragraph headed “Commission, fees and expenses” under the section headed “Underwriting” of this prospectus.

7. Qualifications of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given their opinion and/or advice in this prospectus are as follows:

| Name | Qualifications |
|---|--|
| Altus Capital Limited | Licensed to conduct type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO |
| Anderson Mori & Tomotsune | Qualified lawyers in Japan |
| PricewaterhouseCoopers | Certified Public Accountants |
| PricewaterhouseCoopers Limited | Independent anti-money laundering consultant |
| Yano Research Institute Limited | Research and analysis services provider |
| DTZ Cushman & Wakefield Limited . . | Chartered surveyors and valuers |

8. Consents

Each of the experts listed in the preceding paragraph has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

10. Taxation of holders of our Shares

Dividends

No tax is imposed in Hong Kong in respect of dividends our Company pays to the Shareholders. Dividends paid to the Shareholders are free of withholding taxes in Hong Kong.

Stamp duty

The sale, purchase and transfer of Shares registered on our register of members in Hong Kong will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration, or if higher, the value of the Shares being sold or transferred.

Capital gains and profits tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of the Shares by persons carrying on a business in Hong Kong, where such gains are sourced in Hong Kong and arise from such business, will be chargeable to Hong Kong profits tax.

Estate duty

No Hong Kong estate duty is payable in respect of holders of Shares on their death.

Prospective holders of Shares are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding, disposing of or dealing in Shares. It is emphasised that none of us, the Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding, disposal of or dealing in Shares or exercise any rights attaching to them.

11. Tax and other indemnity

Our Controlling Shareholder (the “**Indemnifier**”) has entered into the Deed of Indemnity in favour of our Group (being a material contract referred to in the paragraph headed “Summary of material contracts” in this Appendix) to provide the following indemnities in favour of our Group. Under the Deed of Indemnity, the Indemnifier will, amongst others, indemnify each of the members of our Group against taxation falling on any member of our Group resulting from or by reference to any income, profits or gains accrued or received (or deemed to be so earned, accrued or received) on or before the date when the Share Offer becomes unconditional. The Indemnifier further undertakes to indemnify each of the members of our Group on demand against any losses, damages, costs or expenses which may be suffered or incurred in connection with any form of taxation or taxation claim or any foregoing property related loss or claim. The Indemnifier will, however, not be liable under the Deed of Indemnity for taxation where, amongst others, (i) provision has been made for such taxation in the

audited accounts of our Group, and (ii) the taxation arises or is incurred as a result of a retrospective change in law or regulation or the interpretation thereof or practice by the relevant tax authority coming into force after the date on which the Share Offer becomes unconditional or to the extent that the taxation arises or is increased by an increase in rates of taxation as a result of a change in law or regulation or interpretation thereof or practice by the relevant tax authority after the date on which the Share Offer becomes unconditional with retrospective effect. The Indemnifier will indemnify and at all times keep us fully indemnified, on demand from and against all losses, claims, actions, demands, liabilities, damages, costs (including but not limited to legal and other professional costs), expenses, fines, payments, sums, outgoing fees, penalties, orders, judgment and losses of whatever nature suffered or incurred by any of the members of our Group directly or indirectly as a result of and in connection with the legal non-compliance incidents referred to in the paragraph headed “Historical compliance matters” under the section headed “Business” of this prospectus.

12. Miscellaneous

Save as otherwise disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or of any of our principal operating subsidiaries has been issued or agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms had been granted in connection with the issue or sale of any share or loan capital of our Company or any of our principal subsidiaries;
- (c) within the two years preceding the date of this prospectus, no commission had been paid or was payable (except commissions to underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Shares in our Company;
- (d) neither our Company nor any of our subsidiaries has issued or agreed to issue any founder shares, management shares or deferred shares;
- (e) no share or loan capital of our Company or any of our consolidated subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (f) none of the parties (save in connection with the Underwriting Agreement) listed in the paragraph headed “Qualification of experts” in this Appendix:
 - (i) is interested legally or beneficially in any securities of any member of our Group; or

- (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (g) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (h) there is no arrangement under which future dividends are waived or agreed to be waived;
- (i) our Directors confirm that our Company has no outstanding convertible debt security or debenture; and
- (j) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.

13. Estate duty

Our Directors have been advised that no material liability for estate duty under Japan laws is likely to fall on our Company or any of our subsidiaries.

14. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

15. Independence of the Sponsor

Altus Capital Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

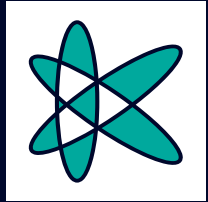
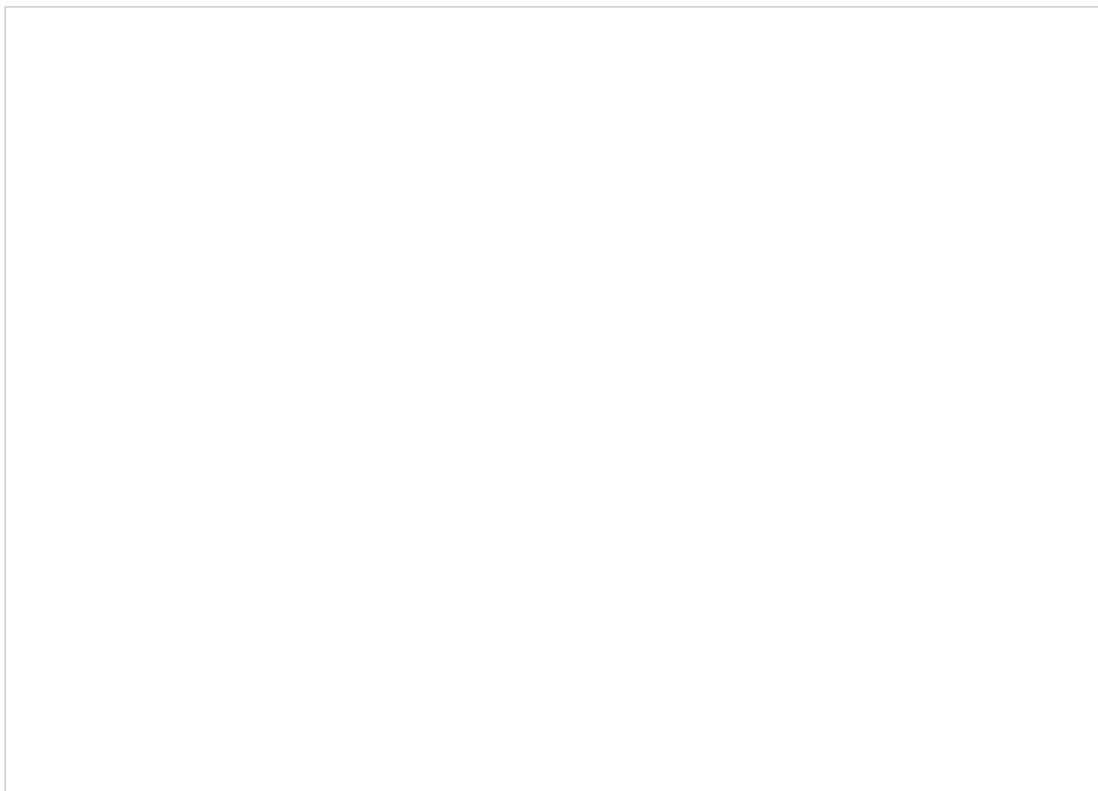
The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were: (i) copies of the **WHITE, YELLOW** and **GREEN** Application Forms; (ii) copies of each of the material contracts referred to in paragraph (n) of this Appendix; and (iii) the consent letters referred to in paragraph (p) in this Appendix.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of H.M. Chan & Co. in association with Taylor Wessing at 21st Floor, 8 Queen's Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Articles of Association;
- (b) the accountant's report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (c) the report from PricewaterhouseCoopers on our unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Group for the three financial years ended 30 June 2014, 2015 and 2016 and four months ended 31 October 2016;
- (e) the letter of advice issued by Anderson Mori & Tomotsune, our Japan Legal Adviser, summarising certain aspects of our Group;
- (f) the Japan legal opinion prepared by Anderson Mori & Tomotsune, our Japan Legal Adviser, in respect of our general matters and our property interests in Japan;
- (g) the Japan legal opinion prepared by Anderson Mori & Tomotsune, our Japan Legal Adviser, in respect of the legality of our Group's operation of pachinko halls in Japan;
- (h) the commissioned report prepared by Yano Research on, amongst others, the Japanese economy and the pachinko industry in Japan, as referred to under the section headed "Industry Overview" of this prospectus;
- (i) the letter, summary of valuations and valuation certificates prepared by DTZ Cushman & Wakefield Limited, our Property Valuer, the text of which is set out in Appendix IV to this prospectus;

- (j) the independent assurance report issued by PricewaterhouseCoopers Limited, our AML Consultant, in respect of the design and operation of certain anti-money laundering controls of our Group which had been put in place for the period from 1 April 2015 to 31 December 2016 to achieve selected internal control objectives that have been adopted by our Directors, the text of which is set out in Appendix V to this prospectus;
- (k) the Japanese opinion letter issued by Anderson Mori & Tomotsune, our Japan Legal Adviser, in respect of our Group's historical non-compliance incidents relating to the submission of returns of depreciable assets tax under the Local Tax Act applicable to our Group during the Track Record Period, as detailed in the paragraph headed "Historical compliance matters" under the section headed "Business" of this prospectus;
- (l) the Japanese opinion letter issued by Anderson Mori & Tomotsune, our Japan Legal Adviser, in respect of our Group's historical non-compliance incidents relating to the submission of returns for business office tax under the Local Tax Act and the Relevant Tokyo Tax Laws applicable to our Group during the Track Record Period, as detailed in the paragraph headed "Historical compliance matters" under the section headed "Business" of this prospectus;
- (m) the Japanese opinion letter issued by Anderson Mori & Tomotsune, our Japan Legal Adviser, in respect of our Group's historical non-compliance incidents relating the payment of remuneration for overtime work and/or Late-night work under the Labour Standard Law applicable to our Group during the Track Record Period, as detailed in the paragraph headed "Historical compliance matters" under the section headed "Business" of this prospectus;
- (n) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix VI to this prospectus;
- (o) the service agreements and letters of appointment referred to in the paragraph headed "Directors' service agreements and letters of appointment" in Appendix VI to this prospectus;
- (p) the written consents referred to in the paragraph headed "Consents" in Appendix VI to this prospectus; and
- (q) the Share Option Scheme.



OKURA HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)
Stock Code : 1 6 5 5

