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Okura Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01655)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

- Gross pay-ins remained stable at approximately ¥12,235 million for 6M2022 as compared with approximately ¥12,285 million for 6M2021.

- Revenue remained stable at approximately ¥2,735 million for 6M2022 as compared with approximately ¥2,744 million for 6M2021.

- Operating loss was approximately ¥279 million for 6M2022 as compared with the operating profit of approximately ¥144 million for 6M2021.

- Loss before income tax was approximately ¥362 million for 6M2022 as compared with the profit before income tax of approximately ¥36 million for 6M2021.

- Loss for the period attributable to shareholders of the Company was approximately ¥333 million for 6M2022 as compared with the profit for the period attributable to shareholders of the Company of approximately ¥23 million for 6M2021.

- Basic and diluted loss per share amounted to approximately ¥0.666 for 6M2022 (6M2021: basic and diluted earnings per share amounted to approximately ¥0.046).

- The Board does not recommend the payment of an interim dividend for 6M2022 (6M2021: Nil).

The board (the "**Board**") of directors (the "**Directors**") of Okura Holdings Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 31 December 2021 ("**6M2022**"), together with the comparative figures for the six months ended 31 December 2020 ("**6M2021**").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

	Note	**(Unaudited) Six months ended 31 December 2021** ***¥ million***	2020 *¥ million*
Revenue	6	**2,735**	2,744
Other income	7	**215**	148
Other gains, net	7	**137**	30
Hall operating expenses	8	**(2,965)**	(2,384)
Administrative and other operating expenses	8	**(401)**	(394)
Operating (loss)/profit		**(279)**	144
Finance income		**41**	29
Finance costs		**(124)**	(137)
Finance costs, net	9	**(83)**	(108)
(Loss)/profit before income tax		**(362)**	36
Income tax credit/(expense)	10	**29**	(13)
(Loss)/profit for the period attributable to shareholders of the Company		**(333)**	23
(Loss)/earnings per share attributable to shareholders of the Company for the period (expressed in ¥ per share)			
Basic	11	**(0.666)**	0.046
Diluted	11	**(0.666)**	0.046

	Note	(Unaudited) Six months ended 31 December 2021 *¥ million*	2020 *¥ million*
(Loss)/profit for the period		**(333)**	23
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of employee benefit obligations		**(1)**	3
Changes in fair value of financial assets at fair value through other comprehensive income		**6**	(12)
Deferred income tax arising from fair value changes		**(2)**	5
Total comprehensive (loss)/income for the period attributable to shareholders of the Company		**(330)**	19

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	**(Unaudited) 31 December 2021** ***¥ million***	(Audited) 30 June 2021 *¥ million*
Assets			
Non-current assets			
Property, plant and equipment	13	**7,622**	7,622
Right-of-use of assets	14	**3,398**	4,104
Investment properties	13	**3,155**	3,216
Intangible assets	13	**118**	359
Prepayments and deposits		**805**	1,059
Financial assets at fair value through other comprehensive income		**30**	24
Financial assets at fair value through profit or loss		**12**	22
Financial assets at amortised cost		**500**	—
Deferred income tax assets		**369**	328
		16,009	16,734
Current assets			
Inventories		**77**	79
Trade receivables	15	**17**	19
Prepayments, deposits and other receivables		**548**	419
Financial assets at fair value through profit or loss		**577**	356
Financial assets at amortised cost		**500**	1,000
Short-term bank deposits		**100**	100
Cash and cash equivalents		**1,607**	2,617
		3,426	4,590
Total assets		**19,435**	21,324
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	16	**20,349**	20,349
Reserves		**(17,202)**	(16,872)
Total equity		**3,147**	3,477

	Note	**(Unaudited) 31 December 2021** *¥ million*	(Audited) 30 June 2021 *¥ million*
Liabilities			
Non-current liabilities			
Borrowings	19	**4,338**	4,703
Lease liabilities	14	**8,375**	9,264
Accruals, provisions and other payables		**466**	358
Employee benefit obligations	18	**164**	130
Deferred income tax liabilities		**76**	82
		13,419	14,537
Current liabilities			
Borrowings	19	**822**	792
Lease liabilities	14	**732**	848
Financial liabilities at fair value through profit or loss		**58**	8
Accruals, provisions and other payables		**1,220**	1,591
Trade payables	17	**12**	12
Amount due to directors	21	**5**	3
Current income tax liabilities		**20**	56
		2,869	3,310
Total liabilities		**16,288**	17,847
Total equity and liabilities		**19,435**	21,324

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Okura Holdings Limited (the "**Company**") was established as a limited company in Hong Kong under 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 (together, the "**Group**") are principally engaged in pachinko and pachislot hall operations (the "**Business**") in Japan.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The condensed consolidated interim financial information are presented in millions of Japanese Yen ("**¥**"), unless otherwise stated.

This condensed consolidated interim financial information was approved for issue by the board of directors (the "**Board**") of the Company on 25 February 2022.

This condensed consolidated interim financial information has not been audited.

The defined terms used in this condensed consolidated interim financial information have the same meaning as those set out in the Group's annual report 2021 published on 18 October 2021 (the "**Annual Report 2021**"), unless otherwise stated.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 31 December 2021 has been prepared in accordance with International Accounting Standard ("**IAS**") 34, 'Interim Financial Reporting' issued by the International Accounting Standards Board ("**IASB**") and Hong Kong Accounting Standard ("**HKAS**") 34, 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Hong Kong Financial Reporting Standards ("**HKFRS**") is substantially consistent with International Financial Reporting Standards ("**IFRS**") and the accounting policy selections that the Group has made in preparing the condensed consolidated interim financial information are such that the Group is able to comply with both IFRS and HKFRS. Reference to IFRS, IAS and Interpretations developed by the IFRS Interpretations Committee ("**IFRIC**") in the condensed consolidated interim financial information should be read as referring to the equivalent HKFRS, 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 condensed consolidated interim financial information.

The condensed consolidated interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2021, which have been prepared in accordance with IFRS and HKFRS. Income tax expenses in the interim periods are accrued using the tax rate that would be applicable to expected total annualised profit or loss.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 June 2021, as described in the annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Amended standards adopted by the Group

The Group has applied the following amendments to standards for the first time for their annual reporting period commencing 1 July 2021:

Amendments to IAS 39, IFRS 4, IFRS7, IFRS 9 and IFRS 16	Interest Rate Benchmark Reform — Phase 2

The Group has adopted these amendments to existing standards and the adoption of these amendments to existing standards did not have significant impacts on the Group's results and financial position.

There are no other new standards or amendments to standards that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

4 ESTIMATES

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2021, with the exception of changes in estimates that are required in determining the provision for income taxes.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Annual Report 2021.

There have been no changes in the risk management policies since year end.

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

5.3 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 *¥ million*	Level 2 *¥ million*	Level 3 *¥ million*	Total *¥ million*
As at 31 December 2021				
Assets				
Financial assets at fair value through profit or loss				
— Listed securities	**81**	**—**	**—**	**81**
— Debt securities	**—**	**508**	**—**	**508**
Financial assets at fair value through other comprehensive income				
— Listed securities	**28**	**—**	**—**	**28**
— Unlisted securities	**—**	**—**	**2**	**2**
	109	**508**	**2**	**619**
Liabilities				
Financial liabilities at fair value through profit or loss				
— Put option	**—**	**(58)**	**—**	**(58)**
	—	**(58)**	**—**	**(58)**

	Level 1 *¥ million*	Level 2 *¥ million*	Level 3 *¥ million*	Total *¥ million*
As at 30 June 2021				
Assets				
Financial assets at fair value through profit or loss				
— Listed securities	87	—	—	87
— Debt securities	—	291	—	291
Financial assets at fair value through other comprehensive income				
— Listed securities	22	—	22	
— Unlisted securities	—	—	2	2
	109	291	2	402
Liabilities				
Financial liabilities at fair value through profit or loss				
— Put option	—	(8)	—	(8)
	—	(8)	—	(8)

There were no transfers between levels 1, 2 and 3 during the six months ended 31 December 2021 and during the year ended 30 June 2021.

5.4 Fair value measurements using significant unobservable inputs (Level 3)

	Financial assets at fair value through other comprehensive income ***¥ million***	**Total** ***¥ million***
Six months ended 31 December 2021		
Balance at 30 June 2021 (Audited) and 31 December 2021 (Unaudited)	**2**	**2**

6 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	(Unaudited) Six months ended 31 December	
	2021	2020
	¥ million	*¥ million*
Revenue		
Gross pay-ins	**12,235**	12,285
Less: gross pay-outs	**(9,761)**	(9,800)
Revenue from pachinko and pachislot hall business	**2,474**	2,485
Vending machine income	**44**	47
Property rental	**183**	175
Revenue from other operation	**34**	37
	2,735	2,744

Except for pachinko and pachislot hall business and vending machine income, all of the Group's revenues are recognised over-time as the services are performed.

(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 the condensed consolidated interim financial information.

The management has identified two reportable segments based on the types of services, namely (i) pachinko and pachislot hall operation and (ii) property rental. Other segments do not meet the reportable segment threshold and thus they are not separately included in the reports provided to the chief operating decision maker. The results of these operations are included in "All other segments".

Segment assets consist primarily of property, plant and equipment, right-of-use assets, investment properties, intangible assets, inventories, trade receivables, prepayments, deposits and other receivables and cash and cash equivalents for segment uses. They exclude assets served as headquarter uses, deferred income tax assets and assets used for corporate functions including financial assets at amortised cost, 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 and corporate expenses are not included in segment results.

The segment information provided to the executive directors for the six months ended 31 December 2021 and 2020 are as follows:

	Six months ended 31 December 2021 (Unaudited)			
	Pachinko and pachislot hall operation	**Property rental**	**All other segments**	**Total**
	¥ million	***¥ million***	***¥ million***	***¥ million***
Segment revenue from external customers	**2,518**	**183**	**34**	**2,735**
Segment results	**(81)**	**69**	**(350)**	**(362)**
Loss before income tax				**(362)**
Income tax credit				**29**
Loss for the period				**(333)**
Other items				
Provision for impairment loss of property, plant and equipment	**(35)**	—	—	**(35)**
Provision for impairment loss of right-of-use assets	**(281)**	—	—	**(281)**
Provision for impairment loss of intangible assets	**(241)**	—	—	**(241)**
Provision for impairment loss of investment properties	—	**(22)**	—	**(22)**
Depreciation and amortisation	**(375)**	**(40)**	**(54)**	**(469)**
Finance income	—	—	**41**	**41**
Finance costs	**(87)**	**(30)**	**(7)**	**(124)**
Capital expenditures	**(228)**	—	—	**(228)**

	Six months ended 31 December 2020 (Unaudited)			
	Pachinko and pachislot hall operation	Property rental	All other segments	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*
Segment revenue from external customers	2,532	175	37	2,744
Segment results	18	91	(73)	36
Profit before income tax				36
Income tax expense				(13)
Profit for the period				23
Other items				
Provision for impairment loss of property, plant and equipment	(2)	—	—	(2)
Provision for impairment loss of right-of-use assets	(43)	—	—	(43)
Depreciation and amortisation	(398)	(35)	(58)	(491)
Finance income	—	—	29	29
Finance costs	(103)	(28)	(6)	(137)
Capital expenditures	(21)	(17)	(1)	(39)

	Pachinko and pachislot hall operation *¥ million*	Property rental *¥ million*	All other segments *¥ million*	Total *¥ million*
As at 31 December 2021 (Unaudited)				
Segment assets	**12,245**	**3,262**	**21**	**15,528**
Unallocated assets				**1,919**
Financial assets held at amortised cost				**1,000**
Financial assets at fair value through profit or loss				**589**
Financial assets at fair value through other comprehensive income				**30**
Deferred income tax assets				**369**
Total assets				**19,435**
As at 30 June 2021 (Unaudited)				
Segment assets	12,840	3,667	68	16,575
Unallocated assets				3,019
Financial assets held at amortised cost				1,000
Financial assets at fair value through profit or loss				378
Financial assets at fair value through other comprehensive income				24
Deferred income tax assets				328
Total assets				21,324

There is no single external customer contributed more than 10% revenue to the Group's revenue for the six months ended 31 December 2021 and 2020.

The Group is domiciled in Japan and majority of the non-current assets of the Group as at 31 December 2021 and 30 June 2021 are located in Japan.

7 OTHER INCOME AND OTHER GAINS, NET

	(Unaudited) Six months ended 31 December	
	2021	2020
	¥ million	*¥ million*
Other income		
Income from scrap sales of used pachinko machines	**180**	103
Dividend income	**3**	2
Income from expired IC card	**3**	3
Government subsidy related to COVID-19	**—**	22
Others	**29**	18
	215	148
Other gains, net		
Gains on release of lease liabilities	**392**	—
Exchange gains/(losses), net	**16**	(16)
(Losses)/gains on fair value changes on financial assets at fair value through profit or loss, net	**(253)**	25
Provision for impairment loss of investment properties	**(22)**	—
Losses on write-off of property, plant and equipment	**(12)**	(2)
Gains on disposal of property, plant and equipment	**2**	—
Others	**14**	23
	137	30

8 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	(Unaudited) Six months ended 31 December	
	2021	2020
	¥ million	*¥ million*
Pachinko and pachislot machines expenses (Note)	**1,021**	775
Auditor's remuneration	**20**	13
Employee benefits expenses	**620**	709
Operating lease rental expense in respect of land and buildings	**12**	15
Depreciation and amortisation	**469**	491
Provision for impairment loss of right-of-use assets	**281**	43
Provision for impairment loss of property, plant and equipment	**35**	2
Provision for impairment loss of intangible assets	**241**	—

Note: Pachinko and pachislot machines are expensed off in the interim condensed consolidated statement of comprehensive income upon installation. The expected useful lives of these machines are less than one year.

9 FINANCE COSTS, NET

	(Unaudited) Six months ended 31 December	
	2021	2020
	¥ million	*¥ million*
Finance income		
Interest income	**1**	1
Interest from debt securities	**40**	28
	41	29
Finance costs		
Interest expense on lease liabilities	**(89)**	(101)
Borrowings interest expenses	**(34)**	(34)
Bond interest expenses	**(1)**	(2)
	(124)	(137)
Finance costs, net	**(83)**	(108)

10 INCOME TAX (CREDIT)/EXPENSE

Japan corporate income tax has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in Japan in which the Group operates. The rates of taxation are based on management's estimate of the weighted average effective statutory income tax rate for the full financial year.

The Group is subject to national corporate income tax, inhabitants tax, and enterprise tax in Japan, which in aggregate, resulted in an effective statutory income tax rate of 34.3% for the six months ended 30 December 2021 and 2020.

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 31 December 2021 and 2020.

	(Unaudited) Six months ended 31 December	
	2021	2020
	¥ million	*¥ million*
Current income tax		
— Japan corporate income tax	**19**	27
Deferred income tax	**(48)**	(14)
	(29)	13

11 (LOSS)/EARNINGS PER SHARE

Basic earnings per share for the six months ended 31 December 2021 and 2020 are calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	(Unaudited) Six months ended 31 December	
	2021	2020
(Loss)/profit attributable to shareholders of the Company (¥ million)	**(333)**	23
Weighted average number of ordinary shares in issue (million)	**500**	500
Basic and diluted (loss)/earnings per share (¥)	**(0.666)**	0.046

No diluted (loss)/earnings per share is presented as there was no potential dilutive share during the six months ended 31 December 2021 and 2020. Diluted (loss)/earnings per share is equal to the basic (loss)/earnings per share.

12 DIVIDENDS

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2021 (30 June 2021: Nil).

13 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

During the six months ended 31 December 2021, the Group incurred capital expenditures of approximately ¥228million (six months ended 31 December 2020: ¥22 million) for property, plant and equipment, and there was no capital expenditure incurred for investment property (six months ended 31 December 2020: ¥17 million) or intangible assets (six months ended 31 December 2020: Nil).

During the six months ended 31 December 2021, the net book amounts of written-off property, plant and equipment amount to approximately ¥12 million (six months ended 31 December 2020: ¥2 million) and there was no material disposal or write-off of investment property and intangible asset (six months ended 31 December 2020: Nil).

At 31 December 2021,the Group carried out reviews of the recoverable amount of each cash-generating unit ("**CGU**"), which is determined as each individual pachinko and pachislot hall, each individual investment property and the horse sitting operation.

Pachinko and pachislot operation

For the six months ended 31 December 2021, the management regards CGU with operating loss for current period or operating profit below management's expectation (30 June 2021: Same) as impairment indicator. As a result, 8 CGUs (30 June 2021: 15 CGUs) were identified as showing indications of impairment. The management has reviewed the recoverability of the relevant carrying amounts of these CGUs.

The recoverable amount of a CGU is determined as the value-in-use or fair value less cost of disposal, whichever is higher.

The value-in-use calculations used pre-tax cash flow projections over the useful lives of CGUs, which based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using the estimated growth rates stated below.

The pre-tax cash flow forecasts of the CGUs adopted the multiple probability-weighted scenarios approach, whereas the key input was the assumed time length, ranging from half year to 2 years from 31 December 2021, for the revenue to resume to certain level, ranging from 75% to 85% of the pre-pandemic level, which was determined based on the circumstance of each CGU. Annual revenue growth rate over the remaining useful life is 0% (30 June 2021: Same): The pre-tax discount rate used to determine the recoverable amounts was 12.8% (30 June 2021: 12.5%).

The discount rate applied by the Group is the rate that reflected current market assessment of the time value of money and the risk specific to the CGUs. Revenue growth rates are based on past practices and expectations on market and operational development.

The fair value less cost of disposal calculations were carried out based on the valuations performed by management using the cost approach, which largely used observable and unobservable inputs, including unit price per square meter of sales comparables for land as well as replacement cost per square meter for buildings. The fair values of all CGUs subject to fair value less cost of disposal calculations are within level 3 of the fair value hierarchy.

The key assumptions used for fair value less costs of disposal calculations for the six months ended 31 December 2021 and year ended 30 June 2021 are as follows:

	31 December 2021	30 June 2021
Land — unit price per square meter	¥41,200–¥821,000	¥33,700–¥821,000
Building — replacement cost per square meter	¥60,000–¥283,000	¥75,494–¥283,000

For the six months ended 31 December 2021, as a result of the impairment review, impairment loss of approximately ¥35 million (six months ended 31 December 2020: ¥2 million), ¥281 million (six months ended 31 December 2020: ¥43 million) and ¥241 million (six months ended 31 December 2020: Nil) has been recognised on property, plant and equipment, right-of-use assets (Note 14) and intangible assets, respectively, under the pachinko and pachislot hall operation segment.

Property rental

The Group's investment properties were valued based on the valuations performed by management using the income approach, which largely used observable and unobservable inputs, including monthly rental per square meter, capitalisation rate, discount rate and vacancy rate after expiry of current lease, or the direct comparison approach, which largely used sales comparables occurred in the property market. The fair values of all investment properties are within level 3 of the fair value hierarchy.

The key assumptions used for fair value less costs of disposal calculations for the six months ended 31 December 2021 and year ended 30 June 2021 are as follows:

	31 December 2021	30 June 2021
Income approach		
Monthly rental per square meter	¥1,943–¥33,100	¥1,943–¥33,100
Capitalisation rate	5.0%–10.0%	5.0%–10.0%
Discount rate	5.8%–9.8%	5.8%–9.8%
Vacancy rate after expiry of current lease	0%–15.0%	0%–15.0%
Direct comparison approach		
Unit price per square meter	¥4,460–¥239,000	¥4,460–¥239,000

For the six months ended 31 December 2021, as a result of the impairment review, impairment loss of approximately ¥22 million (six months ended 31 December 2020: Nil) has been recognised on investment properties under the property rental segment.

14 LEASES

	(Unaudited) 31 December 2021 ***¥ million***	(Audited) 30 June 2021 *¥ million*
Right-of-use assets		
Land	**251**	423
Buildings	**3,087**	3,615
Leasehold improvements	**17**	20
Equipment and tools	**43**	46
	3,398	4,104
Lease liabilities		
Non-current	**8,375**	9,264
Current	**732**	848
	9,107	10,112

For the six months ended 31 December 2021, as a result of the impairment review, impairment loss of approximately ¥281 million (six months ended 31 December 2020: ¥43 million) had been recognised on right-of-use assets. Refer to Note 13 for details of the impairment review.

15 TRADE RECEIVABLES

	(Unaudited) 31 December 2021 ¥ million	(Audited) 30 June 2021 ¥ million
Trade receivables	**17**	19

Trade receivables represent commission income receivable from vending machines, lease receivables and income receivables from other operations. The credit terms granted by the Group generally ranged from 30 to 60 days.

The ageing analysis of the trade receivables, based on invoice date is as follows:

	(Unaudited) 31 December 2021 ¥ million	(Audited) 30 June 2021 ¥ million
Less than 30 days	**17**	19

16 SHARE CAPITAL AND RESERVE

	Number of shares *million*	Share capital *¥ million*
At 1 July 2020, 31 December 2020, 1 July 2021 and 31 December 2021	500	20,349

(a) Capital reserve

Capital reserve deficit of approximately ¥12,837 million represented (i) the difference between the carrying value of the business and the share capital of the Company upon formation of the Company and transfer of the 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.

(b) Legal reserve

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.

(c) Investment revaluation reserve

Investment revaluation reserve represents the cumulative net change in the fair value of financial assets through other comprehensive income held as at 31 December 2021 and 30 June 2021.

17 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice date as at 31 December 2021 and 30 June 2021 is as follows:

	(Unaudited) 31 December 2021 ***¥ million***	(Audited) 30 June 2021 *¥ million*
Less than 30 days	**12**	12

The carrying amounts of trade payables approximate their fair values as at 31 December 2021 and 30 June 2021 and were denominated in Japanese Yen.

18 EMPLOYEE BENEFIT OBLIGATIONS

	(Unaudited) 31 December 2021 ***¥ million***	(Audited) 30 June 2021 *¥ million*
Long term benefit obligation for Katsuya Yamamoto (Note)	**125**	92
Retirement benefit obligations for employees	**39**	38
	164	130

Note: As at 31 December 2021, long term benefit obligation for Katsuya Yamamoto represented the provision on the lump-sum payment made to him as a recognition of his contribution to the Group. The amount of provision was made according to his rank and years of service in the Group, using projected unit credit method. The defined benefit retirement plans of the Group were measured at present value which were 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.

19 BORROWINGS

	(Unaudited) 31 December 2021 *¥ million*	(Audited) 30 June 2021 *¥ million*
Non-current portion		
Bank loans	**3,631**	3,921
Loans from governmental financial institution	**707**	750
Bonds	**—**	32
	4,338	4,703
Current portion		
Bank loans	**715**	727
Loans from governmental financial institution	**42**	—
Bonds	**65**	65
	822	792
Total borrowings	**5,160**	5,495

20 COMMITMENTS

(a) Capital commitments

As at 31 December 2021 and 30 June 2021, the Group did not have any outstanding capital commitments.

(b) Operating lease commitments

(i) As a lessor

As at 31 December 2021 and 30 June 2021, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	(Unaudited) 31 December 2021 *¥ million*	(Audited) 30 June 2021 *¥ million*
No later than one year	**43**	52

21 RELATED PARTY TRANSACTIONS

For the purposes of the condensed consolidated interim 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.

(a) Outstanding balances arising from transactions with related parties

The following balances were outstanding at the end of the reporting period in relation to transactions with related parties:

	(Unaudited) 31 December 2021 ***¥ million***	(Audited) 30 June 2021 *¥ million*
Amount due to directors		
— Katsuya Yamamoto	**3**	2
— Fumihide Hamada	**2**	1
	5	3

(b) 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:

	(Unaudited) Six months ended 31 December	
	2021 ***¥ million***	2020 *¥ million*
Salaries and other short-term employee benefits	**44**	45

22 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 25 January 2022, the Group entered into an amendment agreement with the bond issuer and the guarantor to extend the maturity/redemption date of a bond with face value of ¥500 million for one year from 31 January 2022 to 31 January 2023. Save as disclosed above, other terms and conditions of the bond remain unchanged. The aforementioned bond, which was classified as financial assets held at amortised cost under current assets as at 31 December 2021, would be classified as non-current assets subsequent to the conclusion of the amended agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry and business review

We are a pachinko hall operator in Japan, operating mainly pachinko and pachislot machines. We currently operate 12 pachinko halls in the Kyushu, Kanto, Kansai and Chugoku regions in Japan under the trading names "Big Apple." and "K's Plaza".

As disclosed in previous interim reports and annual reports of the Company, the pachinko industry in Japan has been suffering a continuing contraction in recent years due to increasing competition from other forms of entertainment in Japan and the introduction of measures to curb the gaming element in pachinko and pachislot games. In particular, since the outbreak of the Coronavirus Disease 2019 ("**COVID-19**") in Japan in January 2020, the pachinko industry has been struggling to cope with further worsened business conditions which may accelerate the industry's decline.

As disclosed in the Company's interim report for the six months ended 31 December 2020 ("**6M2021**"), the Group's pachinko halls recorded a significant decline in pachinko and pachislot players due to the temporary closure of all entertainment facilities (including pachinko halls) in mid-April 2020 and May 2020, following the Japanese prefectural governments' attempts to contain the local spread of COVID-19 in Japan.

As all of the Group's pachinko halls have gradually resumed operations since June 2020, the number of pachinko and pachislot players at the Group's pachinko halls have steadily improved in 6M2022. During 6M2022, the Group observed a partial recovery of customer traffic at some of its pachinko halls, particularly those located in the Kyushu region. Notwithstanding the recovery of customer traffic at the pachinko halls, the Group had closed down three pachinko halls, namely Big Apple. Dazaifu hall located at 2–1–1, Ozano, Dazaifu-shi, Fukuoka Prefecture, Japan, Big Apple. Sumiyoshi hall located at 6–4, Sumiyoshimachi, Nagasaki-shi, Nagasaki Prefecture, Japan, and Monaco Sumiyoshi Honten hall located at 1–5, Sumiyoshimachi, Nagasaki-shi, Nagasaki Prefecture, Japan on 31 August 2021. The management considered that the closure of the aforementioned three pachinko halls will be more beneficial for the Group as the Group would be able to focus its resources on its other more promising pachinko halls by enhancing customer experience there and minimise further losses from business operations by closing down those with weaker performance. For further details, please refer to the announcement of the Company dated 31 August 2021.

Despite the closure of the aforementioned three pachinko halls, the Group has recorded a loss before income tax of approximately ¥362 million for 6M2022, as compared with a profit-making performance in 6M2021, which recorded a profit before income tax of approximately ¥36 million. The loss before income tax for 6M2022 as compared with the profit before income tax for 6M2021 was mainly attributable to (i) the recognition of impairment losses on the Group's property, plant and equipment, right-of-use assets and intangible assets in aggregate of approximately ¥557 million, taking into account the adverse market conditions of the pachinko industry and the continuing uncertainty in the business performance of the Group's pachinko halls caused by the prolonged impact of COVID-19 and its new variants in Japan, and (ii) the unrealised losses on the fair values of the Group's financial assets at fair value through profit or loss of approximately ¥253 million due to fluctuations in the market prices of the underlying assets in the Company's investments, which was partially offset by the gains on release of lease liabilities of approximately ¥392 million which arose from the termination of leases due to the closure of the Group's three pachinko halls with effect from 31 August 2021 as mentioned above.

Coping with obstacles and uncertainties from regulatory measures

As disclosed in the previous interim reports and annual reports of the Company, the "Regulations to Partially Amend Regulations on the Entertainment and Amusement Trades Rationalising Act and Regulations on Certifying Machines and Conducting Type Test on Machines" issued by the National Public Safety Commission of Japan on 1 February 2018 (the "**2018 Regulations**") has continued to have an adverse impact on the pachinko and pachislot industry in Japan by reducing the attractiveness of the game and contributing to the continuous decline of pachinko and pachislot players, as pachinko and pachislot machines with a higher gaming element are required to gradually phase out of the pachinko industry in batches by the end of January 2021. Pursuant to revisions of the 2018 Regulations in May 2020 and May 2021 (the "**Revised 2018 Regulations**"), the deadline of January 2021 for phasing out certain types of game machines has subsequently been extended to the end of January 2022, enabling pachinko hall operators more time to replace their pachinko and pachislot machines in order to meet the requirements of the 2018 Regulations. The phasing out and replacement of all pacinko and pachinko machines with a higher gaming element have been completed by the Group by the end of January 2022. The Group believes that the 2018 Regulations have contributed and will continue to contribute to the decline in customer traffic at its halls, due to the fact that the pachinko and pachislot machine replacements are not as appealing to pachinko and pachislot players as its predecessors.

As a result of the above, the Group's management has been striving to source the most attractive machines available in the market to provide a favourable mix of machines in the Group's pachinko halls to increase customer traffic for 6M2022. However, the Directors believe that the effect of such measures on customer traffic to pachinko halls remains to be seen amid the continuing COVID-19 pandemic.

Continuing to diversify the Group's revenue stream

As disclosed in previous interim reports and annual reports of the Company, the management has continuously been striving to establish alternative streams of income and diversify the Group's operations into different business segments. For the year ended 30 June 2021 ("**FY2021**"), the Group derived revenue from its pachinko hall business, its vending machines, its rental properties including but not limited to premises of commercial facilities and residential units, and its other operations such as the provision of horse-sitting services.

On 26 July 2018, the Company entered into two agreements pursuant to which the Company subscribed for two series of bonds issued by Sinwa Co., Ltd.* (株式会社しんわ) (the "**Bond Issuer**") in an aggregate amount of ¥1,000 million (the "**Bonds**"). On 25 January 2019, 24 January 2020, 25 January 2021 and 25 January 2022, the Company, the Bond Issuer and Everglory Capital Co., Ltd. (株式会社エバーグローリー•キャピタル) ("**Everglory Capital**") entered into amendment agreements to, among others, extend the maturity/redemption date of the second series of the Bonds (the "**2nd Series Bond**"), increase its interest rate and include Everglory Capital as a guarantor to guarantee the obligations of the Bond Issuer of its obligations under the 2nd Series Bond. On 30 July 2021, the Company, the Bond Issuer and Everglory Capital entered into an amendment agreement to, among others, extend the maturity/redemption date of the first series of the Bonds (the "**1st Series Bond**"), increase its interest rate for the extended period, and include Everglory Capital as a guarantor to guarantee the obligations of the Bond Issuer of its obligations under the 1st Series Bond. Such amendments enable the Group to extend its investment and generate more income from the Bonds, which constitutes a stable revenue stream for the Group. For details, please refer to the announcements of the Company dated 26 July 2018, 25 January 2019, 24 January 2020, 25 January 2021, 30 July 2021 and 25 January 2022 and the circular of the Company dated 29 October 2021.

On 31 August 2021, the Company has closed down its employment support centre for persons with neurodevelopmental disorders in Nagasaki City, Japan (the "**Nagasaki Centre**"), having considered the (i) unsatisfying financial performance of the Nagasaki Centre and (ii) the difficulty to attract and retain experienced staff in dealing with persons with neurodevelopmental disorders as well as potential job seekers. For details, please refer to the announcement of the Company dated 31 August 2021. The Company has also ceased the commencement of operations of the two employment support centres of the same nature in Hiroshima City, Japan as well as the operation of similar employment support centres in the future.

Market threats and prospects

Although 2020 and 2021 have been the challenging years for Japan's pachinko industry overall, the Group's operational and financial performance for 6M2022 has managed to recover slightly as a result of the management's efforts in prioritising the Group's resources in the recovery of customer traffic, ensuring continuous compliance with the Japanese government's measures to prevent and control the spread of COVID-19, and voluntarily implementing safety measures to ensure the health and safety of customers at its pachinko halls. The management will continue to adopt the above measures in order to encourage customer traffic and speed up the recovery of the Group's operations, while exploring new opportunities to diversify into other business segments to expand the Group's sources of revenue.

FINANCIAL REVIEW

Revenue

The Group's total revenue is comprised of revenue from (i) pachinko and pachislot hall business, being gross pay-ins less gross pay-outs, (ii) vending machine income, (iii) property rental and (iv) other operations relating to horse sitting services and employment support services. The Group's total revenue remained relatively stable at approximately ¥2,735 million for 6M2022 as compared with approximately ¥2,744 million for 6M2021 with the slight decrease of approximately ¥9 million.

During 6M2022, revenue from pachinko and pachislot business remained the majority source of income for the Company, accounting for approximately 90.5% of the total revenue (6M2021: 90.6%). The revenue from pachinko and pachislot business remained stable at approximately ¥2,474 million for 6M2022 as compared with approximately ¥2,485 million for 6M2021 despite an insignificant decrease of approximately ¥11 million due to the closure of the two pachinko halls and three pachinko halls on 10 May 2021 and 31 August 2021, respectively. For further details, please refer to the announcements of the Company dated 7 May 2021 and 31 August 2021.

The Group derived income from vending machines installed at its halls provided by vending machine operators under service agreements. The vending machines sell drinks and food and the Group shares a certain portion of income generated by such vending machines. The Group's vending machine income remained stable at approximately ¥44 million for 6M2022 as compared with approximately ¥47 million for 6M2021.

The Group derived rental income from renting out (i) premises to G-prize wholesalers, (ii) car parks, (iii) commercial facilities and (iv) residential units. Property rental income remained stable at approximately ¥183 million for 6M2022 as compared with approximately ¥175 million for 6M2021. The slight increase of approximately ¥8 million is due to the increase in properties rented out as commercial facilities and residential units following the acquisition of certain properties situated in Nagasaki City, Japan on 7 April 2021. For details, please refer to the announcement of the Company dated 7 April 2021.

The Group derived income from the provision of horse-sitting services and employment support services which commenced in June 2019 and June 2020, respectively. Such income remained stable at approximately ¥34 million for 6M2022 as compared with approximately ¥37 million for 6M2021. The slight decrease of approximately ¥3 million is due to the closure of the Nagasaki Centre on 31 August 2021 as mentioned above.

Gross pay-ins

The Group's gross pay-ins represent the gross amount received from customers for rental of pachinko balls and pachislot tokens. Gross pay-ins are primarily affected by the level of customer spending at the Group's pachinko and pachislot halls. The Group's accounting policy recognises gross pay-ins net of consumption tax. The consumption tax rate in Japan was 10% during 6M2022.

The Group's gross pay-ins remained relatively stable at approximately ¥12,235 million for 6M2022 as compared with approximately ¥12,285 million for 6M2021. The slight decrease in gross pay-ins of approximately ¥50 million was due to the overall decline in customer traffic at the Group's pachinko and pachislot halls due to closure of two pachinko halls and three pachinko halls on 10 May 2021 and 31 August 2021, respectively, as explained above.

Gross pay-outs

The Group's gross pay-outs represent the aggregate cost of G-prizes and general prizes exchanged by the Group's customers. Gross pay-outs remained relatively stable at approximately ¥9,761 million for 6M2022 as compared with approximately ¥9,800 million for 6M2021. The slight decrease of approximately ¥39 million was a result of the drop in gross pay-ins for the reasons mentioned above.

Revenue margin

Revenue margin for the Group's pachinko and pachislot business represented the Group's revenue from pachinko and pachislot hall business divided by gross pay-ins. The level of revenue margin is dependent on the combination of the payout ratio of the pachinko and pachislot machines, the G-prize mark-up imposed and the mix of pachinko and pachislot machines with different jackpot probability in the Group's halls, and as a result of the resultant changes in customer behavior (i.e., rounds of play and machine utilisation). The Group's revenue margin remained stable at approximately 20.2% for both 6M2022 and 6M2021.

Other income

The Group's other income is mainly comprised of (i) income from scrap sales of used pachinko and pachislot machines to machines broker for reselling in the second-hand market, (ii) dividend income, (iii) income from expired IC card and (iv) other income sources, which mainly included income from forfeited pachinko balls and pachislot tokens.

Other income increased by approximately ¥67 million, or approximately 45.3%, from approximately ¥148 million for 6M2021 to approximately ¥215 million for 6M2022, mainly due to (i) an increase in income from scrap sales of used pachinko machines by approximately ¥77 million as a result of replacing the old pachinko and pachislot machines during 6M2022 to comply with the Revised 2018 Regulations of phasing out the pachinko and pachislot machines with a higher gaming element by the end of January 2022 as mentioned above and (ii) an increase in other income sources by approximately ¥11 million, or approximately 61.1% from approximately ¥18 million for 6M2021 to approximately ¥29 million for 6M2022. This is offset by the Group's non-receipt of any employment adjustment subsidy for those who have been affected by COVID-19 in 6M2022 as opposed to 6M2021 during which the Group had received approximately ¥22 million as income from government subsidies related to COVID-19.

Other net gains

Other net gains are mainly comprised of (i) gain on release of lease liabilities, (ii) net exchange gains/losses, (iii) gains/losses on fair value changes on financial assets at fair value through profit or loss, (iv) provision for impairment loss of investment properties, (v) losses on write-off of property, plant and equipment, (vi) gains on disposal of financial assets at fair value through profit or loss and (vii) other gains which are mainly comprised of insurance claims.

Other net gains increased by approximately ¥107 million, or approximately 356.7%, from approximately ¥30 million in 6M2021 to approximately ¥137 million in 6M2022, primarily due to the recognition of gains on release of lease liabilities of approximately ¥392 million, which arose from the termination of leases due to the closure of the Group's three pachinko halls with effect from 31 August 2021 as mentioned above, which is partially offset by the unrealised losses on the fair value changes of the Group's financial assets at fair value through profit or loss of approximately ¥253 million in 6M2022 as compared with the unrealised gains of approximately ¥25 million in 6M2021 due to fluctuations in market prices of underlying assets in the Company's investments.

Hall operating expenses and administrative and other operating expenses

Hall operating expenses increased by approximately ¥581 million, or approximately 24.4%, from approximately ¥2,384 million for 6M2021 to approximately ¥2,965 million for 6M2022. This is primarily due to (i) the increase in pachinko and pachislot machine expenses by approximately ¥246 million, as a result of the replacement of pachinko and pachislot machines to comply with the Revised 2018 Regulations as mentioned above, (ii) the increase in provision for impairment loss of right-of-use assets of approximately ¥238 million, (iii) the increase in provision for impairment loss of property, plant and equipment of approximately ¥33 million and (iv) the increase in provision for impairment loss of intangible assets of approximately ¥241 million. This is offset by (i) the decrease in employee benefit expenses of approximately ¥84 million; (ii) the decrease in depreciation and amortisation of approximately ¥23 million; (iii) the decrease in outsourcing service expenses of approximately ¥26 million and (iv) the decrease in utilities expenses of approximately ¥24 million. The increase in provision for impairment loss of right-of-use assets, property, plant and equipment and intangible assets (the "**Group's Assets**") as mentioned above were mainly because the Group recognised impairment loss for the Group's Assets as at 31 December 2021, taking into account the adverse market conditions of the pachinko industry and the continuing uncertainty in the business performance of the Group's pachinko halls caused by the prolonged impact of COVID-19 and its new variants in Japan.

Administrative and other operating expenses remained stable at approximately ¥401 million for 6M2022 as compared with approximately ¥394 million for 6M2021. The slight increase of approximately ¥7 million was due to increase in professional services for 6M2022.

Impairment loss for cash-generating units

The International Accounting Standard 36 "Impairment of Assets" ("**IAS 36**") requires that assets be carried at no more than their recoverable amount. If an asset's carrying value exceeds the amount that could be received through use or selling the asset, then the asset is impaired and IAS 36 requires a company to make provision for the impairment loss. The Group's management carries out impairment assessment when there are events that indicate that the related asset values may not be recoverable, and when impairment indicators exist for the Group's cash-generating units ("**CGUs**").

As disclosed in the Company's annual report for FY2021, the Group's management updated the Group's impairment indicator to operating loss for current period or with operating profit below budget after taking into account the increased uncertainty in the market caused by the prolonged impact of COVID-19, the increasingly competitive landscape, shrinking market size of the pachinko industry and the Group's financial performance for 6M2022. For 6M2022, the Company continued to apply the aforementioned impairment indicator and the management identified eight CGUs (FY2021: 15 CGUs) had resulted in operating loss or had performed below budget for

6M2022, and therefore the management considered there were impairment indications for these CGUs. The management accordingly performed impairment assessment to assess the recoverable amounts of these CGUs.

The recoverable amounts of the eight CGUs identified by the Group were determined by using the higher of their value-in-use and fair value less cost of disposal as mentioned below. Accordingly, the recoverable amounts of four CGUs were determined by their value-in-use, and the remaining four CGUs with significant self-owned properties were determined by their fair value less cost of disposal. As a result, for 6M2022, the Group recorded provisions for impairment losses of approximately ¥35 million, ¥281 million and ¥241 million on property, plant and equipment, right-of-use assets, and intangible assets, respectively.

Value-in-use approach

The value-in-use calculations were based on future cash flow forecasts of the CGUs adopted under the multiple probability weighted scenarios approach.

The value of inputs and key assumptions used by the management under the value-in-use approach included the following:

(i) the revenue growth of the Group is 0% after its operations has resumed to the certain level of the pre-COVID-19 level;

(ii) discount rate is 12.8%; and

(iii) there is no change in size and scale of the Group's operations.

There are no significant changes in the value of the inputs and assumptions from those previously adopted in FY2021.

Fair value less cost of disposal approach

The recoverable amounts of the four CGUs with significant self-owned properties were determined based on fair value less cost of disposal calculations performed by the Group's management based on their estimation. It is considered that the cost approach, which focuses on cost by deducting depreciation from the replacement cost and uses observable and unobservable inputs such as sales comparables per square metre for land and estimation of useful life and construction costs for buildings, is a more suitable calculation approach as the rental market for subject assets of similar characteristics is not active. Accordingly, the cost approach was adopted to determine the recoverable amounts of the aforesaid four CGUs.

Value of inputs and key assumptions

By using the cost approach, the management considered the expected useful life of the CGUs, the incidental expenses for land and buildings and construction costs of similar buildings.

No subsequent changes to the valuation methods adopted

Save as disclosed above, there have been no changes to the valuation methods (including valuation assumptions) adopted in relation to impairment testing.

Loss before income tax

Loss before income tax amounted to approximately ¥362 million for 6M2022, as compared with the profit before income tax of approximately ¥36 million for 6M2021. This is mainly attributable to (i) the recognition of provision for impairment losses on the Group's right-of-use assets, property, plant and equipment and intangible assets and (ii) the unrealised losses on the fair value changes of the Group's financial assets at fair value through profit or loss, which was partially offset by the gains on release of lease liabilities, as aforementioned.

Loss for the period attributable to shareholders of the Company

Loss for period attributable to shareholders of the Company amounted to approximately ¥333 million for 6M2022, as compared with the profit for the period attributable to shareholders of the Company of approximately ¥23 million for 6M2021. This was mainly due to the reasons mentioned in the paragraph headed "Loss before income tax" above.

ANALYSIS OF FINANCIAL POSITION

LIQUIDITY AND FINANCIAL RESOURCES

The Company's primary uses of cash are for the payment of hall operating expenses, staff costs, various operating expenses, fund and repayments of its interest and principal of bank borrowings and capital expenditure. These have been funded through a combination of cash generated from operations and borrowings.

As at 31 December 2021, the Company had total borrowings of approximately ¥5,160 million (30 June 2021: approximately ¥5,495 million), of which approximately 84.2% represented bank borrowings, approximately 14.5% represented loans from governmental financial institution, and approximately 1.3% represented bonds. The Company's borrowings are all denominated in Japanese Yen.

Investment policy

The Group adopted a treasury and investment policy for financial assets that sets out overall principles as well as detailed approval processes of the Group's 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 are to diversify the Group's investments and control their risk;
- investments should be undertaken only in situations where the Group has 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.

The Group's finance division is responsible for the initial assessment and analysis on the expected benefit and potential risk of the Group's investment activities and compiling of relevant data and information from banks. The Group's 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, the Group's 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 before the execution or disposal of any investment. The Group's finance division is also responsible for reporting the status of the Group's investment activities to the Directors regularly. The report should include the total investment return.

Funding and treasury policy

The Group has adopted a prudent financial management approach towards its funding and treasury policy and thus maintained a healthy liquidity position for 6M2022. To manage the liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time. For 6M2022, the Group did not use any risk hedging instrument.

Cash and cash equivalents

As at 31 December 2021, the Company had cash and cash equivalents of approximately ¥1,607 million (30 June 2021: approximately ¥2,617 million), and short-term bank deposits of approximately ¥100 million (30 June 2021: approximately ¥100 million). The Company's cash and cash equivalents and short-term bank deposits are denominated in Japanese Yen, US Dollar and HK Dollar.

Capital structure

For 6M2022, there has been no change to the Group's capital structure. As at 31 December 2021, the capital structure of the Group comprised share capital and reserves. As at 31 December 2021, equity attributable to shareholders of the Company amounted to approximately ¥3,147 million (30 June 2021: approximately ¥3,477 million). As at 31 December 2021, total assets of the Group amounted to approximately ¥19,435 million (30 June 2021: approximately ¥21,324 million).

Borrowings

The following table illustrates the maturity profile of the Group's borrowings:

	As at 31 December 2021		As at 30 June 2021	
	¥ million	***%***	*¥ million*	*%*
Within 1 year	**822**	**15.9**	792	14.4
Between 1 year and 2 years	**665**	**12.9**	738	13.4
Between 2 years and 5 years	**1,992**	**38.6**	1,992	36.3
Over 5 years	**1,681**	**32.6**	1,973	35.9
	5,160	**100**	5,495	100

As illustrated above, the proportion of the Group's borrowings repayable within 1 year, and repayable in between 2 years and 5 years increased, while the borrowings repayable in between 1 year and 2 years, and repayable over 5 years decreased. The change of maturity profile of our borrowings was primarily due to the repayment of borrowings. As at 31 December 2021, the Group's borrowings of approximately ¥2,503 million were subject to a fixed interest rate.

Bonds

The Group issued its bond on 13 March 2019 in the principal amount of ¥260 million. The value of the outstanding bond issued by the Group as at 31 December 2021 amounted to approximately ¥65 million (30 June 2021: approximately ¥97 million). No new bond was issued during 6M2022 as no details will be disclosed in the condensed consolidated interim financial information in this announcement.

Pledged assets

As at 31 December 2021, the Company pledged assets, including (i) property, plant and equipment, (ii) investment properties and (iii) listed securities, in the sum of approximately ¥6,943 million (30 June 2021: approximately ¥7,004 million) to secure certain general banking facilities of the Group. The decrease in pledged assets was primarily attributable to the decrease in carrying amount of the underlying assets as a result of depreciation.

Gearing ratio

The gearing ratio, being the aggregate of interest-bearing loans and lease liabilities less cash and cash equivalents divided by total equity of the Company, was approximately 80.1% as at 31 December 2021 (30 June 2021: approximately 78.9%). The increase of 1.2% was mainly attributable to the drop in cash and cash equivalents.

Interest rate and foreign exchange exposure

The Group is exposed to interest rate risk as its bank balances and some of its bank borrowings are carried at variable rates. The Group manages its interest rate exposure with a focus on reducing its overall cost of debt and exposure to changes in interest rates. During 6M2022, the Group did not use any hedge instrument or interest rate swap to manage its interest rate exposure.

The Group operates in Japan and its business transactions are principally denominated in Japanese Yen. However, it is exposed to foreign exchange risks associated with United States Dollars for expenses it incurs in such currency. The Group's finance division monitors the Group's foreign exchange fluctuation exposure closely. In light of the continued fluctuation of Japanese Yen against United States Dollars in recent years, the Group will continue to look for opportunities to manage its exposures in United States Dollars by maintaining significant amount of its cash and bank balances in Japanese Yen.

Contractual and capital commitments

As a lessor, the Group had future aggregate minimum lease receipts under noncancellable operating leases as follows:

	As a lessor	
	As at 31 December 2021	As at 30 June 2021
	¥ million	*¥ million*
Not later than 1 year	**43**	52

As at 31 December 2021, the Group did not have any capital commitments which were contracted but not provided for in respect of purchase of property, plant and equipment (30 June 2021: nil).

Capital expenditures

For 6M2022, the Group's capital expenditures solely consisted of expenditures for property, plant and equipment for its operations. The Group incurred capital expenditures of approximately ¥228 million for 6M2022 (6M2021: approximately ¥39 million), a majority of which came from equipment and fixtures for its pachinko halls. The increase in capital expenditures was due to the renovation of the pachinko hall named "Big Apple. Akihabara" which took place in July 2021. These capital expenditures were financed by the Group's internal funds.

Contingent liabilities

As at 31 December 2021, the Company did not have any material contingent liabilities or guarantees.

SIGNIFICANT INVESTMENTS

As at 31 December 2021, the Group held investments primarily in investment properties of approximately ¥3,155 million, which represented land and premises situated in Japan and rented out under operating leases, and financial assets of approximately ¥1,619 million, which represented bonds including the bonds issued by the Bond Issuer, trust funds, and listed and unlisted securities. As at 31 December 2021, save as the 1st Series Bond and the 2nd Series Bond which in aggregate constituted 5.1% of the Company's total assets, the Group did not hold any other significant investment with a value of 5% or more of the Company's total assets.

Investment properties

The Group's investment properties comprise of properties for office, residential and parking purposes which are rented out under operating leases and held by the Company for long-term rental yields. All of the Group's investment properties are stated at historical cost less accumulated depreciation and impairment losses. Impairment loss will be recognised by the Group where the valuation results indicate that the carrying amount of the investment properties exceed its recoverable amount. Impairment loss of approximately ¥22 million was recognised on the Group's investment properties for 6M2022 (6M2021: nil). The recoverable amounts for investment properties are stated at fair value less cost of disposal based on valuations performed by management. The valuation was determined using the income approach or the sales comparison approach. The fair values of all investment properties are within level 3 of the fair value hierarchy.

The valuation of the Group's investment properties are dependent on various key assumptions and inputs, including but not limited to (i) the monthly rental per square meter of the investment property, (ii) a capitalisation rate of 5.0% to 10.0% based on that of similar properties, interviews with real estate investors and various published indices, (iii) a discount rate of 5.8% to 9.8% derived by adding risks premiums to the base rate and using the band of investment method, (iv) the vacancy rate after expiry of the lease terms of the investment property, and (v) the unit price per square meter of the investment property based on sales comparables occurred in the property market.

Save as disclosed herein, there have been no significant changes in the value of inputs or key assumptions adopted and no subsequent changes to the valuation methods adopted.

Financial assets

In relation to the Group's financial assets, the Group recorded a loss of approximately ¥253 million for the fair value changes on financial assets at fair value through profit or loss in 6M2022 as opposed to a gain of approximately ¥25 million in 6M2021 which is primarily attributable to fluctuations in the market prices of the underlying assets in the Company's investments, and there has been no default or any impairment made to any debt securities held by the Group, during 6M2022. Although changes in market conditions will continue to result in fair value gains or losses from financial assets, the Directors are of the view that the investment in financial assets will help to increase the average yield earned from the excess funds from the Group's business overall. To the best of their knowledge and as at the date of this announcement, the Directors do not foresee any default or any impairment to be made to any financial assets held by the Group.

Furthermore, as disclosed in the previous interim reports and annual reports of the Company, on 26 July 2018, the Company entered into two agreements with the Bond Issuer, pursuant to which the Company subscribed for two series of Bonds at face value issued by the Bond Issuer, in an aggregate amount of ¥1,000 million. The Bond Issuer is a company incorporated under the laws of Japan and headquartered in Fukuoka, Japan, engaging in the business of commercial and consumer finance. Completion of the subscription of such Bonds took place on 27 July 2018. On 25 January 2019, the Company, the Bond Issuer and Everglory Capital entered into an amendment agreement to, among others, extend the maturity/redemption date of the 2nd Series Bond and include Everglory Capital as a guarantor to guarantee the obligations of the Bond Issuer of its obligations under the 2nd Series Bond. On 24 January 2020, the Company, the Bond Issuer and Everglory Capital entered into an agreement to further extend the maturity/redemption date of the 2nd Series Bond and increase its interest rate for the extended period. On 25 January 2021, the Company, the Bond Issuer and Everglory Capital entered into an amendment agreement to further extend the maturity/redemption date of the 2nd Series Bond. On 30 July 2021, the Company, the Bond Issuer and Everglory Capital entered into an amendment agreement to, among others, extend the maturity/redemption date of the 1st Series Bond, increase its interest rate for the extended period, and include Everglory Capital as a guarantor to guarantee the obligations of the Bond Issuer of its obligations under the 1st Series Bond. On 25 January 2022, the Company, the Bond Issuer and Everglory Capital entered into an amendment agreement to further extend the maturity/redemption date of the 2nd Series Bond. For details, please refer to the announcements of the Company dated 26 July 2018, 25 January 2019, 24 January 2020, 25 January 2021, 30 July 2021 and 25 January 2022 and the circular of the Company dated 29 October 2021.

As at 31 December 2021, the fair value of each of the 1st Series Bond and the 2nd Series Bond is ¥500 million, which in aggregate constitutes 5.1% of the Company's total assets. There is no change to the fair value of each of the 1st Series Bond and the 2nd Series Bond for 6M2022 as they are calculated at amortised cost. For 6M2022, the amount of interest earned by the Group under each of the 1st Series Bond and the 2nd Series Bond is approximately ¥10 million and ¥10 million, respectively.

The Company expects that the subscription of the Bonds will allow the Group to earn a higher yield. In light of the ongoing uncertainty in the pachinko industry, which has been worsened by the outbreak of COVID-19 as mentioned above, the Directors consider the additional amount of interest to be received by the Group pursuant to the extension of the maturity/redemption date and/or change of interest rate (as the case may be) of the 1st Series Bond and the 2nd Series Bond will continue to generate a stable source of cash flow and income for the Group, which is beneficial to the Group's financial position, particularly when the Group's pachinko business has been struggling to cope with the continuing disruption caused by COVID-19.

Save as disclosed herein, the Group did not hold any significant investments as at 31 December 2021.

HUMAN RESOURCES

Employees and remuneration policies

As at 31 December 2021, the Group had 392 employees (31 December 2020: 515 employees), almost all of whom were based in Japan, and of whom 344 were stationed at the Group's pachinko halls. For newly recruited employees, we prepared a series of training sessions which mainly focuses on pachinko hall operations and customer service. Upon appointment of every three years, as required by the Public Safety Commission, each hall manager is required to attend the training course conducted by the Public Safety Commission.

The staff costs include all salaries and benefits payable to the Group's employees and staff, including the Directors. The total staff costs for 6M2022 amounted to approximately ¥620 million (6M2021: approximately ¥709 million), which accounted for approximately 18.4% (6M2021: approximately 25.5%) of the total operating expenses, including the remuneration of the Directors.

The Directors and employees receive compensation in the form of salaries, and where applicable, allowances, bonuses and other benefits-in-kind, including the Group's contribution to the pension scheme. The Company's policy concerning the remuneration of the Directors and employees is that the amount of remuneration is determined on the basis of the relevant Director's or employee's experience, responsibility, performance and the time devoted to the Group's business.

Apart from basic remuneration, share options may be granted to individual Directors and employees under the share option scheme (the "**Share Option Scheme**") adopted by the Company on 10 April 2017, by reference to their performance.

The Share Option Scheme

On 10 April 2017, the Company adopted the Share Option Scheme. The principal terms of the Share Option Scheme were summarised in the paragraph headed "Statutory and General Information — F. Share Option Scheme" in Appendix VI to the prospectus of the Company (the "**Prospectus**").

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and providing benefits to eligible participants and for such other purposes as the Board approves from time to time.

Since the adoption of the Share Option Scheme, and up to the date of this announcement, no option was granted, exercised, cancelled or lapsed under the Share Option Scheme.

ISSUE FOR CASH OF EQUITY SECURITIES

During 6M2022, the Company did not issue for cash any equity securities (including securities convertible into equity securities).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During 6M2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MATERIAL ACQUISITIONS AND/OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During 6M2022, the Group did not conduct any material acquisitions or disposals of subsidiaries, associates and joint ventures.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

On 25 January 2022, the Company, the Bond Issuer and Everglory Capital entered into a fourth amendment agreement to the 2nd Series Bond Agreement dated 26 July 2018, among others, the parties agreed to further extend the maturity/redemption date of the 2nd Series Bond from 31 January 2022 to 31 January 2023. For details, please refer to the Company's announcement dated 25 January 2022.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL INVESTMENTS

Save for those disclosed in this announcement and the Prospectus, the Group has no plan authorised by the Board for other material investments or additions of capital assets as at the date of this announcement.

INTERIM DIVIDEND

No interim dividend for 6M2022 has been recommended by the Board.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information and the interim results announcement for 6M2022 and discussed the financial related matters with the management. The unaudited condensed consolidated interim financial information of the Group for 6M2022 has not been reviewed by the Company's auditor, PricewaterhouseCoopers.

CORPORATE GOVERNANCE

The Directors consider that the Company has applied the principles of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and complied with the code provisions, where applicable, during 6M2022 as set out in the CG Code, except for the following deviation:

Code Provision A.2.1

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. For the Group, Mr. Katsuya YAMAMOTO holds both of such positions. Mr. Katsuya YAMAMOTO has been primarily responsible for overseeing the Group's general management and business development and for formulating business strategies and policies for the Group's business management and operations since the Group was founded in 1984. Taking into account the continuation of management and the implementation of the Group's business strategies, the Directors (including the independent non-executive Directors) consider that it is suitable for Mr. Katsuya YAMAMOTO to hold both of the positions of chief executive officer and the chairman of the Board, and the present arrangements are beneficial to and in the interests of the Company and its shareholders as a whole.

The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that (i) the decision to be made by the Board requires approval by at least a majority of the Directors, and the Company believes that there is sufficient check and balance in the Board, (ii) Mr. Katsuya YAMAMOTO and other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that they act for the benefit and in the best interests of the Company and will make decisions for the Group accordingly, and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategies and other key business, financial, and operational policies of the Group are made collectively after thorough discussion at both Board and senior management levels. The Board will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether separation of the roles of chairman of the Board and chief executive is necessary. The Directors strive to achieve a high standard of corporate governance (which is of critical importance to the Group's development) to protect the interest of shareholders of the Company.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the required standards for securities transactions by the Directors. Specific enquiries have been made to all the Directors and all Directors have confirmed that they had complied with the required standards, where applicable, set out in the Model Code for 6M2022.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.okura-holdings.com. The interim report of the Company for 6M2022 will be despatched to the Company's shareholders and published on the aforesaid websites in due course.

By Order of the Board
Okura Holdings Limited
Katsuya YAMAMOTO
Chief Executive Officer, Executive Director and Chairman of the Board

Hong Kong, 25 February 2022

As at the date of this announcement, the Board comprises six Directors, of which (i) three are executive Directors, namely Mr. Katsuya YAMAMOTO, Mr. Yutaka KAGAWA and Mr. Toshiro OE; and (ii) three are independent non-executive Directors, namely Mr. Mitsuru ISHII, Mr. Yuji MATSUZAKI and Mr. Kazuyuki YOSHIDA.

* *For identification purpose only*