INTERIM
REPORT
2018-2019

OKURA HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

Stock Code : 1655

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Katsuya Yamamoto (Chairman)
Mr. Fumihide Hamada
Mr. Yutaka Kagawa
Mr. Toshiro Oe

Independent Non-executive Directors

Mr. Mitsuru Ishii
Mr. Yuji Matsuzaki
Mr. Kazuyuki Yoshida

COMPANY SECRETARY

Mr. Man Yun Wah ACIS, ACS, MCG

AUDIT COMMITTEE

Mr. Kazuyuki Yoshida (Chairman)
Mr. Mitsuru Ishii
Mr. Yuji Matsuzaki

REMUNERATION COMMITTEE

Mr. Kazuyuki Yoshida (Chairman)
Mr. Mitsuru Ishii
Mr. Yuji Matsuzaki
Mr. Katsuya Yamamoto
Mr. Yutaka Kagawa

NOMINATION COMMITTEE

Mr. Katsuya Yamamoto (Chairman)
Mr. Kazuyuki Yoshida
Mr. Mitsuru Ishii
Mr. Yuji Matsuzaki
Mr. Yutaka Kagawa

RISK MANAGEMENT COMMITTEE

Mr. Fumihide Hamada (Chairman)
Mr. Yutaka Kagawa
Mr. Toshiro Oe
Mr. Satoshi Maeda
Mr. Koji Nakao
Mr. Hayato Tobisawa
Mr. Junichi Hitomi
Mr. Shota Miyano
Mr. Seiji Otofuji
Mr. Masayuki Sakata
Mr. Fumihiko Tanaka
Mr. Shuntaro Honda

AUTHORISED REPRESENTATIVES

Mr. Kazuyuki Yoshida
Mr. Man Yun Wah ACIS, ACS, MCG

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

Corporate Information

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

HONG KONG SHARE REGISTRAR

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

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central, Hong Kong

HONG KONG LEGAL ADVISOR

H.M. Chan & Co
in association with Taylor Wessing
21/F, 8 Queen's Road Central
Hong Kong

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

1655

COMPANY'S WEBSITE

www.okura-holdings.com

Management Discussion and Analysis

INDUSTRY AND BUSINESS REVIEW

We, Okura Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**"), are a pachinko hall operator in Japan, operating mainly pachinko and pachislot machines. As at 31 December 2018, we operated 17 pachinko halls under the trading names "Big Apple.", "K's Plaza", "Big Apple. YOUPARK" and "Monaco".

The pachinko and pachislot industry has continued to be affected by the continuous decline in pachinko and pachislot players during 6M2018. As disclosed in the Group's annual report for the year ended 30 June 2018 ("**FY2018**"), 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 of Japan on 1 February 2018 (the "**2018 Regulations**"), which limited the gaming element of both pachinko and pachislot machines, reduced the attractiveness of the game and hence reduced customer traffic.

As a result of the 2018 Regulations and the general decline in the gaming atmosphere of the industry, pachinko manufacturers were reluctant to release new machines and pachinko hall operators' selection of machines were limited by the machines available in the market. Faced with the rising regulatory pressure and tough operating landscape, the overall pachinko industry is expected to shrink further. According to an independent market research report relating to the latest pachinko industry movement issued in January 2019 by Yano Research Institute Limited, a private market research and consulting firm independent of the Company, the number of pachinko hall operators have been decreasing at an accelerated rate since 2015.

Focusing our resources in maintaining customer attractiveness of our pachinko and pachislot halls

Against such background, the Group had been streamlining its corporate structure and its operations by closing the loss-making BA. Kamata Hall in April 2018, which contributed an operating loss in 6M2017, and dissolving inefficient operating subsidiaries in the Group structure in January 2018 and January 2019. In addition, despite the 2018 Regulations and the general market reluctance in replacing pachinko and pachislot machines, we continued our efforts to keep our pachinko and pachislot machines up-to-date, albeit at a slower turnover rate. Following all these initiatives, our hall operating expenses decreased from approximately ¥4,881 million for 6M2017 to approximately ¥3,613 million for 6M2018. As mentioned in the Group's annual results for FY2018, to maintain our customer base, we temporarily closed three pachinko halls for renovation, facilities upgrade and changing of machine mix in July 2017, which resulted in an improvement in customer traffic and revenue in those halls. Our recently opened halls have also performed better in 6M2018. In particular, our BA. Dejima Hall in Nagasaki which commenced operations in September 2017 contributed approximately ¥206 million to our revenue in 6M2018. Our management believes its well-equipped facilities and prime location have attracted satisfactory customer traffic and we will continue to monitor the performance of our pachinko halls and decide on the renovation and upgrade plans for our pachinko halls as appropriate.

Adopting alternative means to increase our cash flow

During 6M2018, we also explored alternative means to increase our cash flow and income. Taking into account the appreciation of U.S. dollars against Japanese Yen, we entered into a subscription agreement with Sinwa Co., Ltd.* (株式会社しんわ) (the "**Bond Issuer**") in July 2018 pursuant to which we subscribed for two series of bonds at face value to be issued by the Bond Issuer, in an aggregate amount of ¥1,000 million (the "**Bonds**"). Our directors (the "**Directors**") considered it beneficial for the Group to earn a higher yield. For details, please refer to the Company's announcement dated 26 July 2018. In January 2019, the maturity date of the subscription agreement was further extended which could generate additional amount of interest to be received by the Group. For details, please refer to the Company's announcement dated 25 January 2019.

Market threats and prospects

The longstanding declining trend and the intensifying competition of the pachinko industry in Japan present both threats and opportunities for our business. Adverse regulatory environment had undoubtedly reduced the attractiveness of pachinko and pachislot machines. However, as a result of the Group's continued effort to streamline our operations and seek alternative means to increase our income, our financial performance for 6M2018 has improved, with our profit before income tax having increased by approximately ¥150 million from approximately ¥180 million in 6M2017 to approximately ¥330 million in 6M2018.

There is no certainty as to how the Japanese government and the industry associations will further regulate the pachinko and pachislot industry. In particular, it is expected that the 2018 Regulations will cause popular pachinko machines to phase out from the industry by 2021 and the cost of acquiring new pachinko machines will increase. To manage our costs in replacing pachinko machines in compliant with the 2018 Regulations, the Group actively communicates with pachinko machine manufacturers and have adopted a plan to phase out pachinko machines that are non-compliant with the 2018 Regulations in stages.

The Group will continue to monitor market changes and is determined to enhance operation efficiency and capture market consolidation opportunities that come along. With our streamlined operation structure and responsive management style, we are confident in weathering through short-term volatilities and continue expanding our operations in a sustainable manner.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

Our total revenue comprised revenue from (i) pachinko and pachislot business, being gross pay-ins less gross pay-outs, (ii) vending machine income, and (iii) property rental. During 6M2018, revenue from pachinko and pachislot business remained the majority source of income for the Company, accounting for approximately 95.2% of the total revenue (6M2017: 94.7%). Our total revenue decreased by approximately 7.5%, from approximately ¥4,514 million for 6M2017, to approximately ¥4,176 million for 6M2018. This decrease was mainly a result of the decrease in approximately 7.0% in revenue generated from our overall pachinko and pachislot business, from approximately ¥4,275 million for 6M2017 to approximately ¥3,974 million for 6M2018. The decrease in revenue from pachinko and pachislot business was primarily due to the closure of the BA. Nagasaki Hall and the BA. Kamata Hall in February 2018 and April 2018, respectively, and the overall decrease in customer traffic in our other pachinko halls, partially offset by the increase in revenue of approximately ¥218 million from our BA. Dejima Hall and our BA. Shunan Hall.

We derived income from vending machines installed at our halls provided by vending machine operators under service agreements. The vending machines sell drinks and food and we share a certain portion of income generated by such vending machines. Our vending machine income decreased by approximately ¥6 million, or approximately 8.5%, from approximately ¥71 million in 6M2017 to approximately ¥65 million in 6M2018, primarily due to the decrease in customer traffic mainly resulted from the closure of the BA. Nagasaki Hall and the BA. Kamata Hall.

We derived rental income from renting out (i) premises to G-prize wholesalers, (ii) car parks, (iii) offices and (iv) residential units. Property rental income decreased by approximately ¥31 million, or approximately 18.5%, from approximately ¥168 million in 6M2017 to approximately ¥137 million in 6M2018, due to the decrease in the area of property rented out as result of the closure of the BA. Nagasaki Hall and the BA. Kamata Hall, as well as the reduction of rental rates, in line with the prevailing rental market.

Gross pay-ins

Our gross pay-ins represent 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. Our accounting policy recognises gross pay-ins net of consumption tax. The consumption tax rate is 8% in Japan.

Our gross pay-ins recorded a decrease of approximately ¥1,279 million, or approximately 6.7%, from approximately ¥18,993 million for 6M2017 to approximately ¥17,714 million for 6M2018, which was mainly due to the same reasons that resulted in the decrease in our revenue from pachinko and pachislot business as mentioned above.

Management Discussion and Analysis

Gross pay-outs

Our gross pay-outs represent the aggregate cost of G-prizes and general prizes exchanged by our customers, taking into consideration the G-prize mark-up and the value of any unutilised balls and tokens during the relevant period. Gross pay-outs recorded a decrease of approximately ¥978 million, or approximately 6.6%, from approximately ¥14,718 million in 6M2017 to approximately ¥13,740 million in 6M2018 as a result of the decrease in customer traffic as reflected by the drop in gross pay-ins for the reasons mentioned above.

Revenue margin

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 our halls, and as a result of the resultant changes in customer behavior (i.e. rounds of play and machine utilisation). Our revenue margin remained relatively stable at approximately 22.5% in 6M2017 and approximately 22.4% in 6M2018.

Other income

Our other income mainly comprised (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) other income sources, which mainly included income from forfeited pachinko balls and pachislot tokens.

Other income decreased by approximately ¥171 million, or approximately 40.1%, from approximately ¥426 million in 6M2017 to approximately ¥255 million in 6M2018, mainly due to decrease in income from scrap sales of used pachinko machines from approximately ¥380 million for 6M2017 to approximately ¥232 million for 6M2018, which mainly resulted from the decrease in number of machines replaced due to our slower turnover rate in machine replacement in light of the 2018 Regulations and general market reluctance in replacing pachinko and pachislot machines as mentioned above.

Hall operating expenses

Hall operating expenses decreased by approximately ¥1,268 million, or approximately 26.0%, from approximately ¥4,881 million in 6M2017 to approximately ¥3,613 million in 6M2018. This is primarily due to (i) the decrease in pachinko and pachislot machine expenses by approximately ¥1,108 million from approximately ¥2,526 million in 6M2017 to approximately ¥1,418 million in 6M2018 attributable to the decrease in the number of machines replaced, (ii) the absence of the reversal of impairment loss of property, plant and equipment in 6M2018 which amounted to approximately ¥169 million in 6M2017 and (iii) the absence of operating expenses incurred by the BA. Nagasaki Hall and the BA. Kamata Hall after their closure.

Management Discussion and Analysis

Administrative and other operating expenses

Administrative and other operating expenses increased by approximately ¥190 million, or approximately 76.9%, from approximately ¥247 million in 6M2017 to approximately ¥437 million in 6M2018. This is primarily due to a provision for employees' retirement benefits of approximately ¥37 million made in 6M2018, as compared to a reversal of such provision of approximately ¥302 million made in 6M2017.

Profit before income tax

Profit before income tax increased by approximately ¥150 million, or approximately 83.3%, from approximately ¥180 million in 6M2017 to approximately ¥330 million in 6M2018. This is mainly attributable to (i) the decrease in hall operating expenses as aforementioned, (ii) the increase in financial income mainly attributable to the increase in interest income generated from bonds and (iii) the decrease in financial cost due to the decrease in interest paid, offset by the decrease in revenue and other net income and increase in administrative and other operating expenses as aforementioed.

Profit for the period attributable to shareholders of the Company

Profit for the period attributable to shareholders of the Company increased by approximately ¥91 million, or approximately 83.5%, from approximately ¥109 million in 6M2017 to approximately ¥200 million in 6M2018. The increase in profit for 6M2018 was mainly due to the increase in profit before income tax as aforementioned.

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 our interest and principal of bank borrowings and capital expenditure. These have been funded through a combination of cash generated from operations and borrowings.

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.

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 our board of Directors (the "**Board**") before the execution or disposal of any investment. Our finance division is also responsible for reporting the status of our investment activities to our Directors regularly. The report should include the total investment return.

Capital structure

As at 31 December 2018, the Company had total borrowings of approximately ¥4,952 million (30 June 2018: approximately ¥5,378 million), of which approximately 100% represented bank borrowings.

Cash and cash equivalents

As at 31 December 2018, the Company had cash and cash equivalents of approximately ¥2,480 million (30 June 2018: approximately ¥2,904 million).

Borrowings

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

	As at 31 December 2018		As at 30 June 2018	
	¥ million	**%**	*¥ million*	%
Within 1 year	**776**	**15.7%**	821	15.3%
Between 1 year and 2 years	**729**	**14.7%**	746	13.9%
Between 2 years and 5 years	**1,808**	**36.5%**	1,971	36.6%
Over 5 years	**1,639**	**33.1%**	1,840	34.2%
	4,952	**100.0%**	5,378	100.0%

As illustrated above, the proportion of our borrowings repayable within 1 year increased, while the proportion of our borrowings repayable in over 5 years decreased. The change of maturity profile of our borrowings was primarily due to the fact that there were no new borrowings during 6M2018, and that existing borrowings had been gradually repaid as scheduled.

Bonds

As at 31 December 2018, the Group did not have any outstanding bond issued and no new bond was issued during 6M2018 (30 June 2018: approximately ¥30 million).

Pledged assets

As at 31 December 2018, the Company pledged assets, including (i) property, plant and equipment, (ii) investment properties, and (iii) listed securities, in the sum of approximately ¥7,474 million (30 June 2018: approximately ¥8,095 million) to secure certain general banking facilities of the Group. The decrease in pledged assets was primarily attributable to the release of pledges over certain assets as part of our existing borrowings had been repaid.

Gearing ratio

The gearing ratio, being the aggregate of interest-bearing loans and obligations under finance leases divided by total equity of the Company, was approximately 25.9% as at 31 December 2018 (30 June 2018: approximately 27.0%). The decrease of approximately 1.1% was mainly attributable to the increase in total equity due to the increase in retained earnings from comprehensive income earned during 6M2018.

Interest rate and foreign exchange exposure

We are exposed to interest rate risk as our bank balances and some of our bank borrowings are carried at variable rates. We manage our interest rate exposure with a focus on reducing our overall cost of debt and exposure to changes in interest rates. During 6M2018, the Group did not use any hedge instrument or interest rate swap to manage its interest rate exposure.

We operate in Japan and our business transactions are principally denominated in Japanese Yen. However, we are exposed to foreign exchange risks associated with United States Dollars for expenses we incur in such currency, for example professional fees in connection with the listing of our Shares (defined below) in Hong Kong. To manage such foreign exchange risks, we entered into foreign exchange transactions to purchase United States Dollars using Japanese Yen in 6M 2018. Our finance division monitors our foreign exchange fluctuation exposure closely. In light of the continued fluctuation of Japanese Yen against United States Dollars in recent years, we will continue manage our exposures in United States Dollars by maintaining significant amount of our cash and bank balances in Japanese Yen.

Contractual and capital commitments

As both lessees and lessors, the Group had future aggregate minimum lease payments and lease receipts under non-cancellable operating leases as follows:

	As a lessee		As a lessor	
	As at 31 December 2018 ¥ million	As at 30 June 2018 ¥ million	**As at 31 December 2018 ¥ million**	As at 30 June 2018 ¥ million
No later than 1 year	**886**	932	**47**	66
Later than one year and no later than five years	**17**	17	**—**	—
Over five years	**32**	34	**—**	—

As at 31 December 2018, the Group had capital commitments, which were contracted but not provided for, in respect of purchase of property, plant and equipment in the sum of approximately ¥3 million (30 June 2018: approximately ¥3 million).

Capital expenditures

Our capital expenditures mainly consisted of expenditures on acquisitions of property, plant and equipment for its operations. The Group incurred capital expenditures of approximately approximately ¥76 million for 6M2018 (6M2017: approximately ¥2,260 million), majority of which came from leasehold improvements and equipment and tools for our pachinko halls of which none was settled under finance lease. These capital expenditures were financed by the net proceeds from the Share offer, details of which are described in the paragraph titled "Issue of Shares and Use of Proceeds" below.

Contingent liabilities

As at 31 December 2018, the Company did not have any material contingent liabilities or guarantees.

SIGNIFICANT INVESTMENTS

As at 31 December 2018, the Group held significant investments primarily in investment properties of approximately ¥2,271 million, which represented buildings and carparks situated in Japan and rented out under operating lease, and financial assets of approximately ¥1,337 million, which represented bonds, trust funds, and listed and unlisted securities.

In relation to our investment properties, 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. During 6M2018, the Group recorded an impairment loss of plant, property and equipment of approximately ¥1 million, provision for onerous lease of ¥5 million and provision for unrecoverable prepayments of ¥18 million in relation to the BA. Motosumiyoshi Hall. As at the date of this report, our Directors do not foresee further significant impairment loss to our investment properties in the near future.

In relation to our financial assets, the Group recorded (i) a loss of approximately ¥7 million for the changes from financial assets at fair value through profit or loss and (ii) a loss of approximately ¥9 million for the changes in fair values of financial assets at fair value through other comprehensive income, and there has been no default or any impairment made to any debt securities held by the Group, during 6M2018. Although changes in market conditions will continue to result in fair value gains or losses from financial assets, our Directors are of the view that the investment in financial assets will help to increase the average yield earned from the excess funds from our business overall. To the best of their knowledge and as at the date of this report, our Directors do not foresee any default or any impairment to be made to any financial assets held by the Group.

On 26 July 2018, the Company entered into two agreements with the Bond Issuer, pursuant to which the Company has agreed to subscribe for two series of Bonds at face value to be issued by the Bond Issuer, in an aggregate amount of ¥1,000 million. Completion of the subscription of such Bonds took place on 27 July 2018. For details, please refer to the Company's announcement dated 26 July 2018.

HUMAN RESOURCES

Employees and remuneration policies

As at 31 December 2018, the Group had 515 employees, almost all of whom were based in Japan, and of whom 452 were stationed at our 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 our employees and staff, including our Directors. The total staff costs for 6M2018 amounted to approximately ¥787 million (6M2017: approximately ¥509 million), which accounted for approximately 19.4% (6M2017: approximately 10.0%) of the total operating expenses, including the remuneration of our Directors.

The Company's policy concerning the remuneration of our 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 our 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 report, no option was granted exercised, cancelled or lapsed under the Share Option Scheme.

ISSUE OF SHARES AND USE OF PROCEEDS

On 15 May 2017, our shares (the "**Shares**") were listed on the Main Board of the Stock Exchange. A total of 125,000,000 Shares were issued at HK$1.20 each by way of public offer and placing, raising a total of approximately HK$150 million (the "**Share Offer**"). The net proceeds raised by the Company from the Share Offer, after deduction of the underwriting commissions and other related listing expenses, amounted to approximately HK$74 million. The following table sets forth (i) the intended utilisation of such net proceeds as disclosed in the Prospectus and the Company's announcement dated 12 May 2017 (the "**Allotment Result Announcement**") and (ii) the actual utilisation of such proceeds as at the date of this report:

	Intended utilisation of net proceeds as disclosed in the Prospectus and Allotment Result Announcement		**Actual utilisation of net proceeds as at the date of this report**	
	Amount ***(HK$ million)***	**% of net proceeds**	**Amount** ***(HK$ million)***	**% of net proceeds**
Establishing the new pachinko hall in the Kyushu region:				
Machine procurement	20.4	27.6	20.4	27.6
Renovation	3.7	5.0	3.7	5.0
Pachinko related facilities	11.1	15.0	11.1	15.0
Promotional expenses	1.8	2.4	1.8	2.4
Renovating and enhancing facilities for pachinko halls	29.6	40.0	17.4	23.5
Working capital and other general corporate purposes	7.4	10.0	7.4	10.0
	74.0	100.0	61.8	83.5

The remaining approximately 16.5% of the net proceeds from the Share Offer have been deposited in interest-bearing accounts with a licensed bank in Hong Kong. Our Directors expect to continue utilise the net proceeds from the Share Offer in accordance with the related disclosure in the Prospectus and the Allotment Result Announcement.

Management Discussion and Analysis

MATERIAL ACQUISITIONS AND/OR DISPOSALS OF SUBSIDIARIES

Other than the subscription of the Bonds as aforementioned, during 6M2018, the Group did not conduct any material acquisitions or disposals of subsidiaries, associates and joint ventures.

EVENTS AFTER THE REPORTING PERIOD

On 1 January 2019, six of the Company's wholly-owned subsidiaries, namely, K's Holdings Co., Ltd.* (株式会社ケーズ•ホールディングス) ("**K's Holdings**"), Okura Co., Ltd.* (王蔵株式会社) ("**Okura Japan**"), Aisen Co., Ltd.* (株式会社アイセン) ("**Aisen**"), Okura Nishinihon Co., Ltd.* (王蔵西日本株式会社) ("**Okura Nishinihon**"), Adward Co., Ltd.* (アドワード株式会社) ("**Adward**") and Aratoru Co., Ltd.* (アラトル株式会社) ("**Aratoru**"), underwent absorption-type mergers whereby K's Holdings, Aisen and Adward were absorbed and dissolved, and Okura Japan, Okura Nishinihon and Aratoru survived and remain wholly-owned subsidiaries of the Company. For details, please refer to the Company's announcement dated 13 November 2018.

On 25 January 2019, 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) entered into an agreement to amend certain terms and conditions of the subscription of bonds agreement dated 26 July 2018. For details, please refer to the Company's announcement dated 25 January 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL INVESTMENTS

Save for those disclosed in this report 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 report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During 6M2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**"), which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein (the "**Register**"); or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in the Shares:

Name	Capacity/nature of interest	Number and class of Shares	Approximate percentage of shareholding in the total issued share capital of the Company
Katsuya YAMAMOTO[1]	Beneficial interest	375,000,000	75%

Note:

(1) Mr. Yamamoto is an Executive Director, the Chief Executive Officer of the Company and the Chairman of our Board.

Save as disclosed above, as at 31 December 2018, none of our Directors or our chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange or recorded in the Register or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, the Directors were not aware of any persons or entities (other than a Director or the chief executive of the Company) who/which had or were deemed or taken to have interests or short positions in the Shares or the underlying Shares, which were required to be recorded in the register of substantial shareholders under section 336 of the SFO.

Other Information

CORPORATE GOVERNANCE

Our Directors considered 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 6M 2018 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 of the Group and for formulating business strategies and policies for our business management and operations since the 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 that it is suitable for Mr. Katsuya Yamamoto to hold both of the positions of chief executive officer and the chairman of our Board, and the present arrangements are beneficial to and in the interests of the Company and our shareholders as a whole.

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 our Directors. Specific enquiries have been made to all our Directors and all Directors have confirmed that they have complied with the required standards, where applicable, set out in the Model Code throughout 6M 2018.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENT

The Company established an audit committee in compliance with Rule 3.21 of the Listing Rules on 10 April 2017. The audit committee of the Company (the "**Audit Committee**") comprises three members, namely Mr. Kazuyuki Yoshida, Mr. Mitsuru Ishii and Mr. Yuji Matsuzaki, while Mr. Kazuyuki Yoshida acts as the chairman. The Audit Committee has reviewed the unaudited condensed consolidated interim financial information and the interim results for 6M 2018 and discussed the financial related matters with the management. The unaudited condensed consolidated interim financial information of the Group for 6M 2018 has been reviewed by the Company's auditor, PricewaterhouseCoopers, 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 Hong Kong Institute of Certified Public Accountants.

COMPANY SECRETARY AND PRIMARY CONTACT OF THE COMPANY

Directors have access to the services of the company secretary to ensure that the Board procedures are followed. The company secretary of the Company is Mr. Man Yun Wah. 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. The primary corporate contact person at the Company is Mr. Yutaka Kagawa, Head of Corporate Planning Division.

INTERIM DIVIDEND

The Board does not recommend declaring any dividend for 6M 2018.

CHANGE IN THE BOARD OF DIRECTORS AND DIRECTOR'S INFORMATION

A change in the Board of Directors since the Company's annual report for FY2018 is set out below:

1. Mr. Takamasa Kawasaki resigned as an independent non-executive Director, the chairman of the Audit Committee, the chairman of the Company's remuneration committee and a member of the Company's nomination committee, on 19 October 2018; and

2. Mr. Kazuyuki Yoshida was appointed as an independent non-executive Director, the chairman of the Audit Committee, the chairman of the Company's remuneration committee and a member of the Company's nomination committee, on 19 October 2018.

Save as disclosed above, the Company is not aware of other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Report On Review Of Interim Financial Information

TO THE BOARD OF DIRECTORS OF OKURA HOLDINGS LIMITED

(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 20 to 44, which comprises the interim condensed consolidated statement of financial position of Okura Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as at 31 December 2018 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" and International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review 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.

SCOPE OF 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 Hong Kong Institute of Certified Public Accountants. A review of interim 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 Hong Kong Standards on Auditing 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.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" and International Accounting Standard 34 "Interim Financial Reporting".

Report On Review Of Interim Financial Information

OTHER MATTER

The comparative information for the interim condensed consolidated statement of financial position is based on the audited financial statements as at 30 June 2018. The comparative information for the interim condensed consolidated statements of comprehensive income, changes in equity and cash flows, and related explanatory notes, for the period ended 31 December 2017 has not been audited.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 February 2019

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2018

	Note	(Unaudited) Six months ended 31 December 2018 ¥million	2017 ¥million
Revenue	6	**4,176**	4,514
Other income	7	**255**	426
Other (losses)/gains, net	7	**(7)**	440
Hall operating expenses	8	**(3,613)**	(4,881)
Administrative and other operating expenses	8	**(437)**	(247)
Operating profit		**374**	252
Finance income		**18**	10
Finance costs		**(62)**	(82)
Finance costs, net	9	**(44)**	(72)
Profit before income tax		**330**	180
Income tax expense	10	**(130)**	(71)
Profit for the period attributable to shareholders of the Company		**200**	109
Earnings per share attributable to shareholders of the Company for the period (expressed in ¥ per share)			
Basic	11	**0.400**	0.218
Diluted	11	**0.400**	0.218
Profit for the period		**200**	109
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to profit or loss			
Change in fair value of equity investments at fair value through other comprehensive income		**(9)**	1
Deferred income tax arising from fair value change		**2**	—
Total comprehensive income for the period attributable to shareholders of the Company		**193**	110

The notes on pages 26 to 44 are an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Financial Position

As at 31 December 2018

	Note	(Unaudited) 31 December 2018 ¥million	(Audited) 30 June 2018 ¥million
Assets			
Non-current assets			
Property, plant and equipment	13	**10,430**	10,671
Investment properties	13	**2,271**	2,296
Intangible assets	13	**777**	786
Prepayments, deposits and other receivables		**846**	751
Financial assets at fair value through other comprehensive income		**38**	47
Financial assets at fair value through profit or loss		**72**	82
Financial assets at amortised cost		**500**	—
Deferred income tax assets		**619**	621
		15,553	15,254
Current assets			
Inventories		**107**	137
Prepayments, deposits and other receivables		**693**	1,326
Financial assets at fair value through profit or loss		**227**	238
Financial assets at amortised cost		**500**	—
Income tax recoverable		**3**	32
Short-term bank deposits		**100**	100
Cash and cash equivalents		**2,480**	2,904
		4,110	4,737
Total assets		**19,663**	19,991
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	14	**20,349**	20,349
Reserves	14	**(9,331)**	(9,524)
Total equity		**11,018**	10,825

The notes on pages 26 to 44 are an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Financial Position

As at 31 December 2018

	Note	(Unaudited) 31 December 2018 ¥million	(Audited) 30 June 2018 ¥million
Liabilities			
Non-current liabilities			
Borrowings	17	**4,176**	4,557
Financial liabilities at fair value through profit or loss		**7**	—
Obligations under finance leases	18	**1,077**	1,220
Accruals, provisions and other payables		**349**	348
Employee benefit obligations	16	**113**	81
Deferred income tax liabilities		**465**	455
		6,187	6,661
Current liabilities			
Borrowings	17	**776**	821
Trade payables	15	**27**	21
Accruals, provisions and other payables		**1,234**	1,343
Obligations under finance leases	18	**307**	314
Current income tax liabilities		**114**	6
		2,458	2,505
Total liabilities		**8,645**	9,166
Total equity and liabilities		**19,663**	19,991

The condensed consolidated interim financial information on pages 26 to 44 were approved by the Company's Board of Directors on 26 February 2019 and were signed on its behalf.

Katsuya Yamamoto
Director

Yukata Kagawa
Director

The notes on pages 26 to 44 are an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2018

	Attributable to shareholders of the Company (Unaudited)					
	Share capital (Note 14) *¥million*	Capital reserve (Note 14(a)) *¥million*	Legal reserve (Note 14(b)) *¥million*	Investment revaluation reserve (Note 14(c)) *¥million*	Retained earnings *¥million*	Total *¥million*
Balance at 1 July 2017	20,349	(12,837)	40	16	2,660	10,228
Profit for the period	—	—	—	—	109	109
Other comprehensive income						
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	—	—	—	1	—	1
Total comprehensive income	—	—	—	1	109	110
Balance at 31 December 2017	20,349	(12,837)	40	17	2,769	10,338

The notes on pages 26 to 44 are an integral part of this interim condensed consolidated financial information

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2018

	Attributable to shareholders of the Company (Unaudited)					
	Share capital (Note 14) *¥million*	Capital reserve (Note 14(a)) *¥million*	Legal reserve (Note 14(b)) *¥million*	Investment revaluation reserve (Note 14(c)) *¥million*	Retained earnings *¥million*	Total *¥million*
Balance at 1 July 2018	**20,349**	**(12,837)**	**40**	**19**	**3,254**	**10,825**
Profit for the period	—	—	—	—	200	200
Other comprehensive loss						
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	—	—	—	(7)	—	(7)
Total comprehensive (loss)/income	—	—	—	(7)	200	193
Balance at 31 December 2018	**20,349**	**(12,837)**	**40**	**12**	**3,454**	**11,018**

The notes on pages 26 to 44 are an integral part of this interim condensed consolidated financial information

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2018

		(Unaudited) Six months ended 31 December	
		2018	2017
	Note	***¥million***	*¥million*
Cash flows from operating activities			
Cash generated from operations		**1,244**	1,001
Income tax refunded		**23**	83
Interest received		**17**	10
Interest paid		**(61)**	(82)
Net cash generated from operating activities		**1,223**	1,012
Cash flows from investing activities			
Purchase of financial assets at amortised cost		**(1,000)**	—
Purchase of financial assets at fair value through profit or loss		**(1)**	—
Purchase of property, plant and equipment	13	**(75)**	(2,259)
Purchase of intangible assets	13	**(1)**	(1)
Proceeds from disposal of property, plant and equipment and intangible assets		**6**	4
Net cash used in investing activities		**(1,071)**	(2,256)
Cash flows from financing activities			
Proceeds from borrowings		**—**	1,400
Repayment of borrowings		**(426)**	(384)
Repayment of obligations under finance leases		**(150)**	(38)
Net cash (used in)/generated from financing activities		**(576)**	978
Net decrease in cash and cash equivalents		**(424)**	(266)
Cash and cash equivalents at beginning of the period		**2,904**	3,272
Cash and cash equivalents at end of the period		**2,480**	3,006

The notes on pages 26 to 44 are an integral part of this interim condensed consolidated financial information.

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 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 (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 26 February 2019.

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 2018 published on 26 September 2018 (the "Annual Report 2018"), unless otherwise stated.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 31 December 2018 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 2018, 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.

Notes to the Condensed Consolidated Interim Financial Information

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2018, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to the expected total annual earnings and the adoption of amendments to IFRSs effective for the financial year ending 30 June 2019.

(a) The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 July 2018:

IAS 28 (Amendment)	Investments in associates and joint ventures
IAS 40 (Amendment)	Transfers of investment property
IFRS 1 (Amendment)	First-time adoption of IFRS
IFRS 2 (Amendment)	Classification and measurement of share-based payment transactions
IFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
IFRS 15	Revenue from contracts with customers
IFRS 15 (Amendment)	Clarifications to IFRS 15
IFRIC 22	Foreign currency transactions and advance consideration (new interpretation)

The impact of the adoption of IFRS 15 is disclosed in Note 3(b) below. The adoption of other new or amendments to existing standards or interpretations did not have significant impacts on the Group's results and financial position.

(b) Adoption of IFRS 15 "Revenue from contract with customer"

The IASB has issued a new standard for the recognition of revenue. This replaces IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts. The Group has adopted IFRS 15 from 1 July 2018.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The effect of the adoption of IFRS 15 is related to presentation of contract liabilities within the "Accruals, provisions and other payables" recognised in the consolidated statement of financial position as at 1 July 2018 to be consistent with the terminology used under IFRS 15:

- Contract liabilities recognised for unutilised balls and tokens was previously presented within"Accruals, provisions and other payables".

The adoption of IFRS 15 has no material impact to the Group's net assets as at 30 June 2018 and the condensed consolidated results, earnings per share (basic and diluted) and interim condensed consolidated statement of cash flows for the period ended 31 December 2018.

3 ACCOUNTING POLICIES *(continued)*

(c) New standards issued but not yet adopted by the Group

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the condensed consolidated statement of financial position, as 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 ￥935 million (Note 19) which accounts for approximately 4.8% and 10.8% of the Group's total assets and liabilities respectively. Based on management's initial assessment, the application of the new standard is expected to result in significant increase in both assets and liabilities in the consolidated statement of financial position. The adoption will also front-load the expense recognition in the consolidated statement of comprehensive income over the period of the lease, though the effect is not expected to be significant.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may be related to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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 2018, 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 do 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 2018.

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 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

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	Level 2	Level 3	Total
	¥million	*¥million*	*¥million*	*¥million*
As at 31 December 2018				
Assets				
Financial assets at fair value through profit or loss				
– Debt securities	—	298	1	299
Financial assets at fair value through other comprehensive income				
– Listed securities	35	—	—	35
– Unlisted securities	—	—	3	3
	35	298	4	337
Liabilities				
Financial liabilities at fair value through profit or loss				
– Dual currency bond	—	(7)	—	(7)
	—	(7)	—	(7)

Notes to the Condensed Consolidated Interim Financial Information

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

5.3 Fair value estimation *(continued)*

	Level 1 *¥million*	Level 2 *¥million*	Level 3 *¥million*	Total *¥million*
As at 30 June 2018				
Assets				
Financial assets at fair value through profit or loss				
– Debt securities	—	319	1	320
Financial assets at fair value through other comprehensive income				
– Listed securities	43	—	—	43
– Unlisted securities	—	—	4	4
	43	319	5	367

There were no transfers between levels 1, 2 and 3 during the six months ended 31 December 2018 and during the year ended 30 June 2018.

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

	Financial assets at fair value through other comprehensive income ***¥million***	**Financial assets at fair value through profit or loss** ***¥million***	**Total** ***¥million***
Six months ended 31 December 2017			
Balance at 1 July 2017 (Audited)	4	1	5
Fair value loss on valuation (Unaudited)	—	(1)	(1)
Balance at 31 December 2017 (Unaudited)	4	—	4
Six months ended 31 December 2018			
Balance at 1 July 2018 (Audited)	**4**	**1**	**5**
Fair value loss on valuation (Unaudited)	**(1)**	**—**	**(1)**
Balance at 31 December 2018 (Unaudited)	**3**	**1**	**4**

6 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	(Unaudited) Six months ended 31 December	
	2018	2017
	¥million	*¥million*
Revenue		
Gross pay-ins	**17,714**	18,993
Less: gross pay-outs	**(13,740)**	(14,718)
Revenue from pachinko and pachislot hall business	**3,974**	4,275
Vending machine income	**65**	71
Property rental	**137**	168
	4,176	4,514

Except for pachinko and pachinslot hall business, 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.

Segment assets consist primarily of property, plant and equipment, investment properties, intangible assets, inventories, prepayments, deposits and other receivables and cash and cash equivalents. 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.

6 REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Segment information *(continued)*

The segment information provided by the executive directors for the six months ended 31 December 2018 and 2017 are as follows:

	Six months ended 31 December 2018 (Unaudited)		
	Pachinko and pachislot hall operation *¥million*	Property rental *¥million*	Total *¥million*
Segment revenue from external customers	**4,039**	**137**	**4,176**
Segment results	**264**	**66**	**330**
Profit before income tax			**330**
Income tax expense			**(130)**
Profit for the period			**200**
Other segment items			
Depreciation and amortisation	**(303)**	**(25)**	**(328)**
Finance income	**17**	**1**	**18**
Finance costs	**(40)**	**(22)**	**(62)**
Capital expenditures	**(76)**	**—**	**(76)**

Notes to the Condensed Consolidated Interim Financial Information

6 REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Segment information *(continued)*

	Six months ended 31 December 2017 (Unaudited)		
	Pachinko and pachislot hall operation *¥million*	Property rental *¥million*	Total *¥million*
Segment revenue from external customers	4,346	168	4,514
Segment results	104	76	180
Profit before income tax			180
Income tax expense			(71)
Profit for the period			109
Other segment items			
Depreciation and amortisation	(354)	(24)	(378)
Finance income	10	—	10
Finance costs	(59)	(23)	(82)
Gain on disposal of assets held under finance lease	531	—	531
Reversal of impairment loss of property, plant and equipment	169	—	169
Capital expenditures	(2,260)	—	(2,260)

6 REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Segment information *(continued)*

	Pachinko and pachislot hall operation ¥million	Property rental ¥million	Total ¥million
As at 31 December 2018 (Unaudited)			
Segment assets	**12,811**	**2,393**	**15,204**
Unallocated assets			**2,503**
Financial assets at fair value through profit or loss			**299**
Financial assets at fair value through other comprehensive income			**38**
Financial assets at amortised cost			**1,000**
Deferred income tax assets			**619**
Total assets			**19,663**
As at 30 June 2018 (Audited)			
Segment assets	13,536	2,433	15,969
Unallocated assets			3,034
Financial assets at fair value through profit or loss			320
Financial assets at fair value through other comprehensive income			47
Deferred income tax assets			621
Total assets			19,991

No single external customer contributed more than 10% revenue to the Group's revenue for the six months ended 31 December 2018 and 2017.

The Group is domiciled in Japan and majority of the non-current assets of the Group as at 31 December 2018 and 30 June 2018 are located in Japan.

6 REVENUE AND SEGMENT INFORMATION *(continued)*

(c) Contract balances

	(Unaudited) 31 December 2018 Current portion *¥million*	(Audited) 30 June 2018 Current portion *¥million*
Contract liabilities, which are included in "Accruals, provisions and other payables"	**289**	258

7 OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

	(Unaudited) Six months ended 31 December	
	2018 *¥million*	2017 *¥million*
Other income		
Income from scrap sales of used pachinko machines	**232**	380
Rental income from staff quarters	**1**	1
Income from expired IC card	**4**	5
Others	**18**	40
	255	426
Other (losses)/gains, net		
Exchange gains, net	**1**	28
Losses on disposal of property, plant and equipment and intangible assets, net	**(16)**	(124)
Losses on fair value change on financial assets at fair value through profit or loss	**(7)**	(4)
Gains on disposal of assets held under finance lease	**—**	531
Recovery from insurance companies	**15**	9
	(7)	440

8 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	(Unaudited) Six months ended 31 December	
	2018	2017
	¥million	*¥million*
Pachinko and pachislot machines expenses (Note)	**1,418**	2,526
Auditor's remuneration	**15**	15
Employee benefits expenses	**787**	509
Operating lease rental expense in respect of land and buildings	**473**	597
Depreciation and amortisation	**328**	378
Provision for onerous lease	**5**	—
Provision for unrecoverable prepayments	**18**	—
Impairment loss/(reversal of impairment loss) of property, plant and equipment	**1**	(169)

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	
	2018	2017
	¥million	*¥million*
Finance income		
Interest income	**4**	4
Interest from debt securities	**14**	6
	18	10
Finance costs		
Interest expenses on obligations under finance leases	**(34)**	(38)
Bank borrowings interest expenses	**(27)**	(41)
Bond interest expenses	**(1)**	(3)
	(62)	(82)
Finance costs, net	**(44)**	(72)

10 INCOME TAX 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.

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 2018 and 2017.

	(Unaudited) Six months ended 31 December	
	2018	2017
	¥million	*¥million*
Current income tax		
– Japan corporate income tax	**115**	55
Deferred income tax	**15**	16
	130	71

11 EARNINGS PER SHARE

Basic earnings per share for the six months ended 31 December 2018 and 2017 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	
	2018	2017
Profit attributable to shareholders of the Company (¥million)	**200**	109
Weighted average number of ordinary shares in issue (million)	**500**	500
Basic and diluted earnings per share (¥)	**0.400**	0.218

No diluted earnings per share is presented as there was no potential dilutive share during the six months ended 31 December 2018 and 2017. Diluted earnings per share is equal to the basic earnings per share.

12 DIVIDENDS

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2018 (six months ended December 2017: Nil).

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

During the six months ended 31 December 2018, the Group incurred capital expenditures of approximately ¥75 million (six months ended 31 December 2017: ¥2,259 million) and ¥1 million (six months ended 31 December 2017: ¥1 million) for property, plant and equipment and intangible assets, respectively, and there was no capital expenditures incurred for investment properties (six months ended 31 December 2017: Nil).

During the six months ended 31 December 2018, the net book amounts of disposed property, plant and equipment amount to approximately ¥22 million (six months ended 31 December 2017: ¥1,681 million). No disposed property (six months ended 31 December 2017: 1,553 million) was related to property, plant and equipment held under finance lease.

During the six months ended 31 December 2018, there was no disposal of investment properties and intangible asset (six months ended 31 December 2017: Nil).

14 SHARE CAPITAL AND RESERVE

	Number of shares	Share capital
	million	*¥million*
At 1 July 2017, 31 December 2017, 1 July 2018 and 31 December 2018	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 2018 and 30 June 2018.

15 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice date as at 31 December 2018 and 30 June 2018 were as follows:

	(Unaudited) 31 December 2018 ¥million	(Audited) 30 June 2018 ¥million
Less than 30 days	**27**	21

The carrying amounts of trade payables approximate their fair values as at 31 December 2018 and 30 June 2018 and are denominated in Japanese Yen.

16 EMPLOYEE BENEFIT OBLIGATIONS

	(Unaudited) 31 December 2018 ¥million	(Audited) 30 June 2018 ¥million
Long term benefit obligations for Yamamoto Family (Note)	**78**	46
Retirement benefit obligations for employees	**35**	35
	113	81

Note:

Yamamoto Family refers to Katsuya Yamamoto and his family member, Katsumitsu Yamamoto.

As at 31 December 2018, long term benefit obligations for Yamamoto Family represents the provision on the lump-sum payment made to two (30 June 2018: one) Yamamoto Family members as a recognition of their contribution to the Group. A particular amount of provision is made for each particular member mainly according to their ranks and years of service in the Group which were approved by the Board of Directors, using projected unit credit method. The defined benefit retirement plans of the Group are measured at present value. The valuation was carried out by projected unit credit method.

17 BORROWINGS

	(Unaudited) 31 December 2018 ¥million	(Audited) 30 June 2018 ¥million
Non-current portion		
Bank loans	**4,176**	4,557
Current portion		
Bank loans	**776**	791
Bonds	**—**	30
	776	821
Total borrowings	**4,952**	5,378

18 OBLIGATIONS UNDER FINANCE LEASES

	(Unaudited) 31 December 2018 ¥million	(Audited) 30 June 2018 ¥million
Gross finance lease liabilities - minimum lease payments		
No later than 1 year	**356**	365
Later than 1 year and no later than 2 years	**303**	350
Later than 2 years and no later than 5 years	**250**	338
Later than 5 years	**1,049**	1,082
	1,958	2,135
Future finance charges on finance leases	**(574)**	(601)
Present values of finance lease liabilities	**1,384**	1,534

18 OBLIGATIONS UNDER FINANCE LEASES *(continued)*

The present value of finance lease liabilities is as follows:

	(Unaudited) 31 December 2018 *¥million*	(Audited) 30 June 2018 *¥million*
No later than 1 year	**307**	314
Later than 1 year and no later than 2 years	**258**	304
Later than 2 years and no later than 5 years	**131**	216
Later than 5 years	**688**	700
Total finance lease liabilities	**1,384**	1,534
Less: Amount included in current liabilities	**(307)**	(314)
Non-current portion	**1,077**	1,220

Assets arranged under finance leases represent buildings for pachinko and pachislot halls and investment properties. The average lease term is 4 years (30 June 2018: 6 years). No arrangements have been entered into for contingent rental payments during the reporting periods ended on 31 December 2018 and 30 June 2018.

19 COMMITMENTS

(a) Capital commitments

The outstanding capital commitments of the Group not provided for in the condensed consolidated interim financial information are as follows:

	(Unaudited) 31 December 2018 *¥million*	(Audited) 30 June 2018 *¥million*
Property, plant and equipment		
– Capital expenditure contracted for but not yet incurred	**3**	3

19 COMMITMENTS *(continued)*

(b) Operating lease commitments

(i) As a lessee

As at 31 December 2018 and 30 June 2018, 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:

	(Unaudited) 31 December 2018 *¥million*	(Audited) 30 June 2018 *¥million*
No later than one year	**886**	932
Later than one year and no later than five years	**17**	17
Over five years	**32**	34
	935	983

(ii) As a lessor

As at 31 December 2018 and 30 June 2018, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	(Unaudited) 31 December 2018 *¥million*	(Audited) 30 June 2018 *¥million*
No later than one year	**47**	66

20 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) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the six months ended 31 December 2018 and 2017:

	(Unaudited) Six months ended 31 December	
	2018	2017
	¥million	*¥million*
Rental income received from:		
– Katsumitsu Yamamoto	**1**	1

The above transaction with related parties was conducted in the ordinary course of the business of the Group based on the terms mutually agreed between the relevant parties.

(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	
	2018	2017
	¥million	*¥million*
Salaries and other short-term employee benefits	**104**	109