Okura Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01655)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

- Gross pay-ins decreased by approximately 16.6% to approximately ¥29,669 million (FY2019 (defined below): approximately ¥35,567 million).
- Revenue decreased by approximately 13.6% to approximately ¥7,051 million (FY2019: approximately ¥8,157 million).
- Operating loss was approximately ¥6,588 million (FY2019: operating profit of approximately ¥1,053 million).
- Loss before income tax was approximately ¥6,767 million (FY2019: profit before income tax of approximately ¥989 million).
- Loss for the year attributable to the shareholders of the Company was approximately ¥6,362 million (FY2019: profit for the year attributable to the shareholders of the Company of approximately ¥601 million).
- Basic and diluted loss per share was approximately ¥12.72 (FY2019: basic and diluted earnings per share of approximately ¥1.20).
- The Board does not recommend the payment of a final dividend for the Year (defined below).

Note: The above % increases and decreases refer to the change in respect of the Japanese Yen ("¥") amounts.

The board (the "**Board**") of directors (the "**Directors**") of Okura Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 30 June 2020 (the "**Year**" or "**FY2020**"), together with the comparative figures for the year ended 30 June 2019 ("**FY2019**").

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

	Note	**2020** ***¥ million***	2019 *¥ million*
Revenue	4	**7,051**	8,157
Other income	5	**564**	603
Other losses, net	5	**(278)**	(7)
Hall operating expenses	6	**(13,076)**	(6,798)
Administrative and other operating expenses	6	**(849)**	(902)
Operating (loss)/profit		**(6,588)**	1,053
Finance income		**93**	54
Finance costs		**(272)**	(118)
Finance costs, net	7	**(179)**	(64)
(Loss)/profit before income tax		**(6,767)**	989
Income tax credit/(expense)	8	**405**	(388)
(Loss)/profit for the year attributable to shareholders of the Company		**(6,362)**	601
(Loss)/earnings per share attributable to shareholders of the Company for the year (expressed in ¥ per share)			
Basic and diluted	9	**(12.72)**	1.20
(Loss)/profit for the year		**(6,362)**	601
Other comprehensive income/(loss)			
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		**1**	(13)
Deferred income tax arising from fair value change		**(1)**	4
		—	(9)
Total comprehensive (loss)/income for the year attributable to shareholders of the Company		**(6,362)**	592

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Note	**2020** **¥ *million***	2019 ¥ *million*
Assets			
Non-current assets			
Property, plant and equipment		**7,855**	10,376
Right-of-use of assets		**5,266**	—
Investment properties		**2,847**	2,279
Intangible assets		**751**	768
Prepayments, deposits and other receivables		**1,077**	810
Financial assets held at amortised cost		**500**	500
Financial assets at fair value through other comprehensive income		**33**	33
Financial assets at fair value through profit or loss		**46**	62
Deferred income tax assets		**610**	430
		18,985	15,258
Current assets			
Inventories		**13**	71
Prepayments, deposits and other receivables		**517**	700
Financial assets held at amortised cost		**500**	500
Financial assets at fair value through profit or loss		**486**	514
Income tax recoverable		**—**	9
Short-term bank deposits		**100**	100
Cash and cash equivalents		**1,545**	2,565
		3,161	4,459
Total assets		**22,146**	19,717
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital		**20,349**	20,349
Reserves		**(16,293)**	(8,932)
Total equity		**4,056**	11,417

	Note	2020 ¥ million	2019 ¥ million
Liabilities			
Non-current liabilities			
Borrowings	11	**3,731**	3,802
Obligations under finance leases		**—**	924
Lease liabilities		**10,887**	—
Accruals, provisions and other payables		**366**	352
Financial liabilities at fair value through profit or loss		**—**	4
Employee benefit obligations		**100**	116
Deferred income tax liabilities		**100**	485
		15,184	5,683
Current liabilities			
Borrowings	11	**758**	730
Obligations under finance leases		**—**	303
Lease liabilities		**881**	—
Trade payables	12	**12**	26
Accruals, provisions and other payables		**1,197**	1,191
Amount due to a director		**26**	—
Amount due to a related party		**—**	213
Current income tax liabilities		**32**	154
		2,906	2,617
Total liabilities		**18,090**	8,300
Total equity and liabilities		**22,146**	19,717

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Okura Holdings Limited (the "Company") was established as a limited company in Hong Kong under the Hong Kong Companies Ordinance on 16 June 2015. The address of the Company's registered office is Level 11, Admiralty Centre Tower II, 18 Harcourt Road, Admiralty, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries comprising the Group (together, the "Group") are principally engaged in pachinko and pachislot hall operations (the "Business") in Japan.

The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in millions of Japanese Yen ("¥"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

3 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board (the "IASB") and Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and requirements of the Hong Kong Companies Ordinance Cap. 622. HKFRS is substantially consistent with IFRS and the accounting policy selections that the Group has made in preparing the consolidated financial statements are such that the Group is able to comply with both IFRS and HKFRS. Reference to IFRS, International Accounting Standards ("IAS") and Interpretations developed by the IFRS Interpretations Committee ("IFRIC") in the consolidated financial statements should be read as referring to the equivalent HKFRS, Hong Kong Accounting Standards ("HKAS") and Hong Kong (IFRIC) Interpretation ("HK(IFRIC)-Int") as the case may be. Accordingly, there are no differences of accounting practice between IFRS and HKFRS affecting the consolidated financial statements.

The preparation of consolidated financial statements in conformity with IFRS and HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) Compliance with IFRS and HKFRS and Hong Kong Companies Ordinance

The consolidated financial statements have been prepared in accordance with IFRS and HKFRS and requirements of the Hong Kong Companies Ordinance Cap. 622.

(b) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) which are carried at fair values.

(c) New standard and amendments to existing standards adopted by the Group

IAS 19 (Amendment)	Employee Benefits
IAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures
IFRS 9 (Amendment)	Prepayment features with Negative Compensation
IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatment
Annual Improvements to IFRS	Annual Improvement 2015–2017 Cycle

The impact of the adoption of IFRS 16 is disclosed 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.

(d) New standard and amendments to existing standards not yet adopted by the Group

The following are new standard and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 July 2020 or later periods, but have not been early adopted by the Group. These new standard and amendments to existing standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

		Effective for accounting periods beginning on or after
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
IAS 1 and IAS 8 (Amendments)	Definition of material	1 January 2020
IAS 39, IFRS 7 and IFRS 9 (Amendments)	Hedge accounting	1 January 2020
IFRS 3 (Amendments)	Definition of a business	1 January 2020
IFRS 16 (Amendments)	Covid-19-related rent concessions	1 June 2020
Annual Improvements to IFRS	Annual improvements 2018–2020 cycle	1 January 2022
IFRS 3, IAS 16 and IAS 37 (Amendments)	Narrow-scope amendments	1 January 2022
IAS 1 (Amendments)	Classification of liabilities as current or non-current	1 January 2023
IFRS 17	Insurance contracts	1 January 2023
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

(e) Adoption of IFRS 16 "Leases"

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively from 1 July 2019, but has not restated comparative for the 2019 reporting period and recognised the cumulative effect of initially applying the new standard as permitted under the specific transitional provisions in the standard.

(i) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 1.55%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease assets and lease liabilities immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

	2019 *¥ million*
Operating lease commitments disclosed as at 30 June 2019	902
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(91)
Add: Finance lease liabilities recognised as at 30 June 2019	1,227
Add: Adjustment as a result of different treatment of extension options	10,794
(Less): Short-term leases recognised on a straight-line basis as expense	(13)
Lease liabilities recognised as at 1 July 2019	12,819
Of which are:	
Current lease liabilities	1,113
Non-current lease liabilities	11,706
	12,819

Right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any impairment loss, prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

The recognised right-of-use assets relate to the following types of assets:

	2019 *¥ million*
Land	924
Buildings	9,720
Leasehold improvements	299
Equipment and tools	334
Computer software	5
Total right-of-use assets	11,282

The following table shows the adjustment for the change in accounting policy recognised for each individual line item. Line items that were not affected by the changes have not been included.

	As at 1 July 2019		
Consolidated statement of financial position (extracted)	As originally presented *¥ million*	Adjustment under IFRS 16 *¥ million*	Restated *¥ million*
Current assets			
Prepayments, deposits and other receivables	700	(77)	623
Non-current assets			
Property, plant and equipment	10,376	(665)	9,711
Right-of-use assets	—	11,282	11,282
Non-current liabilities			
Lease liabilities	—	11,706	11,706
Obligation under finance leases	924	(924)	—
Deferred income tax liabilities	485	(53)	432
Current liabilities			
Lease liabilities	—	1,113	1,113
Obligation under finance leases	303	(303)	—
Equity			
Retained earnings	3,855	(999)	2,856

(ii) Practical expedient applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

(iii) The Group's leasing activities and how these are accounted for

The Group leases various land, pachinko and pachislot halls, equipment and computer software. Rental contracts are typically made for fixed periods of 3 to 30 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the rental deposits that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the financial year ended 30 June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payment to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(iv) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise and extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended for (or not terminated).

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2020	2019
	¥ million	*¥ million*
Revenue		
Gross pay-ins	**29,669**	35,567
Less: gross pay-outs	**(23,076)**	(27,815)
Revenue from pachinko and pachislot hall business	**6,593**	7,752
Vending machine income	**115**	130
Property rental	**287**	274
Revenue from other operations	**56**	1
	7,051	8,157

Except for pachinko and pachinslot 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 (loss)/profit before income tax for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as the consolidated financial statements.

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, right-of-use assets, intangible assets, investment properties, 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 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, right-of-use assets, investment properties and intangible assets. Income tax expenses are not included in segment results.

The segment information provided to the executive directors for the years ended 30 June 2020 and 2019 are as follows:

	Year ended 30 June 2020			
	Pachinko and pachislot hall operation *¥ million*	**Property rental** *¥ million*	**All other segments** *¥ million*	**Total** *¥ million*
Segment revenue from external customers	**6,708**	**287**	**56**	**7,051**
Segment results	**(6,122)**	**3**	**(648)**	**(6,767)**
Loss before income tax				**(6,767)**
Income tax credit				**405**
Profit for the year				**(6,362)**
Other segment items				
Impairment loss of property, plant and equipment	**(1,513)**	**—**	**—**	**(1,513)**
Impairment loss of right-of-use assets	**(5,128)**	**—**	**—**	**(5,128)**
Impairment loss of investment properties	**—**	**(141)**	**—**	**(141)**
Depreciation and amortisation	**(1,366)**	**(52)**	**(108)**	**(1,526)**
Finance income	**—**	**—**	**93**	**93**
Finance costs	**(222)**	**(48)**	**(2)**	**(272)**
Capital expenditures	**(224)**	**(763)**	**(20)**	**(1,007)**

	Year ended 30 June 2019			
	Pachinko and pachislot hall operation *¥ million*	Property rental *¥ million*	All other segments *¥ million*	Total *¥ million*
Segment revenue from external customers	7,882	274	1	8,157
Segment results	847	142	—	989
Profit before income tax				989
Income tax expense				(388)
Profit for the year				601
Other segment items				
Impairment loss of property, plant and equipment	(1)	—	—	(1)
Reversal of impairment loss of investment properties	—	52	—	52
Depreciation and amortisation	(602)	(49)	—	(651)
Finance income	52	2	—	54
Finance costs	(74)	(44)	—	(118)
Capital expenditures	(321)	(1)	—	(322)

The segment assets as at 30 June 2020 and 2019 are as follows:

	Pachinko and pachislot hall operation	**Property rental**	**All other segments**	**Total**
	¥ million	***¥ million***	***¥ million***	***¥ million***
As at 30 June 2020				
Segment assets	**12,847**	**2,975**	**88**	**15,910**
Unallocated assets				**4,061**
Financial assets held at amortised cost				**1,000**
Financial assets at fair value through profit or loss				**532**
Financial assets at fair value through other comprehensive income				**33**
Deferred income tax assets				**610**
Total assets				**22,146**

	Pachinko and pachislot hall operation	Property rental	All other segments	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*
As at 30 June 2019				
Segment assets	11,908	2,401	215	14,524
Unallocated assets				3,154
Financial assets held at amortised cost				1,000
Financial assets at fair value through profit or loss				576
Financial assets at fair value through other comprehensive income				33
Deferred income tax assets				430
Total assets				19,717

There is no single external customer contributed more than 10% revenue to the Group's revenue for the years ended 30 June 2020 and 2019.

The Group is domiciled in Japan and majority of the non-current assets of the Group as at 30 June 2020 and 2019 are located in Japan.

5 OTHER INCOME AND OTHER LOSSES, NET

	2020	2019
	¥ million	*¥ million*
Other income		
Income from scrap sales of used pachinko machines	**486**	557
Rental income from staff quarters	**—**	1
Dividend income	**1**	1
Income from expired IC card	**7**	8
Income from forfeited unutilised ball	**12**	10
Others	**58**	26
	564	603
Other losses, net		
(Provision for)/reversal of impairment loss of investment properties	**(141)**	52
Exchange gains/(losses), net	**14**	(20)
Losses on disposals of property, plant and equipment	**—**	(1)
Losses on write-off of property, plant and equipment	**(11)**	(18)
Write-off of investment properties	**—**	(22)
Losses on fair value change on financial assets at fair value through profit or loss	**(161)**	(17)
Others	**21**	19
	(278)	(7)

6 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2020	2019
	¥ million	*¥ million*
Pachinko and pachislot machines expenses (Note)	**2,464**	2,388
Auditor's remuneration		
— Audit services	**47**	43
— Non-audit services	**17**	22
Employee benefits expenses		
— Hall operating expenses	**1,062**	1,076
— Administrative and other operating expenses	**333**	428
Operating lease rental expense in respect of land and buildings	**25**	945
Depreciation and amortisation	**1,526**	651
Advertising and promotion expenses	**314**	438
Equipment and consumables costs	**132**	126
Provision for impairment loss of property, plant and equipment	**1,513**	1
Provision for impairment loss of right-of-use assets	**5,128**	—
Provision for impairment loss of intangible assets	**6**	—
Provision for unrecoverable prepayments	**4**	18
Repairs and maintenance	**99**	115
Other taxes and duties	**131**	137
Outsourcing service expenses	**206**	196
Utilities expenses	**321**	374
G-prize procurement expenses to wholesalers	**189**	202
Legal and professional fees	**83**	99
Travel expenses	**33**	44
Insurance fee	**14**	15
Others	**278**	382
	13,925	7,700

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

7 FINANCE COSTS, NET

	2020	2019
	¥ million	*¥ million*
Finance income		
Interest income	**5**	8
Interest from debt securities	**88**	46
	93	54
Finance costs		
Interest for obligations under finance leases	**—**	(51)
Interest for lease liabilities	**(213)**	—
Bank borrowings interest expenses	**(54)**	(63)
Bond interest expenses	**(3)**	(1)
Others	**(2)**	(3)
	(272)	(118)
Finance costs, net	**(179)**	(64)

8 INCOME TAX (CREDIT)/EXPENSE

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 years ended 30 June 2020 and 2019.

Japan corporate income tax has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in Japan in which the Group operates.

	2020	2019
	¥ million	*¥ million*
Current income tax		
— Japan corporate income tax	**107**	162
Deferred income tax	**(512)**	226
	(405)	388

9 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share for the years ended 30 June 2020 and 2019 are calculated by dividing the (loss)/profit attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the years ended 30 June 2020 and 2019.

	2020	2019
(Loss)/profit attributable to shareholders of the Company (¥ million)	**(6,362)**	601
Weighted average number of ordinary shares in issue (million) (Note)	**500**	500
Basic and diluted (losses)/earnings per share (¥)	**(12.72)**	1.20

Note: No diluted (loss)/earnings per share is presented as there was no potential dilutive share during the years ended 30 June 2020 and 2019. Diluted (loss)/earnings per share is equal to the basic (loss)/earnings per share.

10 DIVIDENDS

The board of directors did not recommend the payment of dividend for the year ended 30 June 2020 (2019: Nil).

11 BORROWINGS

	2020	2019
	¥ million	*¥ million*
Non-current portion		
Bank loans	**3,636**	3,643
Bonds	**95**	159
	3,731	3,802
Current portion		
Bank loans	**693**	665
Bonds	**65**	65
	758	730
Total borrowings	**4,489**	4,532

As at 30 June 2020 and 2019, the Group's borrowings were repayable as follows:

	2020	2019
	¥ million	¥ million
Within 1 year	758	730
Between 1 and 2 years	758	715
Between 2 and 5 years	1,509	1,694
Over 5 years	1,464	1,393
	4,489	4,532

The average effective interest rates (per annum) at 30 June 2020 and 2019 were set out as follows:

	2020	2019
Bank loans	1.37%	1.28%
Bonds	0.12%	0.13%

As at 30 June 2020 and 2019, the total borrowings are pledged by certain assets and their carrying values are shown as below:

	2020	2019
	¥ million	¥ million
Property, plant and equipment	5,357	6,831
Investment properties	1,311	588
Financial assets at fair value through other comprehensive income — listed equity securities	29	29
	6,697	7,448

No borrowings were guaranteed by the directors as at 30 June 2020 and 2019.

The carrying amounts of borrowings of the Group approximate their fair values as at 30 June 2020 and 2019 and are denominated in Japanese Yen.

During the years ended 30 June 2020 and 2019, details of bonds issued by the Group are as follows:

Issue date	Principal amount	Outstanding balance		Interest rate	Due date
		2020	2019		
	¥ million	¥ million	¥ million		
13 March 2019	260	160	224	6 months TIBOR	13 November 2022

12 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice dates as at 30 June 2020 and 2019 were as follows:

	2020	2019
	¥ million	*¥ million*
Less than 30 days	**12**	26

The carrying amounts of trade payables approximate their fair values as at 30 June 2020 and 2019 and are denominated in Japanese Yen.

13 COMMITMENTS

(a) Capital commitments

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

	2020	2019
	¥ million	*¥ million*
Property, plant and equipment		
— Capital expenditure contracted for but not yet incurred	**1**	50

(b) Operating lease commitments

(i) As a lessee

As at 30 June 2019, 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:

	2019 *¥ million*
No later than one year	860
Later than one year and no later than five years	17
Over five years	25
	902

(ii) As a lessor

As at 30 June 2020 and 2019, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	2020 ***¥ million***	2019 *¥ million*
No later than one year	**62**	50

MANAGEMENT DISCUSSION AND ANALYSIS

Industry and business review

We are a pachinko hall operator in Japan, operating mainly pachinko and pachislot machines. As at 30 June 2020, we operated 17 (FY2019: 17) pachinko halls under the trading names "Big Apple.", "K's Plaza", "Big Apple. YOUPARK" and "Monaco".

During FY2020, 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**"), as disclosed in the Company's interim report for the six months ended 31 December 2019 ("**6M2020**"), have continued to have an adverse impact on the pachinko and pachislot industry 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 in the pachinko industry by batches by the end of January 2021. At the same time, pursuant to a revision of the 2018 Regulations in May 2020 (the "**Revised 2018 Regulations**") which extends the deadline for phasing out certain types of game machines, pachinko hall operators will now have more time until late 2021 to replace their pachinko and pachislot machines to meet the requirements of the 2018 Regulations. With the Revised 2018 Regulations easing some of the regulatory pressure placed on pachinko hall operators by the 2018 Regulations, the frequency of pachinko and pachislot machine replacement is expected to slightly slow down across the industry in the coming year, potentially contributing to a decrease in hall operating expenses for a considerable number of pachinko hall operators. However, despite such temporary relief from regulatory pressure, 2020 has been a challenging year for Japan's pachinko industry for reasons detailed below.

Coping with obstacles and uncertainties during FY2020

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. 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. In April 2020 to mid-May 2020, as an attempt to contain the local spread of COVID-19 in Japan, all prefectural governments gradually declared a state of emergency and requested for the temporary closure of all entertainment facilities, including pachinko halls, in their respective prefectures. On top of the general disruption caused by COVID-19 to the overall business environment, such measures have directly impacted customer traffic to pachinko halls and contributed to a significant decline in pachinko and pachislot players in the latter half of FY2020. In line with the state of emergency declared by the Japanese government in Tokyo and six other prefectures on 7 April 2020, which was extended to cover all prefectures in Japan on 16 April 2020, the Company gradually closed all of the Group's 17 pachinko halls temporarily, resulting in an adverse impact on the Group's financial performance for FY2020. The Group recorded a loss before income tax of approximately ¥6,767 million for FY2020, as compared to a profit before income tax of approximately ¥989 million recorded in FY2019. Such loss before income tax was mainly attributable to the significant increase in hall operating expenses by approximately ¥6,278 million, primarily caused by the provisions for impairment losses on property, plant and equipment and right-of-use assets due to the outbreak of COVID-19 in Japan, which resulted in an adverse impact on the Group's financial performance. For details on the impairment losses, please refer to the paragraph headed "Impairment losses" in this announcement.

As disclosed in the Group's interim report for 6M2020, the increasingly adverse and ever-changing regulatory environment poses new threats to the Group's business and prospects. As a result of the regulations imposing restrictions on marketing and promotion in the pachinko industry, the Group has been subject to more stringent requirements on advertising its pachinko halls. Our management has been seeking alternative ways to promote the Group's brand name and business in a manner that complies with such regulations in order to improve its customer traffic in the long run. In addition, starting from 1 October 2019, consumption tax in Japan increased from 8% to 10%. Our management believes that this has to a certain extent discouraged customer spending at the Group's pachinko halls during FY2020 and has been striving to source the most attractive machines available in the market to provide a favourable mix of machines in its pachinko halls to increase customer traffic. As disclosed in the Group's annual report for FY2019, pursuant to the Japanese government's measures to protect the public from exposure to second-hand smoke, all pachinko halls have been required to operate, with limited exceptions, as "smoke-free" facilities since 1 April 2020. However, as such measures came into effect around the same time as the spread of COVID-19 and the resulting temporary closure of pachinko halls, our Directors believe that the impact of such measures on customer traffic to pachinko halls remains to be seen. Our management will continue to monitor the Group's performance under the abovementioned regulatory measures.

Continuing to diversify the Group's revenue stream

In light of the increasingly challenging business environment caused by the fallout of COVID-19, amongst other factors, our management considers that it has become increasingly essential for the Group to establish alternative streams of income and diversify its business operations into different segments.

Pursuant to an acquisition agreement entered into between Nissei Build Kogyo Co., Ltd.* (日成ビルド工業株式会社) ("**Nissei Build**") and K's Property Co., Ltd.* (株式会社ケイズプロパティー) ("**K's Property**"), an indirectly wholly-owned subsidiary of the Company on 6 March 2020, K's Property agreed to acquire and Nissei Build agreed to sell four exclusive areas and the rights associated with such areas of a nine-storey building situated in Nagasaki City, Japan ("**Tower City Parking Court**") for a total consideration of approximately ¥782.2 million (inclusive of consumption tax). Taking into account the location, condition and potential appreciation in the value of Tower City Parking Court, our Directors considered that the acquisition was an excellent opportunity for the Group to not only expand its property investment portfolio, allowing the Group to benefit from any future capital appreciation, but also to generate a stable source of revenue in the form of rental income. For details, please refer to the Company's announcement dated 6 March 2020. The acquisition was completed on 26 March 2020.

As previously disclosed in the Company's interim report for 6M2020, following the agreements entered into on 26 July 2018, pursuant to which the Company subscribed to two series of bonds issued by Sinwa Co., Ltd.* (株式会社しんわ) in an the aggregate amount of ¥1,000 million (the "**Bonds**"), and an amendment agreement entered into on 25 January 2019, the Company entered into another amendment agreement on 24 January 2020 in which, among others, (i) the maturity date of the second series of the Bonds was further extended to 31 January 2021 and (ii) the interest rate for the extended period was increased to 4.00% per annum. Such further extended maturity date and increased interest rate for the extended period will enable the Group to extend its investment and generate more income from the Bonds, which constitutes another stable revenue stream for the Group. The first series of the Bonds will mature on 31 July 2021. For details, please refer to the Company's announcements dated 26 July 2018, 25 January 2019 and 24 January 2020.

Moreover, as previously disclosed in the Company's interim report for 6M2020, the Group had decided that the two riding horses which it acquired in FY2019 shall be used to advertise and promote the Group through participating in international competitive and equestrian activities, including but not limited to the upcoming Tokyo Olympics. Due to the postponement of the Tokyo Olympics to July 2021 and the cancellation of other equestrian activities in which the Group's riding horses were expected to participate, our management will continue to actively seek alternative areas in which we can effectively use our riding horses for the advertisement and promotion of the Group.

Our management is also exploring possibilities to expand into other segments and industries, and in June 2020 the Group began cooperating with an independent third party to operate an employment support centre for persons with neurodevelopmental disorders in Nagasaki City, Japan. In the future, the Group hopes to commence operations of further employment support centres of the same nature and continue broadening its business into new areas.

Market threats and prospects

As mentioned above, the outbreak of COVID-19 in Japan contributed to a substantial decline in customer traffic across the pachinko industry in the latter part of FY2020. Due to the state of emergency declared by the prefectural governments across Japan, the Group gradually closed all 17 of its pachinko halls temporarily. As all of the Group's 17 pachinko halls have gradually resumed operations since June 2020, the number of pachinko and pachislot players at the Group's pachinko halls has steadily improved, particularly in the Kyushu region. As such, our Directors expect that customer traffic at the Group's pachinko halls will recover on a medium-term basis and regard the outbreak of COVID-19 as only having an effect on the Group's performance for one to two years. By ensuring continuous compliance with the Japanese government's measures to prevent and control the spread of COVID-19, and voluntarily implementing further safety measures to ensure the health and safety of customers at its pachinko halls, the Group expects that it will be able to further encourage customer traffic and speed up the recovery of its operations. Going forward, the Group will continue to prioritise managing pachinko halls cost-effectively and preserving customer traffic while exploring new opportunities to diversify into other segments to expand the Group's sources of revenue.

FINANCIAL REVIEW

Revenue

Our total revenue comprised revenue from (i) pachinko and pachislot hall business, being gross pay-ins less gross pay-outs, (ii) vending machine income, and (iii) property rental and (iv) other operations relating to horse sitting services. During the Year, revenue from our pachinko and pachislot hall business remained the majority source of income for the Company, accounting for approximately 93.5% of our total revenue (FY2019: approximately 95.0%). Our total revenue decreased by approximately 13.6%, from approximately ¥8,157 million for FY2019, to approximately ¥7,051 million for the Year. This decrease was mainly a result of the decrease in approximately 15.0% in revenue generated from our overall pachinko and pachislot hall business, from approximately ¥7,752 million for FY2019 to approximately ¥6,593 million for the Year, primarily due to the temporary closure of all of our pachinko and pachislot halls in mid-April 2020 to May 2020 as a result of government-imposed countermeasures to the outbreak of COVID-19, and the resulting decrease of customer traffic at our pachinko and pachislot halls for such period.

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 11.5%, from approximately ¥130 million for FY2019 to approximately ¥115 million for the Year, primarily due to the suspension of, and decrease in customer traffic at, our pachinko and pachislot halls during the Year for reasons mentioned above.

We derived rental income from renting out (i) car parks, (ii) land for office uses, (iii) residential units and (iv) premises to G-prize wholesalers. Property rental income increased by approximately 4.7%, from approximately ¥274 million for FY2019 to approximately ¥287 million for the Year, due to the increase in the area of property rented out as a result of the Group's acquisition of Tower City Parking Court in March 2020 as mentioned above, despite being partially offset by the decrease in income from car parks due to the outbreak of COVID-19.

We derived income from the provision of horse sitting services which commenced in June 2019. Such income amounted to approximately ¥56 million for the Year.

Gross pay-ins

Our gross pay-ins represents the gross amount received from customers for the rental of pachinko balls and pachislot tokens. Gross pay-ins is primarily affected by the level of customer spending at our pachinko and pachislot halls. Our accounting policy recognises gross pay-ins net of consumption tax. Starting from 1 October 2019, the consumption tax rate in Japan increased from 8% to 10%.

Our gross pay-ins recorded a decrease of approximately ¥5,898 million, or approximately 16.6%, from approximately ¥35,567 million for FY2019 to approximately ¥29,669 million for the Year, which was mainly due to the reasons mentioned in the paragraph headed "Revenue" above.

Gross pay-outs

Our gross pay-outs represents 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 ¥4,739 million, or approximately 17.0%, from approximately ¥27,815 million in FY2019 to approximately ¥23,076 million in the Year as a result of the suspension of, and decrease in customer traffic at, our pachinko and pachislot halls as reflected by the drop in gross pay-ins for the reasons above.

Revenue margin

The level of revenue margin is dependent on a 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, as well as the resultant changes in customer behavior (i.e. rounds of play and machine utilisation). Our revenue margin improved slightly from approximately 21.8% in FY2019 to approximately 22.2% in the Year as we decreased the pay-out ratio of machines at certain pachinko halls.

Other income

Our other income mainly comprised (i) income from scrap sales of used pachinko machines to machines brokers for reselling in the second-hand market, (ii) dividend income from our investments, (iii) income from expired IC card, (iv) income from forfeited pachinko balls and (v) other income sources, which mainly included financial relief subsidies granted by authorities in Japan in relation to COVID-19.

Other income decreased by approximately ¥39 million, or approximately 6.5%, from approximately ¥603 million for FY2019 to approximately ¥564 million for the Year, mainly due to a decrease in income from scrap sales of used pachinko machines from approximately ¥557 million for FY2019 to approximately ¥486 million for the Year, which was mainly due to the drop in the average selling price of used pachinko machines with a higher gaming element, all of which are required to gradually phase out pursuant to the 2018 Regulations.

Other net losses

Other net losses mainly comprised (i) provision for impairment loss of investment properties, (ii) losses on fair value change on financial assets at fair value through profit or loss, (iii) recovery from insurance companies, (iv) losses on write-off of property, plant and equipment, (v) exchange gains, net.

Other net losses increased by approximately ¥271 million from approximately ¥7 million in FY2019 to approximately ¥278 million in FY2020. For details, please refer to the paragraph headed "Significant Investments" in this announcement.

Hall operating expenses and administrative and other operating expenses

Hall operating expenses increased by approximately ¥6,278 million, or approximately 92.4%, from approximately ¥6,798 million in FY2019 to approximately ¥13,076 million in the Year. This is primarily due to the recognised impairment losses on property, plant and equipment and right-of-use assets as at 30 June 2020 of ¥6,641 million due to the outbreak of COVID-19 in Japan.

Administrative and other operating expenses decreased by approximately ¥53 million, or approximately 5.9%, from approximately ¥902 million in FY2019 to approximately ¥849 million in the Year, primarily due to the recognition of depreciation of right-of-use assets in accordance with IFRS16 and the decrease in employee benefit expenses as a result of the drop in long-term employee benefits obligations payable to the Yamamoto family.

Impairment loss

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. Our 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**").

The Group's impairment indicators for previous years required impairment assessment on halls (i) operating at a loss for two consecutive financial years and (ii) performing below our management's expectations. Due to the outbreak of COVID-19 in Japan, there was a significant drop in customer traffic at the Group's pachinko halls during FY2020, particularly when the Group was mandatorily required to temporarily suspend operations at its pachinko halls from mid-April 2020 to May 2020. Our management noted that although the outbreak of COVID-19 only affected the Group's operations for less than six months during FY2020, the significant decrease in the Group's operating margin for the Year shows that its financial performance is highly sensitive to changes in market situations. Taking into account the ongoing uncertainty in the market caused by the outbreak of COVID-19, the increasingly competitive landscape and shrinking market size of the pachinko industry, as well as the Group's financial performance for FY2020, our management considered the change in impairment indicators which may lead to a potential impairment loss in accordance with IAS 36, and determined that operating loss is an impairment indicator for FY2020 and that the abovementioned impairment indicators of previous years are to be updated. Our management noted that 10 CGUs (2019: 2) had impairment indicators and accordingly reviewed the recoverability of the relevant carrying amounts of such loss-making CGUs.

As at 30 June 2020, the Group recognised an aggregate impairment loss of ¥6,641 million on ten pachinko halls, which comprised ¥1,513 million in relation to property, plant and equipment and ¥5,128 million in relation to right-of-use assets. The recoverable amounts of the ten 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. The recoverable amount of seven CGUs were determined by their value-in-use, and three CGUs were determined by their fair value less cost of disposal.

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:

(a) The revenue growth of the Group is at most 0% after its operations resume to pre-COVID-19 level;

(b) Discount rate is 12%; and

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

Reasons for significant change in the value of the inputs and assumptions from those previously adopted

Our management adopted a discount rate of 12% in impairment calculations for the Year, as opposed to a discount rate of 9.8% in impairment calculations for FY2019, considering the uncertainty of whether the Group's anticipated long-term revenue growth rate can be maintained at 0% given the ongoing unstable circumstances and the adverse landscape of the pachinko industry as a whole.

Fair value less cost of disposal approach

The recoverable amounts of three CGUs were determined based on a fair value less cost of disposal calculation with reference to a professional valuation performed by an independent valuer using the cost approach and income approach. The independent valuer considered the cost approach, which focuses on cost by deducting depreciation from the replacement cost, more suitable than the income approach for CGUs of this nature, which focuses on profitability and uses the direct capitalisation method and DCF model to estimate value, as the rental market for subject assets of similar characteristics is not active.

Value of inputs and key assumptions

In using the cost approach, the independent valuer considered the expected useful life of the CGUs, the incidental expenses for land and buildings and construction costs of similar buildings. In using the income approach, the independent valuer assumed an analysis period based on the typical holding period of real estate investors, tenant turnover based on historical performance of the subject properties and similar properties and full occupancy of the subject properties.

Subsequent changes to the valuation methods adopted

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

Loss before income tax

Loss before income tax amounted to approximately ¥6,767 million for the Year, as compared to the profit before income tax of ¥989 for FY2019. This is mainly attributable to the decrease in revenue and other income, and increase in hall operating expenses, as aforementioned.

Loss for the year attributable to shareholders of the Company

Loss for the year attributable to shareholders of the Company amounted to approximately ¥6,362 million for the Year, as compared to the profit for the year attributable to shareholders of the Company of ¥601 million for FY2019. 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 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 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 30 June 2020, the Company had total borrowings of approximately ¥4,489 million (30 June 2019: approximately ¥4,532 million), of which approximately 96.4% represented bank borrowings and approximately 3.6% represented bonds.

Cash and cash equivalents

As at 30 June 2020, the Company had cash and cash equivalents of ¥1,545 million (30 June 2019: ¥2,565 million).

Borrowings

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

	As at 30 June 2020		As at 30 June 2019	
	¥ million	**%**	*¥ million*	*%*
Within 1 year	**758**	**16.9**	730	16.1
Between 1 year and 2 years	**758**	**16.9**	715	15.8
Between 2 years and 5 years	**1,509**	**33.6**	1,694	37.4
Over 5 years	**1,464**	**32.6**	1,393	30.7
	4,489	**100.0**	4,532	100.0

As illustrated above, the proportion of our borrowings repayable within 1 year, repayable in between 1 year and 2 years, and repayable in over 5 years increased. The change of maturity profile of our borrowings was primarily attributed to the substantial increase in borrowings taken by the Group for capital expenditures and expenses in relation to the acquisition of Tower City Parking Court in March 2020 and installation of smoking booths for all 17 halls during the Year, which are mostly financed by long-term loans. As at 30 June 2020, none of the Group's borrowings were subject to a fixed interest rate.

The value of the outstanding bond issued by the Group as at 30 June 2020 amounts to ¥160 million (30 June 2019: ¥224 million). This relates to the bonds which were issued in March 2019.

Pledged assets

As at 30 June 2020, the Company pledged assets, including (i) property, plant and equipment, (ii) investment properties, and (iii) listed securities, in the sum of ¥6,697 million (30 June 2019: ¥7,448 million) to secure certain general banking facilities of the Group. The decrease in pledged assets was primarily attributable to the reduction in carrying amounts of pledged assets due to provisions for impairment loss over land and buildings made for the Year.

Gearing ratio

The gearing ratio, being the aggregate of interest-bearing loans and lease liabilities divided by total equity of the Company, was 78.4% as at 30 June 2020 (30 June 2019: 21.9%). The increase of 56.5% was mainly attributable to the recognition of lease liabilities due to the adoption of IFRS16 from 1 July 2019 and decrease in reserve due to recognised impairment losses.

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 the Year, 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. To manage such foreign exchange risks, we entered into foreign exchange transactions to purchase United States Dollars using Japanese Yen in FY2020. 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 30 June	**As at 30 June**	
	2019	**2020**	2019
	¥ million	***¥ million***	*¥ million*
No later than 1 year	860	**62**	50
Later than one year and no later than five years	17	**—**	—
Over five years	25	**—**	—

As at 30 June 2020, 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 ¥1 million (30 June 2019: ¥50 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 ¥1,007 million for the Year (FY2019: ¥322 million), the majority of which came from additions of leasehold improvements and equipment and tools for our pachinko halls, as well as the acquisition of Tower City Parking Court as investment properties. Our capital expenditures were financed by bank loans, net proceeds from the Share Offer (defined below) and the Group's internal funds.

Contingent liabilities

As at 30 June 2020, the Company did not have any material contingent liabilities or guarantees.

SIGNIFICANT INVESTMENTS

As at 30 June 2020, the Group held significant investments primarily in investment properties of ¥2,847 million, which represented land and premises situated in Japan and rented out under operating leases, and financial assets of ¥1,565 million, which represented bonds, trust funds, and listed and unlisted securities.

Investment properties

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. The Group recognised an impairment loss of approximately ¥141 million on its investment properties for the Year. All of the Group's investment properties are stated at fair value less cost of disposal based on a valuation performed by an independent valuer engaged by the Group. As the Group's investment properties comprise properties for office, residential and parking purposes under operating leases, the valuer considered that the income approach, which focuses on profitability, more accurately reflects the value of the investment properties as prospective buyers focus on the income producing capability of the subject properties. In using the income approach, the valuer compared the values derived from the direct capitalisation model and the DCF model. The valuation of the Group's investment properties are dependent on various key assumptions and inputs, including but not limited to (i) a stabilised net cash flow, (ii) a rate of return on deposits of 1% based on long-term interest rate, (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 and (iv) a capitalisation rate based on that of similar properties, interviews with real estate investors and various published indices. 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 our financial assets, the Group recorded (i) a loss of ¥161 million for the changes from financial assets at fair value through profit or loss, (ii) and an income of ¥1 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 the Year. 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 announcement, our Directors do not foresee any default or any impairment to be made to any financial assets held by the Group.

As disclosed in the Company's interim report for 6M2018, 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. On 25 January 2019 and 24 January 2020, 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 agreements to, among others, extend the maturity date of the second series of the Bonds. The first series of the Bonds will mature on 31 July 2021. For details, please refer to the Company's announcements dated 26 July 2018, 25 January 2019 and 24 January 2020.

HUMAN RESOURCES

Employees and remuneration policies

As at 30 June 2020, the Group had 521 employees, almost all of whom were based in Japan, and of whom 459 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 the Year amounted to ¥1,395 million (FY2019: ¥1,504 million), which accounted for approximately 10% (FY2019: 19.5%) 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 our 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 OF SHARES AND USE OF PROCEEDS

On 15 May 2017 (the "**Listing Date**"), 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$74.0 million. The following table sets forth 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**"). As at 30 June 2020, the Company had fully utilised all the net proceeds as intended in the Prospectus and the Allotment Results Announcement.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MATERIAL ACQUISITIONS OF PROPERTIES

On 6 March 2020, Nissei Build and K's Property entered into an acquisition agreement, pursuant to which K's Property agreed to acquire and Nissei Build agreed to sell Tower City Parking Court for a total consideration of approximately ¥782.2 million (inclusive of consumption tax). For details, please refer to the Company's announcement dated 6 March 2020. The acquisition was completed on 26 March 2020.

EVENTS AFTER THE REPORTING PERIOD

Up to the date on which the consolidated financial statements were authorised for issue by our Directors, the Group has been continuously assessing the impact of COVID-19 on the performance of the Group based on the latest development of the pandemic.

The estimated future cash flows of the Group's CGUs, which are subject to impairment tests, will be updated continuously based on the development of the COVID-19 outbreak. The recoverable amount of the Group's CGUs may be lowered if its economic circumstances are worsened as a result of the adverse development of the COVID-19 outbreak.

Notwithstanding the recent negative impact of the COVID-19 outbreak on the Group's operations, our management considers that the going concern basis continues to be appropriate for the Group for the next 12 months from the end of the reporting period.

Save as disclosed in this announcement, no significant events occurred from the end of the reporting period up to the date of this announcement.

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.

FINAL DIVIDEND

No final dividend for the Year has been recommended by the Board.

SCOPE OF WORK OF THE COMPANY'S EXTERNAL AUDITOR

The figures in respect of the Group's consolidated financial position, consolidated statement of comprehensive income, and the related notes thereto for the year ended 30 June 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Audit Committee, together with the Board and its external auditor, had reviewed the accounting principles and policies adopted by the Group and the consolidated financial statements for the Year.

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 Listing Rules and complied with the code provisions, where applicable, during the Year 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 the Board, and the present arrangements are beneficial to and in the interests of the Company and our shareholders as a whole.

REQUIREMENT IN CONNECTION WITH PUBLICATION OF "NON-STATUTORY ACCOUNTS" UNDER SECTION 436 OF THE HONG KONG COMPANIES ORDINANCE CAP. 622

The financial information relating to the Year and the financial information relating to FY2019 included in this preliminary announcement of annual results of 2019/2020 does not constitute the Company's statutory annual consolidated financial statements for those years but, in respect of FY2019, is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Cap. 622 of the laws of Hong Kong) (the "**Companies Ordinance**") is as follows:

The financial statements for the Year have yet to be reported on by the Company's auditor and will be delivered to the Registrar of Companies in due course. The Company had delivered the financial statements for FY2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on these financial statements for FY2019. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Companies Ordinance.

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 had complied with the required standards, where applicable, set out in the Model Code for the year ended 30 June 2020.

ANNUAL GENERAL MEETING

The Company will hold its annual general meeting on Friday, 20 November 2020 (the "**2020 AGM**"), the notice of which will be published and despatched to our shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the shareholders of the Company to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Tuesday, 17 November 2020 to Friday, 20 November 2020 (both dates inclusive), during which period no transfer of Shares will be effected. In order to qualify for attending and voting at the 2020 AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 16 November 2020.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.okura-holdings.com. The annual report of the Company for the Year will be despatched to our 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 September 2020

* *For identification purpose only*

As at the date of this announcement, the Board comprises seven Directors, of which (i) four are executive Directors, namely Mr. Katsuya YAMAMOTO, Mr. Fumihide HAMADA, 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.