Okura Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01655)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- Gross pay-ins decreased by approximately 29.3% from approximately ¥17,383 million for 6M2020 to approximately ¥12,285 million for 6M2021.
- Revenue decreased by approximately 31.9% from approximately ¥4,032 million for 6M2020 to approximately ¥2,744 million for 6M2021.
- Operating profit decreased by approximately ¥273 million from approximately ¥417 million for 6M2020 to approximately ¥144 million for 6M2021.
- Profit before income tax decreased by approximately ¥299 million from approximately ¥335 million for 6M2020 to approximately ¥36 million for 6M2021.
- Profit for the period attributable to shareholders of the Company decreased by approximately ¥201 million from approximately ¥224 million for 6M2020 to approximately ¥23 million for 6M2021.
- Basic and diluted earnings per share amounted to approximately ¥0.046 for 6M2021 (6M2020: basic and diluted earnings per share amounted to approximately ¥0.448).
- The Board does not recommend the payment of an interim dividend for 6M2021.

Note: The above % increases and decreases refer to the changes 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 unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 31 December 2020 ("**6M2021**"), together with the comparative figures for the six months ended 31 December 2019 ("**6M2020**").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

		(Unaudited) Six months ended 31 December	
		2020	2019
	Note	***¥ million***	*¥ million*
Revenue	6	**2,744**	4,032
Other income	7	**148**	283
Other gains, net	7	**30**	32
Hall operating expenses	8	**(2,384)**	(3,517)
Administrative and other operating expenses	8	**(394)**	(413)
Operating profit		**144**	417
Finance income		**29**	55
Finance costs		**(137)**	(137)
Finance costs, net	9	**(108)**	(82)
Profit before income tax		**36**	335
Income tax expense	10	**(13)**	(111)
Profit for the period attributable to shareholders of the Company		**23**	224
Earnings per share attributable to shareholders of the Company for the period (expressed in ¥ per share)			
Basic	11	**0.046**	0.448
Diluted	11	**0.046**	0.448

	Note	(Unaudited) Six months ended 31 December 2020 ¥ *million*	2019 ¥ *million*
Profit for the period		**23**	224
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of employee benefit obligations		**3**	—
Change in fair value of equity investments at fair value through other comprehensive income		**(12)**	7
Deferred income tax arising from fair value change		**5**	(2)
Total comprehensive income for the period attributable to shareholders of the Company		**19**	229

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	**(Unaudited) 31 December 2020** ***¥ million***	(Audited) 30 June 2020 *¥ million*
Assets			
Non-current assets			
Property, plant and equipment	13	**7,722**	7,855
Right-of-use of assets	14	**4,920**	5,266
Investment properties	13	**2,830**	2,847
Intangible assets	13	**749**	751
Prepayments, deposits and other receivables		**1,068**	1,077
Financial assets at fair value through other comprehensive income		**94**	33
Financial assets at fair value through profit or loss		**31**	46
Financial assets at amortised cost		**—**	500
Deferred income tax assets		**623**	610
		18,037	18,985
Current assets			
Inventories		**88**	13
Trade receivables	15	**19**	18
Prepayments, deposits and other receivables		**334**	499
Financial assets at fair value through profit or loss		**264**	486
Financial assets at amortised cost		**1,000**	500
Short-term bank deposits		**100**	100
Cash and cash equivalents		**3,255**	1,545
		5,060	3,161
Total assets		**23,097**	22,146
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	16	**20,349**	20,349
Reserves		**(16,274)**	(16,293)
Total equity		**4,075**	4,056

	Note	(Unaudited) 31 December 2020 ¥ million	(Audited) 30 June 2020 ¥ million
Liabilities			
Non-current liabilities			
Borrowings	19	**4,720**	3,731
Lease liabilities	14	**10,440**	10,887
Accruals, provisions and other payables		**366**	366
Employee benefit obligations	18	**129**	100
Deferred income tax liabilities		**95**	100
		15,750	15,184
Current liabilities			
Borrowings	19	**759**	758
Lease liabilities	14	**842**	881
Financial liabilities at fair value through profit or loss		**3**	—
Accruals, provisions and other payables		**1,550**	1,197
Trade payables	17	**16**	12
Amount due to a director	21	**44**	26
Current income tax liabilities		**58**	32
		3,272	2,906
Total liabilities		**19,022**	18,090
Total equity and liabilities		**23,097**	22,146

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 25 February 2021.

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 2020 published on 15 October 2020 (the "**Annual Report 2020**"), unless otherwise stated.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 31 December 2020 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 2020, which have been prepared in accordance with IFRS and HKFRS. Income tax expenses in the interim periods are accrued using the tax rate that would be applicable to expected total annualised profit or loss.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2020, 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 2021.

(a) The following amendments to standards and revised conceptual framework are mandatory for the first time for the financial year beginning 1 July 2020:

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
IAS 1 and IAS 8 (Amendments)	Definition of Material
IAS 39, IFRS 7 and IFRS 9 (Amendments)	Hedge Accounting
IFRS 3 (Amendments)	Definition of a Business
IFRS 16 (Amendments)	COVID-19-Related Rent Concessions

The amendments to IFRS 16 provide an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to Coronavirus Disease 2019 ("**COVID-19**") is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) any reduction in lease payments affects only payments due on or before 30 June 2021; and

(c) there is no substantive change to other terms and conditions of the lease.

The Group had applied the practical expedient to all qualifying rent concessions. Rent concessions totaling ¥3 million had been accounted for as negative variable lease payments in Other income (Note 7) in the statement of profit or loss for the six months ended 31 December 2020, with no corresponding adjustment made to the lease liabilities.

Except for the amendments to IFRS 16 set out above, the adoption of other new or amendments to existing standards or revised conceptual framework did not have significant impacts on the Group's results and financial position.

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 2020, with the exception of changes in estimates that are required in determining the provision for income taxes.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

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

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Annual Report 2020.

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

5.2 Liquidity risk

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

5.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1	Level 2	Level 3	Total
	¥ million	***¥ million***	***¥ million***	***¥ million***
As at 31 December 2020				
Assets				
Financial assets at fair value through profit or loss				
— Debt securities	**—**	**294**	**1**	**295**
Financial assets at fair value through other comprehensive income				
— Listed securities	**91**	**—**	**—**	**91**
— Unlisted securities	**—**	**—**	**3**	**3**
	91	**294**	**4**	**389**
Liabilities				
Financial liabilities at fair value through profit or loss				
— Put option	**—**	**(3)**	**—**	**(3)**
	—	**(3)**	**—**	**(3)**

	Level 1	Level 2	Level 3	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*
As at 30 June 2020				
Assets				
Financial assets at fair value through profit or loss				
— Debt securities	—	531	1	532
Financial assets at fair value through other comprehensive income				
— Listed securities	30	—	—	30
— Unlisted securities	—	—	3	3
	30	531	4	565

There were no transfers between levels 1, 2 and 3 during the six months ended 31 December 2020 and during the year ended 30 June 2020.

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 2020			
Balance at 30 June 2020 (Audited) and 31 December 2020 (Unaudited)	**3**	**1**	**4**
Six months ended 31 December 2019			
Balance at 30 June 2019 (Audited) and 31 December 2019 (Unaudited)	3	1	4

6 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	(Unaudited) Six months ended 31 December	
	2020 ***¥ million***	2019 *¥ million*
Revenue		
Gross pay-ins	**12,285**	17,383
Less: gross pay-outs	**(9,800)**	(13,582)
Revenue from pachinko and pachislot hall business	**2,485**	3,801
Vending machine income	**47**	66
Property rental	**175**	139
Revenue from other operation	**37**	26
	2,744	4,032

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

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker that are used for making strategic decisions. The chief operating decision maker is identified as the executive directors of the Group. The executive directors consider the business from a service perspective and assess the performance of the operating segments based on a measure of profit before income tax for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as the condensed consolidated interim financial information.

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

Segment assets consist primarily of property, plant and equipment, right-of-use assets, investment properties, intangible assets, inventories, prepayments, deposits and other receivables and cash and cash equivalents for segment uses. They exclude assets served as headquarter uses, deferred income tax assets and assets used for corporate functions including financial assets at amortised cost, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

Capital expenditure comprises additions to property, plant and equipment, right-of-use assets, investment properties and intangible assets. Income tax expenses and corporate expenses are not included in segment results.

The segment information provided to the executive directors for the six months ended 31 December 2020 and 2019 are as follows:

	Six months ended 31 December 2020 (Unaudited)				
	Pachinko and pachislot hall operation *¥ million*	**Property rental** *¥ million*	**All other segments** *¥ million*	**Unallocated amounts** *¥ million*	**Total** *¥ million*
Segment revenue from external customers	**2,532**	**175**	**37**	**—**	**2,744**
Segment results	**18**	**91**	**4**	**(77)**	**36**
Profit before income tax					**36**
Income tax expense					**(13)**
Profit for the period					**23**
Other items					
Provision for impairment loss of property, plant and equipment	**(2)**	**—**	**—**	**—**	**(2)**
Provision for impairment loss of right-of-use assets	**(43)**	**—**	**—**	**—**	**(43)**
Depreciation and amortisation	**(398)**	**(35)**	**(11)**	**(47)**	**(491)**
Finance income	**—**	**—**	**—**	**29**	**29**
Finance costs	**(103)**	**(28)**	**—**	**(6)**	**(137)**
Capital expenditures	**(21)**	**(17)**	**—**	**(1)**	**(39)**

	Six months ended 31 December 2019 (Unaudited)				
	Pachinko and pachislot hall operation	Property rental	All other segments	Unallocated amounts	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*	*¥ million*
Segment revenue from external customers	3,867	139	26	—	4,032
Segment results	476	83	2	(226)	335
Profit before income tax					335
Income tax expense					(111)
Profit for the period					224
Other segment items					
Provision for impairment loss of property, plant and equipment	(1)	—	—	—	(1)
Depreciation and amortisation	(650)	(22)	(8)	(38)	(718)
Finance income	—	—	—	55	55
Finance costs	(113)	(22)	—	(2)	(137)
Capital expenditures	(80)	(1)	(9)	—	(90)

	Pachinko and pachislot hall operation	**Property rental**	**All other segments**	**Total**
	¥ million	***¥ million***	***¥ million***	***¥ million***
As at 31 December 2020 (Unaudited)				
Segment assets	**14,528**	**2,956**	**75**	**17,559**
Unallocated assets				**3,526**
Financial assets held at amortised cost				**1,000**
Financial assets at fair value through profit or loss				**295**
Financial assets at fair value through other comprehensive income				**94**
Deferred income tax assets				**623**
Total assets				**23,097**

	Pachinko and pachislot hall operation *¥ million*	Property rental *¥ million*	All other segments *¥ million*	Total *¥ million*
As at 30 June 2020 (Audited)				
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

There is no single external customer contributed more than 10% revenue to the Group's revenue for the six months ended 31 December 2020 and 2019.

The Group is domiciled in Japan and majority of the non-current assets of the Group as at 31 December 2020 and 30 June 2020 are located in Japan.

7 OTHER INCOME AND OTHER GAINS, NET

	(Unaudited) Six months ended 31 December	
	2020	2019
	¥ million	*¥ million*
Other income		
Income from scrap sales of used pachinko machines	**103**	265
Government grants	**22**	—
Rent concessions	**3**	—
Income from expired IC card	**3**	4
Others	**17**	14
	148	283
Other gains, net		
Exchange (losses)/gains, net	**(16)**	10
Losses on write-off of property, plant and equipment, net	**(2)**	(4)
Gains on fair value change on financial assets at fair value through profit or loss, net	**25**	18
Others	**23**	8
	30	32

8 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	(Unaudited) Six months ended 31 December	
	2020	2019
	¥ million	*¥ million*
Pachinko and pachislot machines expenses (Note)	**775**	1,525
Auditor's remuneration	**13**	14
Employee benefits expenses	**709**	704
Operating lease rental expense in respect of land and buildings	**15**	17
Depreciation and amortisation	**491**	718
Provision for impairment loss of right-of-use assets	**43**	—
Provision for impairment loss of property, plant and equipment	**2**	1

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	
	2020	2019
	¥ million	*¥ million*
Finance income		
Interest income	**1**	4
Interest from debt securities	**28**	51
	29	55
Finance costs		
Interest expense on lease liabilities	**(101)**	(108)
Borrowings interest expenses	**(34)**	(27)
Bond interest expenses	**(2)**	(2)
	(137)	(137)
Finance costs, net	**(108)**	(82)

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 2020 and 2019.

	(Unaudited) Six months ended 31 December	
	2020	2019
	¥ million	*¥ million*
Current income tax		
— Japan corporate income tax	**27**	132
Deferred income tax	**(14)**	(21)
	13	111

11 EARNINGS PER SHARE

Basic earnings per share for the six months ended 31 December 2020 and 2019 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	
	2020	2019
Profit attributable to shareholders of the Company (¥ million)	**23**	224
Weighted average number of ordinary shares in issue (million)	**500**	500
Basic and diluted earnings per share (¥)	**0.046**	0.448

No diluted earnings per share is presented as there was no potential dilutive share during the six months ended 31 December 2020 and 2019. 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 2020 (30 June 2020: Nil).

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

During the six months ended 31 December 2020, the Group incurred capital expenditures of approximately ¥22 million (six months ended 31 December 2019: ¥81 million) and ¥17 million (six months ended 31 December 2019: Nil) for property, plant and equipment and investment properties, respectively, and there was no capital expenditure incurred for intangible asset (six months ended 31 December 2019: ¥9 million).

During the six months ended 31 December 2020, the net book amounts of written-off property, plant and equipment amount to approximately ¥2 million (six months ended 31 December 2019: ¥4 million) and there was no disposal and write-off of investment property and intangible asset (six months ended 31 December 2019: Nil).

The Group carried out reviews of the recoverable amount of each cash-generating unit ("CGU"), which is determined as each individual pachinko and pachislot hall.

For the six months ended 31 December 2020, the management regarded a CGU with loss for one year (30 June 2020: Same) as an impairment indicator. As a result, 7 CGUs (30 June 2020: 10 CGUs) showed impairment indicator, and accordingly, the management reviewed the recoverability of relevant assets of these loss-making CGUs.

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

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

The pre-tax cash flow forecasts of the CGUs adopted the multiple probability-weighted scenarios approach, whereas the key input was the assumed time length for the revenue to resume to pre-pandemic level, ranging from half year to 2 years from 31 December 2020. After resumption to pre-pandemic level, the annual revenue growth rate over the remaining useful life was 0% (30 June 2020: Same): The pre-tax discount rate used to determine the recoverable amounts was 12.0% (30 June 2020: Same).

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

The fair value less cost of disposal calculations were based on the valuation carried out by an independent professionally qualified valuer, Cushman & Wakefield K.K. ("**C&W**"), who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the properties valued. The valuations were determined using the cost approach, which largely used observable and unobservable inputs, including unit price per square meter of sales comparables for land as well as replacement cost per square meter for buildings. The fair values of all CGUs subject to fair value less cost of disposal calculations are within level 3 of the fair value hierarchy.

The key assumptions used for fair value less costs of disposal calculations for the six months ended 31 December 2020 and year ended 30 June 2020 are as follows:

	31 December 2020	30 June 2020
Number of hall subjected to fair value less cost of disposal calculations	2	4
Land — unit price per square meter	¥33,800–¥354,000	¥33,800–¥696,000
Building — replacement cost per square meter	¥150,000–¥200,000	¥50,000–¥283,000

The Group's finance department includes a team that reviews the valuations performed by C&W for financial reporting purposes. This team reports directly to the executive directors. Discussions of valuation processes and results are held between the valuation team and C&W at least annually.

For the six months ended 31 December 2020, as a result of the impairment review, impairment loss of approximately ¥2 million (30 June 2020: ¥1,513 million) in relation to property, plant and equipment and ¥43 million (30 June 2020: ¥5,128 million) in relation to right-of-use assets had been recognised respectively.

14 LEASES

	(Unaudited) 31 December 2020	(Audited) 30 June 2020
	¥ million	*¥ million*
Right-of-use assets		
Land	**470**	504
Buildings	**4,379**	4,606
Leasehold improvements	**—**	32
Equipment and tools	**71**	92
Computer software	**—**	32
	4,920	5,266
Lease liabilities		
Non-current	**10,440**	10,887
Current	**842**	881
	11,282	11,768

During the six months ended 31 December 2020, the Group received rent concessions in the form of a discount on fixed monthly rental payments. The Group applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions totaling ¥3 million had been accounted for as negative variable lease payments in Other income in the statement of profit or loss for the six months ended 31 December 2020, with no corresponding adjustment made to the lease liabilities.

For the six months ended 31 December 2020, as a result of the impairment review, impairment loss of approximately ¥43 million had been recognised on right-of-use assets.

15 TRADE RECEIVABLES

	(Unaudited) 31 December 2020 *¥ million*	(Audited) 30 June 2020 *¥ million*
Trade receivables	**19**	18

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

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

	(Unaudited) 31 December 2020 *¥ million*	(Audited) 30 June 2020 *¥ million*
Less than 30 days	**19**	18

16 SHARE CAPITAL AND RESERVE

	Number of shares *million*	**Share capital** *¥ million*
At 1 July 2019, 31 December 2019, 1 July 2020 and 31 December 2020	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 2020 and 30 June 2020.

17 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice date as at 31 December 2020 and 30 June 2020 are as follows:

	(Unaudited) 31 December 2020	(Audited) 30 June 2020
	¥ million	*¥ million*
Less than 30 days	**16**	12

The carrying amounts of trade payables approximate their fair values as at 31 December 2020 and 30 June 2020 and were denominated in Japanese Yen.

18 EMPLOYEE BENEFIT OBLIGATIONS

	(Unaudited) 31 December 2020	(Audited) 30 June 2020
	¥ million	*¥ million*
Long term benefit obligation for Mr. Katsuya Yamamoto (Note)	**92**	64
Retirement benefit obligations for employees	**37**	36
	129	100

Note: As at 31 December 2020, long term benefit obligation for Mr. Katsuya Yamamoto represented the provision on the lump-sum payment made to him as a recognition of his contribution to the Group. The amount of provision was made according to his rank and years of service in the Group, using projected unit credit method. The defined benefit retirement plans of the Group were measured at present value which were determined with reference to the valuation performed by IIC Partners Co., LTD, an independent qualified professional valuer. The valuation was carried out by projected unit credit method.

19 BORROWINGS

	(Unaudited) 31 December 2020 *¥ million*	(Audited) 30 June 2020 *¥ million*
Non-current portion		
Bank loans	**3,906**	3,636
Government loans	**750**	—
Bonds	**64**	95
	4,720	3,731
Current portion		
Bank loans	**694**	693
Bonds	**65**	65
	759	758
Total borrowings	**5,479**	4,489

20 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 2020 *¥ million*	(Audited) 30 June 2020 *¥ million*
Property, plant and equipment		
— Capital expenditure contracted for but not yet incurred	**—**	1

(b) Operating lease commitments

(i) As a lessor

As at 31 December 2020 and 30 June 2020, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	(Unaudited) 31 December 2020 *¥ million*	(Audited) 30 June 2020 *¥ million*
No later than one year	**61**	62

21 RELATED PARTY TRANSACTIONS

For the purposes of the condensed consolidated interim financial information, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

(a) Outstanding balances arising from transactions with related parties

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

	(Unaudited) 31 December 2020	(Audited) 30 June 2020
	¥ million	*¥ million*
Amount due to a director		
— Mr. Katsuya Yamamoto	**44**	26

(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	
	2020	2019
	¥ million	*¥ million*
Salaries and other short-term employee benefits	**45**	114

22 EVENTS OCCURRING AFTER REPORTING PERIOD

On 25 January 2021, the Group entered into an amendment agreement with the bond issuer and the guarantor to extend the maturity/redemption date of a bond with face value of JPY500 million for one year from 31 January 2021 to 31 January 2022. Save as disclosed above, other terms and conditions of the bond remain unchanged. The aforementioned bond, which was classified as financial assets held at amortised cost under current assets as at 31 December 2021, would be reclassified to non-current assets subsequent to the conclusion of the amended agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry and business review

We are a pachinko hall operator in Japan, operating mainly pachinko and pachislot machines. As at 31 December 2020, we operated 17 pachinko halls under the trading names "Big Apple.", "K's Plaza", "Big Apple. YOUPARK" and "Monaco".

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

As disclosed in the Company's annual report for the year ended 30 June 2020 ("**FY2020**"), the Group recorded a loss before income tax of approximately ¥6,767 million for FY2020, which was mainly attributable to the recognised impairment losses of approximately ¥6,641 million as at 30 June 2020 on property, plant and equipment and right-of-use assets due to the outbreak of COVID-19 in Japan. The Group's pachinko halls also recorded a significant decline in pachinko and pachislot players in the latter half of FY2020 due to the temporary closure of all entertainment facilities (including pachinko halls) in mid-April 2020 and May 2020, following the Japanese prefectural governments' attempts to contain the local spread of COVID-19 in Japan.

As all of the Group's 17 pachinko halls have gradually resumed operations since June 2020, the number of pachinko and pachislot players at the Group's pachinko halls have steadily improved. During 6M2021, the Group observed a partial recovery of customer traffic at some of its pachinko halls, particularly those located in the Kyushu region. Despite the continuing impact of the outbreak of COVID-19 in Japan, the Group has recorded a profit before income tax of approximately ¥36 million for 6M2021, as compared to a loss-making performance in FY2020. However, when compared to 6M2020, which recorded a profit before income tax of approximately ¥335 million, the Group's profit before income tax for 6M2021 dropped by approximately ¥299 million, representing approximately 89.3%. The drop in profit was mainly attributable to the overall decline in customer traffic during 6M2021 and impairment losses of approximately ¥45 million on the Group's property, plant and equipment and right-of-use assets recognised as at 31 December 2020, primarily as a result of the unexpected rise of COVID-19 cases in Fukuoka and Tokyo during 6M2021, which affected the operations of the Group's halls in these cities. For details on the impairment losses, please refer to the paragraph headed "Impairment loss" in this announcement.

Coping with obstacles and uncertainties from regulatory measures

As disclosed in the previous interim reports and annual reports of the Company, the "Regulations to Partially Amend Regulations on the Entertainment and Amusement Trades Rationalising Act and Regulations on Certifying Machines and Conducting Type Test on Machines" issued by the National Public Safety Commission of Japan ("**Public Safety Commission**") on 1 February 2018 (the "**2018 Regulations**") have continued to have an adverse impact on the pachinko 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 of the pachinko industry by batches by the end of January 2021. 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 slightly slowed down across the industry during 6M2021. The Group believes that the 2018 Regulations have contributed and will continue to contribute to the decline in customer traffic at its halls, due to the fact that its replacement of pachinko and pachislot machines are not as appealing to pachinko and pachislot players as its previous machines.

Despite such temporary relief from regulatory measures on pachinko and pachislot machines, as disclosed in the Company's annual report for FY2020, the Group has been trying to cope with 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 the relevant regulations with a view to improve its customer traffic in the long run. In addition, our management has been striving to source the most attractive machines available in the market to provide a favourable mix of machines in the Group's pachinko halls to increase customer traffic. However, our Directors believe that the impact of such measures on customer traffic to pachinko halls remains to be seen amid the continuing pandemic.

Continuing to diversify the Group's revenue stream

As disclosed in the previous interim reports and annual reports of the Company, our management has always been striving to establish alternative streams of income and diversify the Group's operations into different business segments.

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) (the "**Bond Issuer**") in an aggregate amount of ¥1,000 million (the "**Bonds**") and amendment agreements entered into on 25 January 2019 and 24 January 2020 to, among others, extend the maturity date of the second series of the Bonds and increase its interest rate, on 25 January 2021, the Company entered into a third amendment agreement to further extend the maturity/redemption date of the second series of the Bonds to 25 January 2022. Such extension enables the Group to extend its investment and generate more income from the second series of the Bonds, which constitutes a 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, 24 January 2020 and 25 January 2021.

Since June 2019, as disclosed in the Company's interim report for 6M2020, the Group has been providing horse sitting services by leasing stables from an independent third party and contracting another third party to care for the horses. During 6M2021, the scale of the Group's horse sitting operations expanded when compared with 6M2020. The Group will continue to seek for further opportunities in the competition horse training industry to diversify its revenue stream.

Moreover, in June 2020, the Group began cooperating with an independent third party to operate employment support centres for persons with neurodevelopmental disorders in Nagasaki City and Hiroshima City, Japan. As at 31 December 2020, one centre has commenced operations in Nagasaki City and the Group is preparing for the commencement of operations of two more employment support centres of the same nature in Hiroshima City. The Group will continue to assess the prospects of, and explore the opportunities presented by, this business segment.

Market threats and prospects

Although 2020 has been a challenging year for Japan's pachinko industry overall, the Group's operational and financial performance for 6M2021 has managed to recover slightly as a result of our management's efforts in prioritising our resources in the recovery of customer traffic, ensuring continuous compliance with the Japanese government's measures to prevent and control the spread of COVID-19, and voluntarily implementing safety measures to ensure the health and safety of customers at its pachinko halls. Our management will continue to adopt the above measures in order to encourage customer traffic and speed up the recovery of the Group's operations, while exploring new opportunities to diversify into other business segments to expand the Group's sources of revenue.

FINANCIAL REVIEW

Revenue

Our total revenue comprised revenue from (i) pachinko and pachislot hall business, being gross pay-ins less gross pay-outs, (ii) vending machine income, (iii) property rental and (iv) other operations relating to horse sitting services and employment support services. During 6M2021, revenue from pachinko and pachislot business remained the majority source of income for the Company, accounting for approximately 90.6% of the total revenue (6M2020: 94.3%). Our total revenue decreased by approximately 31.9%, from approximately ¥4,032 million for 6M2020, to approximately ¥2,744 million for 6M2021. This decrease was mainly a result of the decrease in approximately 34.6% in revenue generated from our overall pachinko and pachislot business, from approximately ¥3,801 million for 6M2020 to approximately ¥2,485 million for 6M2021, primarily due to the overall decline in customer traffic at our pachinko and pachislot halls as explained above.

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 from approximately ¥66 million for 6M2020 to approximately ¥47 million for 6M2021 due to the decrease in customer traffic as explained above.

We derived rental income from renting out (i) premises to G-prize wholesalers, (ii) car parks, (iii) commercial facilities and (iv) residential units. Property rental income increased from approximately ¥139 million for 6M2020 to approximately ¥175 million for 6M2021 mainly due to an increase in the area of property rented out by the Group as a result of its acquisition of a property located in Nagasaki City, Japan in March 2020. For details, please refer to the Company's announcement dated 6 March 2020.

We derived income from the provision of horse-sitting services which commenced in June 2019. Such income increased from approximately ¥26 million for 6M2020 to approximately ¥35 million for 6M2021, due to the enlargement of our scale of operations as compared to 6M2020.

We derived income from the provision of employment support services which commenced in June 2020. Such income amounted to approximately ¥2 million for 6M2021.

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 in Japan was 10% during 6M2021.

Our gross pay-ins recorded a decrease of approximately ¥5,098 million, or approximately 29.3%, from approximately ¥17,383 million for 6M2020 to approximately ¥12,285 million for 6M2021, which was mainly due to the same reasons that resulted in the decrease in our revenue as mentioned above.

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 ¥3,782 million, or approximately 27.8%, from approximately ¥13,582 million for 6M2020 to approximately ¥9,800 million for 6M2021 as a result of the drop in gross pay-ins for the reasons mentioned above.

Revenue margin

Revenue margin for our pachinko and pachislot business represented our revenue from pachinko and pachislot hall business divided by gross pay-ins. The level of revenue margin is dependent on the combination of the payout ratio of the pachinko and pachislot machines, the G-prize mark-up imposed and the mix of pachinko and pachislot machines with different jackpot probability in our halls, and as a result of the resultant changes in customer behavior (i.e. rounds of play and machine utilisation). Our revenue margin worsened slightly from approximately 21.9% for 6M2020 to approximately 20.2% for 6M2021 as we strategically increased the pay-out ratio of machines at certain pachinko halls to attract higher customer traffic.

Other income

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

Other income decreased by approximately ¥135 million, or approximately 47.7%, from approximately ¥283 million for 6M2020 to approximately ¥148 million for 6M2021, mainly due to a decrease in income from scrap sales of used pachinko machines of approximately ¥162 million as a result of a slow down in the frequency of replacement of old pachinko and pachislot machines during 6M2021 in light of the Revised 2018 Regulations and the Group's cost-saving measures under the negative impact of COVID-19.

Hall operating expenses and administrative and other operating expenses

Hall operating expenses decreased by approximately ¥1,133 million, or approximately 32.2%, from approximately ¥3,517 million for 6M2020 to approximately ¥2,384 million for 6M2021. This is primarily due to (i) the decrease in pachinko and pachislot machine expenses by approximately ¥750 million, as a result of the less frequent replacement of pachinko machines during 6M2021 due to limited quantities of new machines compliant with the 2018 Regulations available in the market caused by manufacturing delays since the outbreak of COVID-19, the Group's cost-saving measures and the delayed schedule in replacement of machines in light of the Revised 2018 Regulations and (ii) the decrease in depreciation and amortisation expenses of approximately ¥227 million as a result of asset impairment made in FY2020, partially offset by the provision for impairment losses of approximately ¥45 million on property, plant and equipment and right-of-use assets as at 31 December 2020 due to the ongoing effect of COVID-19 in Japan.

Administrative and other operating expenses decreased slightly by approximately ¥19 million, or approximately 4.6%, from approximately ¥413 million for 6M2020 to approximately ¥394 million for 6M2021, as a result of a drop in legal and professional fees and travelling expenses.

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**").

As disclosed in the Company's annual report for FY2020, our management updated the Group's impairment indicators to operating loss after 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. For 6M2021, the Company continued to regard operating loss as an impairment indicator and our management noted that seven CGUs (FY2020: 10 CGUs) had impairment indicators, among which, full impairment was already recorded in two halls for FY2020 and no addition was made to these two halls during 6M2021. Our management assessed the estimates beneath the recoverable amount calculations and concluded there was no favourable change in estimates from FY2020 and considered no reversal of impairment loss was needed. As a result, only five CGUs were subject to impairment review. Our management accordingly reviewed the recoverability of the relevant carrying amounts of such loss-making CGUs.

The recoverable amounts of the five 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 amounts of three CGUs were determined by their value-in-use, and the remaining two CGUs were determined by their fair value less cost of disposal. As a result, for the six months ended 31 December 2020, the Group recognised an aggregate impairment loss of ¥45 million on two pachinko halls, which comprised ¥2 million in relation to property, plant and equipment and ¥43 million in relation to right-of-use assets.

Value-in-use approach

The value-in-use calculations were based on future cash flow forecasts of the three 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 are in line with those used for FY2020, which 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.

The above value of inputs and key assumptions remained consistent with the impairment calculations for FY2020.

Fair value less cost of disposal approach

The recoverable amounts of the two CGUs were determined based on a fair value less cost of disposal calculation with reference to a professional valuation performed by an independent professionally qualified 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 and uses observable and unobservable inputs such as sales comparables per square metre for land and estimation of useful life and construction costs for buildings, 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. Continuous discussion of valuation process and results are held between us and the independent valuer.

Value of inputs and key assumptions

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

No subsequent changes to the valuation methods adopted

There have been no changes to the valuation methods adopted in relation to impairment testing.

Profit before income tax

Profit before income tax decreased by approximately ¥299 million, or approximately 89.3%, from approximately ¥335 million for 6M2020 to approximately ¥36 million for 6M2021. This is mainly attributable to the decrease in revenue of approximately ¥1,288 million during 6M2021, partially offset by (i) the decrease in hall operating expenses of approximately ¥1,133 million and (ii) the decrease in administrative and other operating expenses of approximately ¥19 million.

Profit for the period attributable to shareholders of the Company

Profit for the period attributable to shareholders of the Company decreased by approximately ¥201 million, or approximately 89.7%, from approximately ¥224 million for 6M2020 to approximately ¥23 million for 6M2021. The decrease in profit for the period attributable to shareholders of the Company for 6M2021 was mainly due to (i) the decrease in profit before income tax of approximately ¥299 million for the abovementioned reasons, partially offset by the decrease in income tax expense of approximately ¥98 million. Such decrease in income tax expense was due to the decrease in current income tax of approximately ¥105 million.

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 31 December 2020, the Company had total borrowings of approximately ¥5,479 million (30 June 2020: approximately ¥4,489 million), of which approximately 84.0% represented bank borrowings, approximately 13.7% represented government borrowings and approximately 2.3% represented bonds. The increase in the amount of borrowings was mainly due to the additional loans drawn by the Group during 6M2021 pursuant to lending schemes with lower interest rate and longer repayment period introduced by the government to assist businesses sustain operations in the midst of the COVID-19 pandemic.

Cash and cash equivalents

As at 31 December 2020, the Company had cash and cash equivalents of approximately ¥3,255 million (30 June 2020: approximately ¥1,545 million).

Borrowings

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

	As at 31 December 2020		**As at 30 June 2020**	
	¥ million	***%***	*¥ million*	*%*
Within 1 year	**759**	**13.9**	758	16.9
Between 1 year and 2 years	**752**	**13.7**	758	16.9
Between 2 years and 5 years	**1,899**	**34.7**	1,509	33.6
Over 5 years	**2,069**	**37.7**	1,464	32.6
	5,479	**100**	4,489	100.0

As illustrated above, the proportion of our borrowings repayable within 1 year decreased, while the proportion of our borrowings repayable in over 5 years increased. The change of maturity profile of our borrowings was primarily due to the additional loans of approximately ¥1,310 million drawn during 6M2021, and net-off with the existing borrowings which had been gradually repaid as scheduled. The new drawn loans are related to the COVID-19 Financial Assistance Measures of the Japan Government, and are with lower fixed interest rate and longer repayment term.

Bonds

The value of outstanding bonds issued by the Group as at 31 December 2020 amounts to ¥129 million (30 June 2020: ¥160 million). No new bond was issued during 6M2021.

Pledged assets

As at 31 December 2020, the Company pledged assets, including (i) property, plant and equipment, (ii) investment properties, and (iii) listed securities, in the sum of approximately ¥6,642 million (30 June 2020: approximately ¥6,697 million) to secure certain general banking facilities of the Group. The decrease in pledged assets was primarily attributable to the decrease in carrying amount of the underlying assets from depreciation.

Gearing ratio

The gearing ratio, being the aggregate of interest-bearing loans and lease liabilities divided by total equity of the Company, was approximately 76.8% as at 31 December 2020 (30 June 2020: approximately 78.4%). The decrease of 1.6% was mainly attributed to the repayment of our existing lease liabilities.

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 6M2021, 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 have entered into foreign exchange transactions to purchase United States Dollars using Japanese Yen since FY2019 and such arrangements were terminated in December 2020. As at 31 December 2020, there was no foreign exchange transaction in effect. 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 to look for opportunities to 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 a lessor, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	As a lessor	
	As at 31 December 2020	As at 30 June 2020
	¥ million	*¥ million*
No later than 1 year	**61**	62

As at 31 December 2020, the Group did not have any capital commitments which were contracted but not provided for in respect of purchase of property, plant and equipment (30 June 2020: approximately ¥1 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 ¥39 million for 6M2021 (6M2020: approximately ¥90 million), majority of which came from leasehold improvements and equipment and tools for our pachinko halls. The decrease in capital expenditures was due to the Group's cost-saving measures in light of the COVID-19 pandemic. These capital expenditures were financed by the Group's internal funds.

Contingent liabilities

As at 31 December 2020, the Company did not have any material contingent liabilities or guarantees.

SIGNIFICANT INVESTMENTS

As at 31 December 2020, the Group held significant investments primarily in investment properties of approximately ¥2,830 million, which represented buildings and carparks situated in Japan and rented out under operating lease, and financial assets of approximately ¥1,389 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. No impairment loss was recognised during 6M2021 and as at the date of this announcement, our Directors do not foresee further significant impairment loss to our investment properties in the near future.

Financial assets

In relation to our financial assets, the Group recorded (i) a gain of approximately ¥25 million for the changes in fair values of financial assets at fair value through profit or loss and (ii) a loss of approximately ¥12 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 6M2021. 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 annual report for FY2019, 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. The Company entered into respective amendment agreements on 25 January 2019 and 24 January 2020 to, among others, extend the maturity date and increase the interest rate of the second series of the Bonds. On 25 January 2021, the Company entered into a third amendment agreement to further extend the maturity/redemption date of the second series of the Bonds to 25 January 2022. 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, 24 January 2020 and 25 January 2021.

HUMAN RESOURCES

Employees and remuneration policies

As at 31 December 2020, the Group had 515 employees, almost all of whom were based in Japan, and of whom 453 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 6M2021 amounted to approximately ¥709 million (6M2020: approximately ¥704 million), which accounted for approximately 25.5% (6M2020: approximately 17.9%) 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 announcement, no option was granted exercised, cancelled or lapsed under the Share Option Scheme.

ISSUE FOR CASH OF EQUITY SECURITIES

During 6M2021, the Company had not issued for cash any equity securities (including securities convertible into equity securities).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During 6M2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MATERIAL ACQUISITIONS AND/OR DISPOSALS OF SUBSIDIARIES

During 6M2021, the Group did not conduct any material acquisitions or disposals of subsidiaries, associates and joint ventures.

EVENTS AFTER THE REPORTING PERIOD

On 25 January 2021, the Company entered into an amendment agreement to further extend the maturity/redemption date of the second series of the Bonds issued by the Bond Issuer to 25 January 2022 and subscribed by the Company pursuant to the agreements entered into on 26 July 2018. For details, please refer to the Company's announcement dated 25 January 2021.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL INVESTMENTS

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

INTERIM DIVIDEND

No interim dividend for 6M2021 has been recommended by the Board.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information and the interim results announcement for 6M2021 and discussed the financial related matters with the management. The unaudited condensed consolidated interim financial information of our Group for 6M2021 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.

CORPORATE GOVERNANCE

Our Directors consider 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 6M2021 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.

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 6M2021.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM 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 interim report of the Company for 6M2021 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 February 2021

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.

* *For identification purpose only*