Okura Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01655)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

- Gross pay-ins decreased by approximately 18.3% to approximately ¥24,232 million for FY2021 (defined below) (FY2020 (defined below): approximately ¥29,669 million).
- Revenue decreased by approximately 23.1% to approximately ¥5,423 million for FY2021 (FY2020: approximately ¥7,051 million).
- Operating loss was approximately ¥81 million for FY2021 (FY2020: operating loss of approximately ¥6,588 million).
- Loss before income tax was approximately ¥273 million for FY2021 (FY2020: loss before income tax of approximately ¥6,767 million).
- Loss for the year attributable to the shareholders of the Company was approximately ¥577 million for FY2021 (FY2020: loss for the year attributable to the shareholders of the Company of approximately ¥6,362 million).
- Basic and diluted loss per share was approximately ¥1.15 for FY2021 (FY2020: basic and diluted loss per share of approximately ¥12.72).
- The Board does not recommend the payment of a final dividend for FY2021 (FY2020: Nil).

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 consolidated results of the Company and its subsidiaries (together the "**Group**") for the year ended 30 June 2021 (the "**Year**" or "**FY2021**"), together with the comparative figures for the year ended 30 June 2020 ("**FY2020**").

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2021

	Note	**2021**	2020
		¥ million	*¥ million*
Revenue	4	**5,423**	7,051
Other income	5	**309**	564
Other gains/(losses), net	5	**786**	(278)
Hall operating expenses	6	**(5,767)**	(13,076)
Administrative and other operating expenses	6	**(832)**	(849)
Operating loss		**(81)**	(6,588)
Finance income		**76**	93
Finance costs		**(268)**	(272)
Finance costs, net	7	**(192)**	(179)
Loss before income tax		**(273)**	(6,767)
Income tax (expense)/credit	8	**(304)**	405
Loss for the year attributable to shareholders of the Company		**(577)**	(6,362)
Loss per share attributable to shareholders of the Company for the year (expressed in ¥ per share)			
Basic and diluted	9	**(1.15)**	(12.72)
Loss for the year		**(577)**	(6,362)
Other comprehensive loss			
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		**(7)**	1
Deferred income tax arising from fair value change		**2**	(1)
		(2)	—
Total comprehensive loss for the year attributable to shareholders of the Company		**(579)**	(6,362)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

	Note	**2021**	2020
		¥ million	*¥ million*
Assets			
Non-current assets			
Property, plant and equipment		**7,622**	7,855
Right-of-use of assets		**4,104**	5,266
Investment properties		**3,216**	2,847
Intangible assets		**359**	751
Prepayments and deposits		**1,059**	1,077
Financial assets held at amortised cost		**—**	500
Financial assets at fair value through other comprehensive income		**24**	33
Financial assets at fair value through profit or loss		**22**	46
Deferred income tax assets		**328**	610
		16,734	18,985
Current assets			
Inventories		**79**	13
Trade receivables	11	**19**	18
Prepayments, deposits and other receivables		**419**	499
Financial assets held at amortised cost		**1,000**	500
Financial assets at fair value through profit or loss		**356**	486
Short-term bank deposits		**100**	100
Cash and cash equivalents		**2,617**	1,545
		4,590	3,161
Total assets		**21,324**	22,146
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital		**20,349**	20,349
Reserves		**(16,872)**	(16,293)
Total equity		**3,477**	4,056

	Note	**2021**	2020
		¥ million	*¥ million*
Liabilities			
Non-current liabilities			
Borrowings	12	**4,703**	3,731
Lease liabilities		**9,264**	10,887
Accruals, provisions and other payables		**358**	366
Employee benefit obligations		**130**	100
Deferred income tax liabilities		**82**	100
		14,537	15,184
Current liabilities			
Borrowings	12	**792**	758
Financial liabilities at fair value through profit or loss		**8**	—
Lease liabilities		**848**	881
Trade payables	13	**12**	12
Accruals, provisions and other payables		**1,591**	1,197
Amount due to directors		**3**	26
Current income tax liabilities		**56**	32
		3,310	2,906
Total liabilities		**17,847**	18,090
Total equity and liabilities		**21,324**	22,146

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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 Group is 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) Amended standards and revised conceptual framework adopted by the Group

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 39, HKFRS 7 and IFRS 9	Interest Rate Benchmark Reform — Phase 1
Amendments to HKFRS3	Definition of a Business
Amendments to IFRS 16	Covid-19-Related Rent Concessions
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The amended standards and revised conceptual framework listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(d) New and amended standards, revised accounting guideline, amended improvements and amended interpretations (collectively, the "Amendments") not yet adopted by the Group

The following amendments have been published but not yet mandatory for 30 June 2021 reporting period and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16	Interest Rate Benchmark Reform — Phase 2	1 January 2021
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IAS 37	Onerous Contracts — Costs of Fulfilling a Contract	1 January 2022
Amendments to Annual Improvements project	Annual Improvements to IFRSs 2018–2020	1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
IFRS 17 and amendments to IFRS 17	Insurance contracts	1 January 2023
Amendments to Hong Kong Interpretation 5	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is in the process of making an assessment of what the impact of these Amendments is expected to be in the period of initial application. The Group does not anticipate the adoption of them to have a significant impact on the Group's results of operations and financial position.

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2021 ¥ million	2020 ¥ million
Revenue		
Gross pay-ins	**24,232**	29,669
Less: gross pay-outs	**(19,327)**	(23,076)
Revenue from pachinko and pachislot hall business	**4,905**	6,593
Vending machine income	**93**	115
Property rental	**351**	287
Revenue from other operations	**74**	56
	5,423	7,051

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

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker that are used for making strategic decisions. The chief operating decision maker is identified as the executive directors of the Group. The executive directors consider the business from a service perspective and assess the performance of the operating segments based on a measure of loss 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. 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, 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 2021 and 2020 are as follows:

	Year ended 30 June 2021			
	Pachinko and pachislot hall operation	**Property rental**	**All other segments**	**Total**
	¥ million	***¥ million***	***¥ million***	***¥ million***
Segment revenue from external customers	**4,998**	**351**	**74**	**5,423**
Segment results	**(297)**	**112**	**(88)**	**(273)**
Loss before income tax				**(273)**
Income tax expense				**(304)**
Loss for the year				**(577)**
Other segment items				
Reversal of provision for/ (provision for) impairment loss of property, plant and equipment	**22**	**—**	**(1)**	**21**
Provision for impairment loss of right-of-use assets	**(532)**	**—**	**(15)**	**(547)**
Provision for impairment loss of intangible assets	**(382)**	**—**	**(6)**	**(388)**
Provision for impairment loss of investment properties	**—**	**(44)**	**—**	**(44)**
Depreciation and amortisation	**(827)**	**(74)**	**(114)**	**(1,015)**
Finance income	**—**	**—**	**76**	**76**
Finance costs	**(198)**	**(57)**	**(13)**	**(268)**
Capital expenditures	**(36)**	**(489)**	**(43)**	**(568)**

	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
Loss for the year				(6,362)
Other segment items				
Provision for impairment loss of property, plant and equipment	(1,513)	—	—	(1,513)
Provision for impairment loss of right-of-use assets	(5,128)	—	—	(5,128)
Provision for 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)

The segment assets as at 30 June 2021 and 2020 are as follows:

	Pachinko and pachislot hall operation ***¥ million***	**Property rental** ***¥ million***	**All other segments** ***¥ million***	**Total** ***¥ million***
As at 30 June 2021				
Segment assets	**12,840**	**3,667**	**68**	**16,575**
Unallocated assets				**3,019**
Financial assets held at amortised cost				**1,000**
Financial assets at fair value through profit or loss				**378**
Financial assets at fair value through other comprehensive income				**24**
Deferred income tax assets				**328**
Total assets				**21,324**

	Pachinko and pachislot hall operation *¥ million*	Property rental *¥ million*	All other segments *¥ million*	Total *¥ 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

There is no single external customer contributed more than 10% revenue to the Group's revenue for the years ended 30 June 2021 and 2020.

The Group is domiciled in Japan and majority of the non-current assets of the Group as at 30 June 2021 and 2020 are located in Japan.

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

	2021 ***¥ million***	2020 *¥ million*
Other income		
Income from scrap sales of used pachinko machines	**232**	486
Dividend income	**5**	1
Income from expired IC card	**5**	7
Government subsidy related to COVID-19	**22**	35
Others	**45**	35
	309	564
Other gains/(losses), net		
Gain on release of lease liabilities (Note)	**731**	—
Provision for impairment loss of investment properties	**(44)**	(141)
Provision for impairment loss of property, plant and equipment	**(1)**	—
Provision for impairment loss of right-of-use assets	**(15)**	—
Provision for impairment loss of intangible assets	**(6)**	—
Exchange gains, net	**17**	14
Losses on write-off of property, plant and equipment	**(2)**	(11)
Gains/(losses) on fair value changes on financial assets at fair value through profit or loss	**16**	(161)
Gains on disposal of financial assets at fair value through profit or loss	**56**	8
Others	**34**	13
	786	(278)

Note: During the year ended 30 June 2021, as a result of modification of lease terms in relation to closure of one pachinko and pachislot hall, lease liabilities is remeasured to adjust against the right-of-use assets and a gain on release of lease liabilities is recognised.

6 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2021	2020
	¥ million	*¥ million*
Pachinko and pachislot machines expenses (Note)	**1,654**	2,464
Auditor's remuneration		
— Audit services	**52**	47
— Non-audit services	**15**	17
Employee benefits expenses		
— Hall operating expenses	**1,018**	1,062
— Administrative and other operating expenses	**291**	333
Operating lease rental expense in respect of land and buildings	**27**	25
Depreciation and amortisation	**1,015**	1,526
Advertising and promotion expenses	**171**	314
Equipment and consumables costs	**121**	132
(Reversal of provision for)/provision for impairment loss of property, plant and equipment	**(22)**	1,513
Provision for impairment loss of right-of-use assets	**532**	5,128
Provision for impairment loss of intangible assets	**382**	6
Provision for unrecoverable prepayments	**—**	4
Repairs and maintenance	**110**	99
Other taxes and duties	**128**	131
Outsourcing service expenses	**193**	206
Utilities expenses	**294**	321
G-prize procurement expenses to wholesalers	**198**	189
Legal and professional fees	**66**	83
Travel expenses	**24**	33
Insurance fee	**18**	14
Others	**312**	278
	6,599	13,925

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

	2021	2020
	¥ million	*¥ million*
Finance income		
Interest income	**1**	5
Interest from debt securities	**75**	88
	76	93
Finance costs		
Interest for lease liabilities	**(196)**	(213)
Bank borrowings interest expenses	**(68)**	(54)
Bond interest expenses	**(2)**	(3)
Others	**(2)**	(2)
	(268)	(272)
Finance costs, net	**(192)**	(179)

8 INCOME TAX EXPENSE/(CREDIT)

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 2021 and 2020.

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.

	2021	2020
	¥ million	*¥ million*
Current income tax expenses		
— Japan	**38**	107
Deferred income tax		
— Japan	**266**	(512)
	304	(405)

9 LOSS PER SHARE

Basic loss per share for the years ended 30 June 2021 and 2020 are calculated by dividing the loss attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the years ended 30 June 2021 and 2020.

	2021	2020
Loss attributable to shareholders of the Company (¥ million)	**(577)**	(6,362)
Weighted average number of ordinary shares in issue (million) (Note)	**500**	500
Basic and diluted losses per share (¥)	**(1.15)**	(12.72)

Note: No diluted loss per share is presented as there was no potential dilutive share during the years ended 30 June 2021 and 2020. Diluted loss per share is equal to the basic loss per share.

10 DIVIDENDS

The board of directors did not recommend the payment of dividend for the year ended 30 June 2021 (2020: Nil).

11 TRADE RECEIVABLES

	2021	2020
	¥ million	*¥ 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:

	2021	2020
	¥ million	*¥ million*
Less than 30 days	**19**	18

The carrying amounts of the trade receivables approximate their fair values as at 30 June 2021 and 2020 and are denominated in ¥.

12 BORROWINGS

	2021	2020
	¥ million	*¥ million*
Non-current portion		
Bank loans	**3,921**	3,636
Loans from governmental financial institution	**750**	—
Bonds	**32**	95
	4,703	3,731
Current portion		
Bank loans	**727**	693
Bonds	**65**	65
	792	758
Total borrowings	**5,495**	4,489

As at 30 June 2021 and 2020, the Group's borrowings were repayable as follows:

	Bank loans		**Loans from governmental financial institutions**		**Bonds**	
	2021	2020	**2021**	2020	**2021**	2020
	¥ million	*¥ million*	***¥ million***	*¥ million*	***¥ million***	*¥ million*
Within 1 year	**727**	693	**—**	—	**65**	65
Between 1 and 2 years	**620**	693	**86**	—	**32**	65
Between 2 and 5 years	**1,711**	1,478	**281**	—	**—**	30
Over 5 years	**1,590**	1,465	**383**	—	**—**	—
	4,648	4,329	**750**	—	**97**	160

The average effective interest rates (per annum) at 30 June 2021 and 2020 were set out as follows:

	2021	2020
Bank loans	**1.35%**	1.37%
Loans from governmental financial institution	**0.11%**	N/A
Bonds	**0.12%**	0.12%

As at 30 June 2021 and 2020, the total borrowings are pledged by certain assets and their carrying values are shown as below:

	2021	2020
	¥ million	*¥ million*
Property, plant and equipment	**5,266**	5,357
Investment properties	**1,717**	1,311
Financial assets at fair value through other comprehensive income		
— listed equity securities	**21**	29
	7,004	6,697

The carrying amounts of borrowings of the Group approximate their fair values as at 30 June 2021 and 2020 and are denominated in Japanese Yen.

During the years ended 30 June 2021 and 2020, details of bonds issued by the Group are as follows:

Issue date	**Principal amount**	**Outstanding balance**		**Interest rate**	**Due date**
		2021	2020		
	¥ million	***¥ million***	*¥ million*		
13 March 2019	260	**97**	160	6 months TIBOR	13 November 2022

13 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice dates as at 30 June 2021 and 2020 were as follows:

	2021	2020
	¥ million	*¥ million*
Less than 30 days	**12**	12

The carrying amounts of trade payables approximate their fair values as at 30 June 2021 and 2020 and are denominated in ¥.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry and business review

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

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

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

As all of the Group's pachinko halls have gradually resumed operations since June 2020, the number of pachinko and pachislot players at the Group's pachinko halls have steadily improved in FY2021. During FY2021, the Group observed a partial recovery of customer traffic at some of its pachinko halls, particularly those located in the Kyushu region. Notwithstanding the recovery of customer traffic at the pachinko halls, the Group had closed down two pachinko halls, namely K's Plaza Mikatsuki hall located at 1123 Chokanda Mikatsukicho Ogi-shi, Saga Prefecture, Japan and Big Apple. YOUPARK Motosumiyoshi hall located at 2–2–34 Kizuki, Nakahara-ku, Kawasaki-shi, Kanagawa Prefecture, Japan ("**BA Motosumiyoshi**") on 10 May 2021. After FY2021, the Group had further closed down another three pachinko halls, namely Big Apple. Dazaifu hall located at 2–1–1, Ozano, Dazaifu-shi, Fukuoka Prefecture, Japan ("**BA Dazaifu**"), Big Apple. Sumiyoshi hall located at 6–4, Sumiyoshimachi, Nagasaki-shi, Nagasaki Prefecture, Japan ("**BA Sumiyoshi**"), and Monaco Sumiyoshi Honten hall located at 1–5, Sumiyoshimachi, Nagasaki-shi, Nagasaki Prefecture, Japan ("**Monaco**") on 31 August 2021.

The management considered that the closure of the aforementioned five pachinko halls will be more beneficial for the Group as the Group would be able to focus its resources on its other more promising pachinko halls by enhancing customer experience there and minimise further losses from business operations by closing down those with weaker performance. For further details, please refer to the paragraph headed "Events after the Reporting Period" below and the announcements of the Company dated 7 May 2021 and 31 August 2021.

The Group has recorded a loss before income tax of approximately ¥273 million for FY2021, representing a drop in loss before income tax of approximately 96.0% from approximately ¥6,767 million for FY2020. The drop in loss before income tax for FY2021 as compared with FY2020 was mainly attributable to (i) the decrease in provision for impairment loss recognised on the Group's assets by approximately ¥5,834 million, primarily caused by the decrease in provision for impairment losses of property, plant and equipment of approximately ¥1,535 million and the decrease in provision for impairment loss of right-of-use assets for approximately ¥4,581 million, for the reasons to be explained below, and (ii) the increase in other net gains of approximately ¥786 million for FY2021 as compared with the other net losses of approximately ¥278 million for FY2020 due to a gain on release of lease liabilities of approximately ¥731 million which arose from the remeasurement of lease liabilities to adjust against the right-of-use assets as a result of the termination of the lease at BA Motosumiyoshi due to its closure in FY2021 as mentioned above.

Coping with obstacles and uncertainties from regulatory measures

As disclosed in the previous interim reports and annual reports of the Company, the "Regulations to Partially Amend Regulations on the Entertainment and Amusement Trades Rationalising Act and Regulations on Certifying Machines and Conducting Type Test on Machines" issued by the National Public Safety Commission of Japan on 1 February 2018 (the "**2018 Regulations**") has continued to have an adverse impact on the pachinko and pachislot industry by reducing the attractiveness of the game and contributing to the continuous decline of pachinko and pachislot players, as pachinko and pachislot machines with a higher gaming element are required to gradually phase out of the pachinko industry in batches by the end of January 2021. Pursuant to revisions of the 2018 Regulations in May 2020 and May 2021 (the "**Revised 2018 Regulations**"), the deadline of January 2021 for phasing out certain types of game machines has now been extended to the end of January 2022, enabling pachinko hall operators more time to replace their pachinko and pachislot machines in order to meet the requirements of the 2018 Regulations. 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 FY2021. The Group believes that the 2018 Regulations have contributed and will continue to contribute to the decline in customer traffic at its halls, due to the fact that the pachinko and pachislot machine replacements are not as appealing to pachinko and pachislot players as its predecessors.

As a result of the above, 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 effect of such measures on customer traffic to pachinko halls remains to be seen amid the continuing COVID-19 pandemic.

Continuing to diversify the Group's revenue stream

As disclosed in previous interim reports and annual reports of the Company, our management has continuously been striving to establish alternative streams of income and diversify the Group's operations into different business segments. For FY2021, we derived revenue from our pachinko hall business, our vending machines, our rental properties including premises to G-prize wholesalers, car parks, commercial facilities and residential units and our other operations such as the provision of horse-sitting services.

On 7 April 2021, K's Property Co., Ltd. ("**K's Property**"), Takeda Kousan Ltd ("**Takeda Kousan**") and Mr. Yoshio Takeda ("**Mr. Takeda**") entered into an acquisition agreement, pursuant to which K's Property, an indirectly wholly-owned subsidiary of the Company, as the purchaser agreed to acquire, and Takeda Kousan and Mr. Takeda as the vendors agreed to sell, a parcel of land with a total area of 649.85 square metres and a seven-storey building situated at 1517–1, 1517–2 and 1518–1, Sumiyoshimachi, Nagasaki City, Japan (the "**Properties**") for a total consideration of approximately ¥442 million (inclusive of consumption tax) (the "**Nagasaki Acquisition**"). Our Directors, taking into account various factors such as the location, condition and potential appreciation in value of the Properties, consider that the Nagasaki Acquisition provides an excellent opportunity for the Group to (i) expand its property investment portfolio, which will allow the Group to benefit from any future capital appreciation, and (ii) generate a new source of rental income which can serve as the Group's stable source of cash flow and revenue. For details, please refer to the announcement of the Company dated 7 April 2021. The Nagasaki Acquisition was completed on 20 April 2021.

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

Market threats and prospects

Although 2020 and the first half of 2021 has been a challenging year for Japan's pachinko industry overall, the Group's operational and financial performance for FY2021 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 is comprised of revenue from (i) pachinko and pachislot hall business, being gross pay-ins less gross pay-outs, (ii) vending machine income, (iii) property rental, and (iv) other operations relating to horse sitting services and employment support services. During the Year, revenue from our pachinko and pachislot hall business remained the majority source of income for the Company, accounting for approximately 90.4% of our total revenue (FY2020: approximately 93.5%). Our total revenue decreased by approximately ¥1,628 million, or approximately 23.1%, from approximately ¥7,051 million for FY2020, to approximately ¥5,423 million for FY2021. This decrease was mainly a result of the decrease by approximately 25.6% in revenue generated from our overall pachinko and pachislot business, from approximately ¥6,593 million for FY2020 to approximately ¥4,905 million for FY2021, primarily due to the overall decline in customer traffic at our pachinko and pachislot halls due to the outbreak of COVID-19, the closure of the two pachinko halls on 10 May 2021, and the 2018 Regulations 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 by approximately 19.1%, from approximately ¥115 million for FY2020 to approximately ¥93 million for the Year, primarily due to the overall decline in customer traffic and the closure of pachinko halls 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 by approximately 22.3%, from approximately ¥287 million for FY2020 to approximately ¥351 million for the Year, mainly due to an increase in rental income derived from the newly acquired properties located in Nagasaki City, Japan in March 2020 and April 2021.

We derived income from the provision of horse-sitting services and employment support services which commenced in June 2019 and June 2020, respectively. Such income increased by approximately 32.1%, from approximately ¥56 million for FY2020 to approximately ¥74 million for FY2021, due to the increase of the number of horse stables from 16 to 22 and the full year operation of the Group's employment support services.

Gross pay-ins

Our gross pay-ins represent the gross amount received from customers for the rental of pachinko balls and pachislot tokens. Gross pay-ins are 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. The consumption tax rate in Japan was 10% during FY2021.

Our gross pay-ins recorded a decrease of approximately ¥5,437 million, or approximately 18.3%, from approximately ¥29,669 million for FY2020 to approximately ¥24,232 million for FY2021, which was mainly due to the reasons mentioned in the paragraph headed "Revenue" 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 ¥3,749 million, or approximately 16.2%, from approximately ¥23,076 million in FY2020 to approximately ¥19,327 million in FY2021 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 22.2% in FY2020 to approximately 20.2% in FY2021 as we strategically increased the pay-out ratio of machines at certain pachinko halls in order to attract customer traffic.

Other income

Our other income is mainly comprised of (i) income from scrap sales of used pachinko and pachislot machines to machines broker for reselling in the second-hand market, (ii) dividend income, (iii) income from expired IC card, (iv) government subsidies in relation to COVID-19, and (v) other income sources, which mainly included income from forfeited pachinko balls and pachislot tokens.

Other income decreased by approximately ¥255 million, or approximately 45.2%, from approximately ¥564 million for FY2020 to approximately ¥309 million for FY2021, mainly due to (i) a decrease in income from scrap sales of used pachinko machines by approximately ¥254 million as a result of a slow down in frequency of replacing the old pachinko and pachislot machines during the Year due to the extension for phasing out certain game machines pursuant to the Revised 2018 Regulations as mentioned above, and the limited quantities of new machines compliant with the 2018 Regulations available in the market mainly caused by manufacturing delays since the outbreak of COVID-19, and (ii) a decrease in income from government subsidies related to COVID-19 by approximately ¥13 million as our Group did not receive any employment adjustment subsidy for those who have been affected by COVID-19 in FY2021 as opposed to FY2020. This is offset by the increase in other income sources by approximately ¥10 million, or approximately 28.6%, from approximately ¥35 million for FY2020 to approximately ¥45 million for FY2021.

Other net gains/losses

Other net gains/losses are mainly comprised of (i) gain on release of lease liabilities, (ii) provision for impairment loss of investment properties, property, plant and equipment, right-of-use assets and intangible assets, (iii) net exchange gains, (iv) losses on write-off of property, plant and equipment, (v) gains/losses on fair value changes on financial assets at fair value through profit or loss, (vi) gains on disposal of financial assets at fair value through profit or loss, and (vii) other gains which are mainly comprised of compensation received from insurance companies in relation to the damages caused by Typhoon Haishen that took place in September 2020.

We recorded net gains of approximately ¥786 million in FY2021 as opposed to net losses of approximately ¥278 million in FY2020. The net gains of approximately ¥786 million in FY2021 are mainly due to a gain on release of lease liabilities of approximately ¥731 million which arose from the remeasurement of lease liabilities to adjust against the right-of-use assets as a result of the termination of the lease at BA Motosumiyoshi due to its closure as mentioned above.

Hall operating expenses and administrative and other operating expenses

Hall operating expenses decreased by approximately ¥7,309 million, or approximately 55.9%, from approximately ¥13,076 million in FY2020 to approximately ¥5,767 million in FY2021. This is primarily due to (i) the decrease in pachinko and pachislot machine expenses by approximately ¥810 million, as a result of the decrease in frequency of the replacement of pachinko machines as mentioned above, (ii) the decrease in depreciation and amortisation expenses by approximately ¥511 million for FY2021 mainly due to the impairment loss provided to fixed assets in FY2020, (iii) the decrease in provision for impairment losses of property, plant and equipment of approximately ¥1,535 million in FY2021 as compared with FY2020, and (iv) the decrease in provision for impairment loss of right-of-use assets by approximately ¥4,596 million in FY2021 as compared with FY2020. The decrease in provision for impairment loss of property, plant and equipment as set out in (iii) above and the decrease in provision for impairment loss of right-of-use assets as set out in (iv) above in FY2021 were mainly because our Group recognised much less impairment loss in FY2021 following the reduced impact of COVID-19 on the Company's business, as opposed to FY2020 where more impairment loss to our Group's assets was recognised as a result of the significant impact of COVID-19 on the Company's business when the outbreak began in Japan in January 2020.

Administrative and other operating expenses decreased by approximately ¥17 million, or approximately 2.0%, from approximately ¥849 million in FY2020 to approximately ¥832 million in FY2021, primarily due to the decrease in employee benefit expenses, advertising and promotion expenses, legal and professional fees, and travelling expenses as part of the Group's cost control measures.

Impairment loss for cash-generating units

The International Accounting Standard 36 "Impairment of Assets" ("**IAS 36**") requires that assets be carried at no more than their recoverable amount. If an asset's carrying value exceeds the amount that could be received through use or selling the asset, then the asset is impaired and IAS 36 requires a company to make provision for the impairment loss. 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**").

Our management updated the Group's impairment indicators to operating loss for one year or with performance below budget after taking into account the increased uncertainty in the market caused by the prolonged impact of COVID-19, the increasingly competitive landscape, shrinking market size of the pachinko industry and the Group's financial performance for 6M2021. For FY2021, the Company noted that 15 of the CGUs had resulted in loss or had performed below budget and therefore our management considered there were impairment indicators for these CGUs. Our management accordingly performed impairment assessment to assess the recoverable amounts of these CGUs.

The recoverable amounts of the 15 CGUs identified by the Group were determined by using the higher of their value-in-use and fair value less cost of disposal as mentioned below. Accordingly, the recoverable amounts of 11 CGUs were determined by their value-in-use, and the remaining 4 CGUs with significant self-owned properties were determined by their fair value less cost of disposal. As a result, for FY2021, a net reversal of provision for impairment loss of approximately ¥21 million was recorded for property, plant and equipment (which comprised of the recognition of a reversal of provision for impairment loss of approximately ¥86 million determined based on a valuation carried out by an independent professional qualified valuer on the market value of the building and site where BA Sumiyoshi was located as at 30 June 2021, offset by the recognition of provision for impairment loss of property, plant and equipment of approximately ¥65 million on 4 CGUs during the Year), and provisions for impairment losses of approximately ¥532 million and approximately ¥382 million were recorded for right-of-use assets and intangible assets, respectively for FY2021.

Value-in-use approach

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

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

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

(ii) discount rate is 12.5%; and

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

There are no significant changes in the value of the inputs and assumptions from those previously adopted in FY2020.

Fair value less cost of disposal approach

The recoverable amounts of the 4 CGUs with significant self-owned properties were determined based on fair value less cost of disposal calculations performed by our management based on their estimation or valuation carried out by an independent professionally qualified valuer (as the case may be). It is considered that the cost approach, which focuses on cost by deducting depreciation from the replacement cost and uses observable and unobservable inputs such as sales comparables per square metre for land and estimation of useful life and construction costs for buildings, is a more suitable calculation approach as the rental market for subject assets of similar characteristics is not active. Accordingly, the cost approach was adopted to determine the recoverable amounts of the aforesaid 4 CGUs.

Value of inputs and key assumptions

By using the cost approach, the management and 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.

No subsequent changes to the valuation methods adopted

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

Loss before income tax

Loss before income tax amounted to approximately ¥273 million for FY2021, as compared with the loss before income tax of approximately ¥6,767 million for FY2020. This is mainly attributable to the decrease in provision for impairment loss on the Group's assets and the other net gains recorded in the Year as compared with the other net losses in FY2020, 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 ¥577 million for FY2021, as compared with the loss for the year attributable to shareholders of the Company of approximately ¥6,362 million for FY2020. 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.

As at 30 June 2021, the Company had total borrowings of approximately ¥5,495 million (30 June 2020: approximately ¥4,489 million), of which approximately 84.6% represented bank borrowings, approximately 13.6% represented loans from governmental financial institution, and approximately 1.8% represented bonds. The Company's borrowings are all denominated in Japanese Yen.

Investment policy

We adopted an 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.

Funding and treasury policy

The Group has adopted a prudent financial management approach towards its funding and treasury policy and thus maintained a healthy liquidity position for FY2021. To manage the liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time. For FY2021, the Group did not use any risk hedging instrument.

Cash and cash equivalents

As at 30 June 2021, the Company had cash and cash equivalents of approximately ¥2,617 million (30 June 2020: approximately ¥1,545 million), and short-term bank deposits of approximately ¥100 million (30 June 2020: approximately ¥100 million). The Company's cash and cash equivalents and short-term bank deposits are denominated in Japanese Yen, US Dollar and HK Dollar.

Capital structure

For FY2021, there has been no change to the Group's capital structure. As at 30 June 2021, the capital structure of the Group comprised of share capital and reserves. As at 30 June 2021, equity attributable to shareholders of the Company amounted to approximately ¥3,477 million (30 June 2020: approximately ¥4,056 million). Total assets of the Group amounted to approximately ¥21,324 million (2020: approximately ¥22,146 million).

Borrowings

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

	As at 30 June 2021		As at 30 June 2020	
	¥ million	*%*	*¥ million*	*%*
Within 1 year	**792**	**14.4**	758	16.9
Between 1 year and 2 years	**738**	**13.4**	758	16.9
Between 2 years and 5 years	**1,992**	**36.3**	1,509	33.6
Over 5 years	**1,973**	**35.9**	1,464	32.6
	5,495	**100.0%**	4,489	100.0

As illustrated above, the proportion of our borrowings repayable within 1 year, and repayable in between 1 year and 2 years decreased, while the borrowings repayable in between 2 years and 5 years, and repayable over 5 years increased. The change of maturity profile of our borrowings was primarily due to (i) the additional loans of approximately ¥1,310 million drawn in July 2020 in relation to certain financial assistance measures introduced by the Japanese Government with respect to COVID-19 with a lower fixed interest rate and longer repayment term, and (ii) new bank borrowings of approximately ¥460 million for the Nagasaki Acquisition. As at 30 June 2021, the Group's borrowings of approximately ¥2,574 million were subject to a fixed interest rate.

Bonds

The Group issued its bond on 13 March 2019 in the principal amount of ¥260 million. The value of the outstanding bond issued by the Group as at 30 June 2021 amounts to approximately ¥97 million (30 June 2020: approximately ¥160 million). No new bond was issued during FY2021. For details, please refer to note 12 of the notes to the consolidated financial statements in this announcement.

Pledged assets

As at 30 June 2021, the Company pledged assets, including (i) property, plant and equipment, (ii) investment properties, and (iii) listed securities, in the sum of approximately ¥7,004 million (30 June 2020: approximately ¥6,697 million) to secure certain general banking facilities of the Group. The increase in pledged assets was primarily attributable to the increase of investment properties being pledged to secure general facilities granted to the Group for the Nagasaki Acquisition.

Gearing ratio

The gearing ratio, being the aggregate of interest-bearing loans and lease liabilities divided by total equity of the Company, was approximately 78.9% as at 30 June 2021 (30 June 2020: approximately 78.4%).

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 had entered into foreign exchange transactions to purchase United States Dollars using Japanese Yen since the year ended 30 June 2019 and such arrangements were terminated in December 2020. As at 30 June 2021, 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 30 June	
	2021	2020
	¥ million	*¥ million*
No later than 1 year	**52**	62

As at 30 June 2021, the Group did not have capital commitments which were contracted but not yet incurred 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 our operations. The Group incurred capital expenditures of approximately ¥568 million for FY2021 (FY2020: approximately ¥1,007 million), a majority of which came from leasehold improvements and equipment and tools for our pachinko halls, and improvements for our rental properties. 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 and borrowings.

Contingent liabilities

As at 30 June 2021, the Company did not have any material contingent liabilities or guarantees.

SIGNIFICANT INVESTMENTS

As at 30 June 2021, the Group held investments primarily in investment properties of approximately ¥3,216 million, which represented land and premises situated in Japan and rented out under operating leases, and financial assets of approximately ¥1,402 million, which represented bonds including the bonds issued by the Bond Issuer, trust funds, and listed and unlisted securities. As at 30 June 2021, the Group did hold any significant investment with a value of 5% or more of the Group's total assets as at 30 June 2021.

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. Impairment loss of approximately ¥44 million was recognised on the Group's investment properties during the Year (FY2020: impairment loss of approximately ¥141 million). The Group's investment properties comprise of properties for office, residential and parking purposes which are rented out under operating leases and held by the Company for long-term rental yields. All the Group's investment properties are stated at fair value less cost of disposal based on valuations performed by an independent professional qualified valuer engaged by the Group. The valuation was determined using the income approach or the sales comparison approach. The fair values of all investment properties are within level 3 of the fair value hierarchy.

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

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

Financial assets

In relation to our financial assets, the Group recorded (i) a gain of approximately ¥16 million for the fair value changes on financial assets at fair value through profit or loss in FY2021 as opposed to a loss of approximately ¥161 million in FY2020 which is primarily attributable to the rise in value of investment securities owned by the Company, (ii) a gain of approximately ¥56 million for the disposal of financial assets at fair value through profit or loss, and (iii) a loss of approximately ¥7 million for the changes in fair values of financial assets at fair value through other comprehensive income due to fluctuations in the share price of the investment shares, 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.

Furthermore, as disclosed in the Company's interim report for 6M2021, on 26 July 2018, the Company entered into two agreements with the Bond Issuer, pursuant to which the Company subscribed for two series of Bonds at face value issued by the Bond Issuer, in an aggregate amount of ¥1,000 million. Completion of the subscription of such Bonds took place on 27 July 2018. On 25 January 2019, the Company, the Bond Issuer and Everglory Capital entered into an amendment agreement to, among others, extend the maturity/redemption date of the 2nd Series Bond and include Everglory Capital as a guarantor to guarantee the obligations of the Bond Issuer of its obligations under the 2nd Series Bond. On 24 January 2020, the Company, the Bond Issuer and Everglory Capital entered into an agreement to further extend the maturity/redemption date of the 2nd Series Bond and increase its interest rate for the extended period. On 25 January 2021, the Company, the Bond Issuer and Everglory Capital entered into an amendment agreement to further extend the maturity/redemption date of the 2nd Series Bond. On 30 July 2021, the Company, the Bond Issuer and Everglory Capital entered into an amendment agreement to, among others, extend the maturity/redemption date of the 1st Series Bond, increase its interest rate for the extended period, and include Everglory Capital as a guarantor to guarantee the obligations of the Bond Issuer of its obligations under the 1st Series Bond. For details, please refer to the announcements of the Company dated 26 July 2018, 25 January 2019, 24 January 2020, 25 January 2021 and 30 July 2021.

Save as disclosed herein, the Group did not hold any significant investments as at 30 June 2021.

HUMAN RESOURCES

Employees and remuneration policies

As at 30 June 2021, the Group had 454 employees (30 June 2020: 521 employees), almost all of whom were based in Japan, and of whom 405 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 FY2021 amounted to approximately ¥1,309 million (FY2020: approximately ¥1,395 million), which accounted for approximately 19.8% (FY2020: approximately 10%) of the total operating expenses, including the remuneration of our Directors.

Our Directors and employees receive compensation in the form of salaries, and where applicable, allowances, bonuses and other benefits-in-kind, including our contribution to the pension scheme. 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

The total proceeds from the issue of new shares by the Group in its listing (after deducting the underwriting fees and related listing expenses) amounted to approximately HK$74.0 million. The net proceeds from the listing have been fully utilised in accordance with the purposes set out in the Prospectus by 30 June 2020. During FY2021, the Company had not issued any of the Company's securities for cash (including securities convertible into equity securities).

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 ACQUISITION OF PROPERTIES

On 7 April 2021, K's Property, Takeda Kousan and Mr. Takeda entered into an acquisition agreement, pursuant to which K's Property, an indirectly wholly-owned subsidiary of the Company, as the purchaser agreed to acquire and Takeda Kousan and Mr. Takeda, as the vendors agreed to sell a parcel of land with a total area of 649.85 square metres and a seven-storey building situated at 1517–1, 1517–2 and 1518–1, Sumiyoshimachi, Nagasaki City, Japan for a total consideration of approximately ¥442 million (inclusive of consumption tax). For details, please refer to the announcement of the Company dated 7 April 2021. The Acquisition was completed on 20 April 2021.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Year, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

EVENTS AFTER THE REPORTING PERIOD

On 30 July 2021, the Company, the Bond Issuer and Everglory Capital entered into an amendment agreement to the 1st Series Bond Agreement dated 26 July 2018, among others, the parties agreed to extend the maturity/redemption date of the 1st Series Bond from 31 July 2021 to 31 July 2024 and increase the interest rate for the period from 1 August 2021 to 31 July 2024 to 4.00% per annum. For details, please refer to the announcement of the Company dated 30 July 2021.

As of 30 June 2021, the Group operated 15 pachinko halls under the trading names "Big Apple.", "K's Plaza" and "Monaco". Subsequent to FY2021, the Company decided to closed down three of its pachinko halls, namely BA Dazaifu, BA Sumiyoshi and Monaco, with effect from 31 August 2021, having duly considered their deteriorating operating and financial performance since the outbreak of the COVID-19 in Japan in January 2020 and the resulting low overall customer traffic since early 2020. For FY2021, revenue generated from BA Dazaifu, BA Sumiyoshi and Monaco amounted to approximately ¥163 million, ¥55 million and ¥78 million, contributing approximately 3%, 1% and 1% to the revenue of the Group, respectively. We also recorded loss before taxation of approximately ¥28 million and ¥51 million for BA Dazaifu and Monaco, contributing approximately 10% and 19% to the loss before taxation of the Group, respectively. Although BA Sumiyoshi recorded profit before taxation of approximately ¥80 million, such profit is comprised of a loss from operation of approximately ¥6.3 million for FY2021, offset by the recognition of a reversal of provision for impairment loss of approximately ¥86 million determined based on a valuation carried out by an independent professional qualified valuer on the market value of the building and site where the pachinko hall is located as at 30 June 2021. Notwithstanding such reversal of provision for impairment loss, the Company considered that the business of BA Sumiyoshi is in fact loss-making in FY2021.

Furthermore, the Company has also closed down its employment support centre for persons with neurodevelopmental disorders in Nagasaki City, Japan (the "**Nagasaki Centre**") with effect from 31 August 2021, having considered the (i) unsatisfying financial performance of the Nagasaki Centre, and (ii) the difficulty to attract and retain experienced staff in dealing with persons with neurodevelopmental disorders as well as potential job seekers. For FY2021, the Nagasaki Centre generated revenue of approximately ¥6 million, contributing approximately 0.1% to the revenue of the Group, and recorded loss before taxation of approximately ¥19 million, contributing approximately 7.1% to the loss before taxation of the Group. The Company has also decided to cease the commencement of operations of the two employment support centres of the same nature in Hiroshima City, Japan as well as the operation of similar employment support centres in the future.

For details of the closures of the aforementioned pachinko halls and cessation of the business operations of the employment support centres for persons with neurodevelopmental disorders, please refer to the announcement of the Company dated 31 August 2021.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for those disclosed in this announcement, 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 FY2021 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 2021 as set out in this 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 this 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 FY2021.

CORPORATE GOVERNANCE

Our Directors considered that the Company has applied the principles of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and complied with the code provisions, where applicable, during 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.

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

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 2021.

ANNUAL GENERAL MEETING

The Company will hold its annual general meeting on Friday, 19 November 2021 (the "**2021 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 2021 AGM, the register of members of the Company will be closed from Tuesday, 16 November 2021 to Friday, 19 November 2021 (both dates inclusive), during which period no transfer of shares of the Company will be effected. In order to qualify for attending and voting at the 2021 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, 15 November 2021.

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, 27 September 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 purposes only*