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Okura Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01655)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

- Gross pay-ins increased by approximately 3.9% to approximately ¥25,177 million for FY2022 (FY2021: approximately ¥24,232 million).
- Revenue increased by approximately 2.6% to approximately ¥5,562 million for FY2022 (FY2021: approximately ¥5,423 million).
- Operating loss increased by approximately 1,169.1% to approximately ¥1,028 million for FY2022 (FY2021: operating loss of approximately ¥81 million).
- Loss before income tax increased by approximately 341.4% to approximately ¥1,205 million for FY2022 (FY2021: loss before income tax of approximately ¥273 million).
- Loss for the year attributable to the shareholders of the Company increased by approximately 128.9% to approximately ¥1,321 million for FY2022 (FY2021: loss for the year attributable to the shareholders of the Company of approximately ¥577 million).
- Basic and diluted loss per share was approximately ¥2.64 for FY2022 (FY2021: approximately ¥1.15).
- The Board does not recommend the payment of a final dividend for FY2022 (FY2021: Nil).

Note: The above % increases 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 2022 (the "**Year**" or "**FY2022**"), together with the comparative figures for the year ended 30 June 2021 ("**FY2021**").

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2022

	Note	**2022** **¥ million**	2021 ¥ million
Revenue	4	**5,562**	5,423
Other income	5	**373**	309
Other (losses)/gains, net	5	**(180)**	786
Hall operating expenses	6	**(5,976)**	(5,767)
Administrative and other operating expenses	6	**(807)**	(832)
Operating loss		**(1,028)**	(81)
Finance income		**66**	76
Finance costs		**(243)**	(268)
Finance costs, net	7	**(177)**	(192)
Loss before income tax		**(1,205)**	(273)
Income tax expense	8	**(116)**	(304)
Loss for the year attributable to shareholders of the Company		**(1,321)**	(577)
Loss per share attributable to shareholders of the Company for the year (expressed in ¥ per share)			
Basic and diluted	9	**(2.64)**	(1.15)
Loss for the year		**(1,321)**	(577)
Other comprehensive loss			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of employee benefit obligations		**(1)**	3
Changes in fair value of financial assets at fair value through other comprehensive income, net of tax		**5**	(5)
		4	(2)
Total comprehensive loss for the year attributable to shareholders of the Company		**(1,317)**	(579)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	Note	**2022** **¥ million**	2021 ¥ million
Assets			
Non-current assets			
Property, plant and equipment		**7,402**	7,622
Right-of-use assets		**2,820**	4,104
Investment properties		**2,982**	3,216
Intangible assets		**122**	359
Prepayments and deposits		**851**	1,059
Financial assets at fair value through other comprehensive income		**32**	24
Financial assets at fair value through profit or loss		**—**	22
Deferred income tax assets		**175**	328
		14,384	16,734
Current assets			
Inventories		**83**	79
Trade receivables	11	**12**	19
Prepayments, deposits and other receivables		**340**	419
Financial assets at amortised cost		**1,000**	1,000
Financial assets at fair value through profit or loss		**343**	356
Short-term bank deposits		**100**	100
Cash and cash equivalents		**2,340**	2,617
		4,218	4,590
Total assets		**18,602**	21,324
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital		**20,349**	20,349
Reserves		**(18,189)**	(16,872)
Total equity		**2,160**	3,477

	Note	**2022**	2021
		¥ million	*¥ million*
Liabilities			
Non-current liabilities			
Borrowings	12	**4,665**	4,703
Lease liabilities		**8,434**	9,264
Accruals, provisions and other payables		**403**	358
Employee benefit obligations		**162**	130
Deferred income tax liabilities		**23**	82
		13,687	14,537
Current liabilities			
Borrowings	12	**739**	792
Financial liabilities at fair value through profit or loss		**134**	8
Lease liabilities		**663**	848
Trade payables	13	**11**	12
Accruals, provisions and other payables		**1,182**	1,591
Amount due to directors		**3**	3
Current income tax liabilities		**23**	56
		2,755	3,310
Total liabilities		**16,442**	17,847
Total equity and liabilities		**18,602**	21,324

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in pachinko and pachislot hall operations 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") and Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the 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) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention except for the financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial liabilities at fair value through profit or loss which are stated at fair value.

(b) Amendments to standards adopted by the Group

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

Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendments to IFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021

The adoption of the amendments to standards did not have any material impact on the Group's accounting policies.

(c) New and amended standards and improvements to existing standards (collectively, the "Amendments") not yet adopted by the Group

The following Amendments, together with certain amendments on accounting guideline and interpretation under HKFRS, have been published but not mandatory for the financial year beginning on or after 1 January 2022 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Amendments under IFRS		
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 — Cost of Fulfilling a Contract	1 January 2022
Annual Improvement to IFRS Standards 2018–2020	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	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
Amendments under HKFRS		
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations	1 January 2022
Revised Hong Kong Interpretation 5 (2020)	Presentation of Financial Statement — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023

The related impacts of the adoption of these Amendments to the Group are currently under assessment and the Group is not yet in a position to state whether any substantial changes to the Group's significant policies and presentation of the financial information will result.

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2022 ¥ million	2021 ¥ million
Revenue		
Gross pay-ins	**25,177**	24,232
Less: gross pay-outs	**(20,099)**	(19,327)
Revenue from pachinko and pachislot hall business	**5,078**	4,905
Vending machine income	**88**	93
Property rental	**355**	351
Revenue from other operations	**41**	74
	5,562	5,423

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

During the year ended 30 June 2022, revenue recognised that was included in the contract liabilities balances of unutilised balls and tokens at the beginning of the year amounted to ¥326 million (2021: ¥230 million). Unutilised balls and tokens have an expiry term of 5 years but the Company expects to deliver the services to satisfy the remaining performance obligations of these contract liabilities during the next reporting period.

As at 30 June 2022, the amount of transaction price allocated to the contract liabilities in relation to unutilised balls and tokens that are unfulfilled were ¥387 million (2021: ¥326 million), of which all are expected to be recognised as revenue during the next reporting period.

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker ("CODM") that are used for making strategic decisions. The CODM 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 CODM has identified three reportable segments based on the types of services, namely (i) pachinko and pachislot hall operation, (ii) property rental and (iii) other segments which include horse management operation and employment supporting services operation (prior to the discontinuation in August 2021). The horse management operation and employment supporting services operation do not meet the reportable segment threshold and thus they are not separately presented but included as "other segments" in the reports provided to the CODM.

Segment assets consist primarily of property, plant and equipment, right-of-use assets, intangible assets, investment properties, inventories, prepayments, deposits and other receivables, short-term bank deposits 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 2022 and 2021 are as follows:

	Year ended 30 June 2022				
	Pachinko and pachislot hall operation	**Property rental**	**Other segments**	**Unallocated amounts**	**Total**
	¥ million	***¥ million***	***¥ million***	***¥ million***	***¥ million***
Segment revenue from external customers	**5,166**	**355**	**41**	**—**	**5,562**
Segment results	**(471)**	**(13)**	**(11)**	**—**	**(495)**
Unallocated amounts	—	—	—	**(710)**	**(710)**
Income tax expense					**(116)**
Loss for the year					**(1,321)**
Other segment items					
Provision for impairment loss of property, plant and equipment	**(133)**	—	—	**(76)**	**(209)**
Provision for impairment loss of right-of-use assets	**(937)**	—	—	—	**(937)**
(Provision for)/reversal of provision for impairment loss of intangible assets	**(241)**	—	—	**3**	**(238)**
Provision for impairment loss of investment properties	—	**(160)**	—	—	**(160)**
Depreciation and amortisation	**(701)**	**(78)**	**(18)**	**(84)**	**(881)**
Finance income	—	—	—	**66**	**66**
Finance costs	**(169)**	**(59)**	—	**(15)**	**(243)**

	Year ended 30 June 2021				
	Pachinko and pachislot hall operation *¥ million*	Property rental *¥ million*	Other segments *¥ million*	Unallocated amounts *¥ million*	Total *¥ million*
Segment revenue from external customers	4,998	351	74	—	5,423
Segment results	(297)	112	(13)	—	(198)
Unallocated amounts	—	—	—	(75)	(75)
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)	(28)	(86)	(1,015)
Finance income	—	—	—	76	76
Finance costs	(198)	(57)	—	(13)	(268)

The segment assets as at 30 June 2022 and 2021 are as follows:

	Pachinko and pachislot hall operation *¥ million*	Property rental *¥ million*	Other segments *¥ million*	Total *¥ million*
As at 30 June 2022				
Segment assets	**10,857**	**3,470**	**49**	**14,376**
Unallocated assets				**2,676**
Financial assets held at amortised cost				**1,000**
Financial assets at fair value through profit or loss				**343**
Financial assets at fair value through other comprehensive income				**32**
Deferred income tax assets				**175**
Total assets				**18,602**
Additions to non-current assets other than financial instruments and deferred tax assets	**(956)**	**(4)**	**(46)**	**(1,006)**
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
Additions to non-current assets other than financial instruments and deferred tax assets	(36)	(489)	(43)	(568)

There is no single external customer contributed more than 10% revenue to the Group's revenue for the years ended 30 June 2022 and 2021.

The Group is domiciled in Japan and majority of the non-current assets of the Group as at 30 June 2022 and 2021 are located in Japan.

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

	2022	2021
	¥ million	*¥ million*
Other income		
Income from scrap sales of used pachinko machines	**310**	232
Dividend income	**6**	5
Income from expired IC card	**5**	5
Government subsidy related to COVID-19	**7**	22
Others	**45**	45
	373	309

	2022	2021
	¥ million	*¥ million*
Other (losses)/gains, net		
Gain on release of lease liabilities (Note)	**460**	731
Provision for impairment loss of investment properties	**(160)**	(44)
Provision for impairment loss of property, plant and equipment	**(76)**	(1)
Provision for impairment loss of right-of-use assets	**—**	(15)
Reversal of provision for/(provision for) impairment loss of intangible assets	**3**	(6)
Exchange gains, net	**82**	17
Losses on write-off of property, plant and equipment	**(9)**	(2)
Fair value changes on financial assets and financial liabilities at fair value through profit or loss	**(504)**	16
Gains on disposal of financial assets at fair value through profit or loss	**21**	56
Others	**3**	34
	(180)	786

Note: Gain on release of lease liabilities during the years ended 30 June 2022 and 2021 mainly represents the gain from early termination of lease in relation to closure of two pachinko and pachislot halls (2021: one pachinko and pachislot hall) in Japan.

6 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2022	2021
	¥ million	*¥ million*
Pachinko and pachislot machines expenses (Note)	**1,849**	1,654
Auditor's remuneration		
— Audit services	**80**	52
— Non-audit services	**6**	15
Employee benefits expenses		
— Hall operating expenses	**855**	1,018
— Administrative and other operating expenses	**281**	291
Operating lease rental expense in respect of land and buildings	**18**	27
Depreciation and amortisation	**881**	1,015
Advertising and promotion expenses	**177**	171
Equipment and consumables costs	**79**	121
Provision for/(reversal of provision for) impairment loss of property, plant and equipment	**133**	(22)
Provision for impairment loss of right-of-use assets	**937**	532
Provision for impairment loss of intangible assets	**241**	382
Repairs and maintenance	**93**	110
Other taxes and duties	**132**	128
Outsourcing service expenses	**129**	193
Utilities expenses	**262**	294
G-prize procurement expenses to wholesalers	**169**	198
Legal and professional fees	**59**	66
Travel expenses	**27**	24
Insurance fee	**21**	18
Others	**354**	312
	6,783	6,599

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

	2022	2021
	¥ million	*¥ million*
Finance income		
Interest income	**2**	1
Interest from debt securities	**64**	75
	66	76
Finance costs		
Interest for lease liabilities	**(175)**	(196)
Bank borrowings interest expenses	**(65)**	(68)
Bond interest expenses	**(1)**	(2)
Others	**(2)**	(2)
	(243)	(268)
Finance costs, net	**(177)**	(192)

8 INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the years ended 30 June 2022 and 2021.

Japan corporate income tax include national corporate income tax, inhabitants tax, and enterprise tax, and has been calculated on the estimated assessable profit for the year. During the year ended 30 June 2022, the aggregated rates of national corporate income tax, inhabitants tax, and enterprise tax resulted in statutory income tax rates of 34.3% (2021: 34.3%).

	2022	2021
	¥ million	*¥ million*
Current income tax		
— Japan	**25**	38
Deferred income tax		
— Japan	**91**	266
	116	304

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the income tax rate of Japan as follows:

	2022	2021
	¥ million	*¥ million*
Loss before income tax	**(1,205)**	(273)
Tax calculated at applicable Japan corporate income tax rate	**(413)**	(94)
Expenses not deductible for tax purposes	**86**	135
Income not subject to tax purpose	**(16)**	(16)
Temporary differences for which no deferred tax assets were recognised	**573**	170
Utilisation of previously unrecognised deductible temporary differences	**(137)**	(326)
Recognition of previously unrecognised deductible temporary differences	**(83)**	(52)
Tax losses not recognised	**165**	499
Withholding tax on undistributed earnings of subsidiaries (Note)	**(59)**	(12)
Income tax expense	**116**	304

For the year ended 30 June 2022, the effective tax rate was approximately −9.6% (2021:−111.3%).

Note: For the years ended 30 June 2022 and 2021, deferred income tax liabilities arising from 5% withholding income tax on the distributable reserve of the Group's subsidiaries.

9 LOSS PER SHARE

Basic loss per share for the years ended 30 June 2022 and 2021 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 2022 and 2021.

	2022	2021
Loss attributable to shareholders of the Company (¥ million)	**(1,321)**	(577)
Weighted average number of ordinary shares in issue (million) (Note)	**500**	500
Basic and diluted loss per share (¥)	**(2.64)**	(1.15)

Note: No diluted loss per share is presented as there was no potential dilutive share during the years ended 30 June 2022 and 2021. 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 2022 (2021: Nil).

11 TRADE RECEIVABLES

	2022	2021
	¥ million	*¥ million*
Trade receivables	**12**	19

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

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

	2022	2021
	¥ million	*¥ million*
Less than 30 days	**12**	19

The carrying amounts of the trade receivables approximate their fair values as at 30 June 2022 and 2021 and are denominated in ¥.

12 BORROWINGS

	2022	2021
	¥ million	*¥ million*
Non-current portion		
Bank loans	**3,301**	3,921
Loans from governmental financial institutions	**1,364**	750
Bonds	**—**	32
	4,665	4,703
Current portion		
Bank loans	**621**	727
Bonds	**32**	65
Loans from governmental financial institutions	**86**	—
	739	792
Total borrowings	**5,404**	5,495

As at 30 June 2022 and 2021, the Group's borrowings were repayable as follows:

	Bank loans		Loans from governmental financial institutions		Bonds	
	2022	2021	**2022**	2021	**2022**	2021
	¥ million	*¥ million*	***¥ million***	*¥ million*	***¥ million***	*¥ million*
Within 1 year	**621**	727	**86**	—	**32**	65
Between 1 and 2 years	**568**	620	**93**	86	**—**	32
Between 2 and 5 years	**1,720**	1,711	**281**	281	**—**	—
Over 5 years	**1,013**	1,590	**990**	383	**—**	—
	3,922	4,648	**1,450**	750	**32**	97

The average effective interest rates (per annum) at 30 June 2022 and 2021 were set out as follows:

	2022	2021
Bank loans	**1.36%**	1.35%
Loans from governmental financial institutions	**0.50%**	0.11%
Bonds	**0.30%**	0.12%

As at 30 June 2022 and 2021, the total borrowings are pledged by certain assets and their carrying values are shown as below:

	2022	2021
	¥ million	*¥ million*
Property, plant and equipment	**5,092**	5,266
Investment properties	**1,674**	1,717
Financial assets at fair value through other comprehensive income — listed equity securities	**28**	21
	6,794	7,004

The carrying amounts of borrowings of the Group approximate their fair values as at 30 June 2022 and 2021 and are denominated in ¥.

During the years ended 30 June 2022 and 2021, details of the bonds issued by the Group are as follows:

Issue date	Principal amount	Outstanding balance		Interest rate	Due date
		2022	2021		
	¥ million	***¥ million***	*¥ million*		
13 March 2019	260	**32**	97	6 months of Tokyo Interbank Offered Rate	13 November 2022

13 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice dates as at 30 June 2022 and 2021 is as follows:

	2022	2021
	¥ million	*¥ million*
Less than 30 days	**11**	12

The carrying amounts of trade payables approximate their fair values as at 30 June 2022 and 2021 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 such as horse racing, boat racing and online social gaming 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.

Despite the emergence of new variants of COVID-19 in Japan during the Year, there has been no industry-wide shutdowns of the pachinko halls in FY2022. However, in light of the COVID-19 situations which remained challenging in Japan during the Year, the Group has implemented infection prevention measures based on the "Guidelines for Preventing the Spread of New Coronavirus Infections in Pachinko and Pachislot Hall Operation" issued by the 21st Century Pachinko and Pachislot Industry Association on 21 May 2020, in its business operations such as requiring all of our employees to wear face masks at all times and applying disinfectant to pachinko machines from time to time to control the spread of the COVID-19 pandemic in the Group's pachinko halls and provide a safe working environment for its employees.

During FY2022, 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 those pachinko halls, the Group had closed down three pachinko halls, namely Big Apple. Dazaifu hall located at 2–1–1, Ozano, Dazaifu-shi, Fukuoka Prefecture, Japan, Big Apple. Sumiyoshi hall located at 6–4, Sumiyoshimachi, Nagasaki-shi, Nagasaki Prefecture, Japan, and Monaco Sumiyoshi Honten hall located at 1–5, Sumiyoshimachi, Nagasaki-shi, Nagasaki Prefecture, Japan on 31 August 2021. The management considered that the closure of the aforementioned three pachinko halls will be more beneficial for the Group as the Group would be able to focus its resources on its other more promising pachinko halls by enhancing customer experience there and minimise further losses from business operations by closing down those halls with weaker performance. For further details, please refer to the announcement of the Company dated 31 August 2021.

Despite the closure of the aforementioned three pachinko halls, the Group has recorded a loss before income tax of approximately ¥1,205 million for FY2022, representing an increase in loss before income tax of approximately 341.4% from approximately ¥273 million for FY2021. The increase in loss before income tax for FY2022 was mainly attributable to (i) the loss on fair value changes of the Group's financial assets at fair value through profit or loss of approximately ¥504 million in FY2022, as compared with a gain of approximately ¥16 million in FY2021, due to fluctuations in the market prices of the underlying assets in the Company's investments, (ii) the decrease in gain on release of lease liabilities, which is approximately ¥460 million in FY2022 as compared with approximately ¥731 million in FY2021, due to the fewer number of lease agreements that were terminated in FY2022 as compared with that in FY2021, and (iii) the increase in provision for impairment loss of investment properties, which is approximately ¥160 million in FY2022 as compared with approximately ¥44 million in FY2021, due to the continuing uncertainty in the business performance of the Group's investment properties caused by the prolonged impact of COVID-19 and its new variants in Japan in FY2022.

Coping with obstacles and uncertainties from regulatory measures

As disclosed in the previous interim reports and annual reports of the Company, the "Regulations to Partially Amend Regulations on the Entertainment and Amusement Trades Rationalising Act and Regulations on Certifying Machines and Conducting Type Test on Machines" issued by the National Public Safety Commission of Japan on 1 February 2018 (the "**2018 Regulations**") has continued to have an adverse impact on the pachinko and pachislot industry in Japan by reducing the attractiveness of the game and contributing to the continuous decline of pachinko and pachislot players, as pachinko and pachislot machines with a higher gaming element are required to gradually phase out of the pachinko industry in batches by the end of January 2021. Pursuant to revisions of the 2018 Regulations in May 2020 and May 2021 (the "**Revised 2018 Regulations**"), the deadline of January 2021 for phasing out certain types of game machines has subsequently been extended to the end of January 2022, enabling pachinko hall operators more time to replace their pachinko and pachislot machines in order to meet the requirements of the 2018 Regulations. The phasing out and replacement of all pacinko and pachinko machines with a higher gaming element have been completed by the Group by the end of January 2022. As a result of the removal of these pachinko and pachislot machines with a higher gaming element, the Group had recorded a temporary decrease in the number of pachinko and pachislot players. However, the Company has subsequently been observing a recovering trend in the number of pachinko and pachislot players in the second half of FY2022. Moving forward, we will continue to closely monitor the performance of the replaced pachinko and pachislot machines at our pachinko halls in order to strategically formulate different plans to continuously attract customers and improve revenue.

Continuing to diversify the Group's revenue stream

As disclosed in previous interim reports and annual reports of the Company, the management has continuously been striving to establish alternative streams of income and diversify the Group's operations into different business segments. For FY2022, the Group derived revenue from its pachinko hall business, vending machines, rental properties including but not limited to premises of commercial facilities and residential units, and its other operations such as the provision of horse management services.

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

Closure of non-performing employment support centre

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

Market threats and prospects

Although 2021 and 2022 have been the challenging years for Japan's pachinko industry overall, the Group's revenue for FY2022 has managed to recover slightly as a result of the management's efforts in prioritising the Group's resources in the recovery of customer traffic, ensuring continuous compliance with the Japanese government's measures to prevent and control the spread of COVID-19, and voluntarily implementing safety measures to ensure the health and safety of customers at its pachinko halls. The management will continue to adopt the above measures in order to encourage customer traffic and speed up the recovery of the Group's operations, while exploring new opportunities to diversify into other business segments to expand the Group's sources of revenue.

FINANCIAL REVIEW

Revenue

The Group's total revenue is comprised of revenue from (i) pachinko and pachislot hall business, being gross pay-ins less gross pay-outs, (ii) vending machine income, (iii) property rental, and (iv) other operations mainly relating to horse management services. During the Year, revenue from pachinko and pachislot hall business remained the majority source of income for the Company, accounting for approximately 91.3% of the Group's total revenue (FY2021: approximately 90.4%). The Group's total revenue increased slightly by approximately ¥139 million, or 2.6%, from approximately ¥5,423 million in FY2021, to approximately ¥5,562 million in FY2022. This increase was mainly a result of the increase in approximately 3.5% in revenue generated from the Group's overall pachinko and pachislot business, from approximately ¥4,905 million in FY2021 to approximately ¥5,078 million in FY2022, primarily due to the partial recovery of customer traffic at the Group's pachinko halls.

The Group derived income from vending machines installed at its halls provided by vending machine operators under service agreements. The vending machines sell drinks and food and the Group shares a certain portion of income generated by such vending machines. The Group's vending machine income remained generally stable at approximately ¥88 million in FY2022 as compared with approximately ¥93 million in FY2021.

The Group derived rental income from renting out (i) premises to G-prize wholesalers, (ii) car parks, (iii) commercial facilities, and (iv) residential units. Property rental income remained stable at approximately ¥355 million for the FY2022 as compared with approximately ¥351 million for FY2021.

The Group derived income from the provision of horse management services and employment support services which commenced in June 2019 and June 2020, respectively. Such income decreased by approximately 44.6%, from approximately ¥74 million for FY2021 to approximately ¥41 million in FY2022, due to the closure of the Nagasaki Centre on 31 August 2021 as mentioned above and the decrease in income from the provision of horse management services.

Gross pay-ins

The Group's gross pay-ins represents 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 the Group's pachinko and pachislot halls. The Group's accounting policy recognises gross pay-ins net of consumption tax. The consumption tax rate in Japan was 10% during FY2022.

The Group's gross pay-ins recorded an increase of approximately ¥945 million, or approximately 3.9%, from approximately ¥24,232 million in FY2021 to approximately ¥25,177 million in FY2022, which was mainly due to the reasons mentioned in the paragraph headed "Revenue" above.

Gross pay-outs

The Group's gross pay-outs represent the aggregate cost of G-prizes and general prizes exchanged by the Group's customers, taking into consideration the G-prize mark-up and the value of any unutilised balls and tokens during the relevant period. The Group's gross pay-outs recorded an increase of approximately ¥772 million, or approximately 4.0%, from approximately ¥19,327 million in FY2021 to approximately ¥20,099 million in FY2022 as a result of the increase in gross pay-ins for the reasons mentioned above.

Revenue margin

Revenue margin for the Group's pachinko and pachislot business represented the Group's revenue from pachinko and pachislot hall business divided by gross pay-ins. The level of revenue margin is dependent on the combination of the payout ratio of the pachinko and pachislot machines, the G-prize mark-up imposed and the mix of pachinko and pachislot machines with different jackpot probability in the Group's halls, and as a result of the resultant changes in customer behavior (i.e., rounds of play and machine utilisation). The Group's revenue margin remained stable at approximately 20.2% in FY2022 as compared with approximately 20.2% in FY2021.

Other income

The Group's other income is mainly comprised of (i) income from scrap sales of used pachinko and pachislot machines to machines broker for reselling in the second-hand market, (ii) dividend income, (iii) income from expired IC card, (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 increased by approximately ¥64 million, or approximately 20.7%, from approximately ¥309 million for FY2021 to approximately ¥373 million for FY2022, mainly due to an increase in income from scrap sales of used pachinko machines by approximately ¥78 million which is attributable to the rising prices of used pachinko machines, which was partially offset by the decrease in income from government subsidies related to COVID-19 by approximately ¥15 million as the Group received fewer subsidies relating to COVID-19 in FY2022 as compared to FY2021.

Other net losses/gains

Other net losses/gains is mainly comprised of (i) gain on release of lease liabilities, (ii) provision for impairment loss of investment properties, (iii) provision for impairment loss of property, plant and equipment, (iv) net exchange gains, (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/losses which are mainly comprised of insurance claims.

The Group recorded other net losses of approximately ¥180 million in FY2022 as opposed to other net gains of approximately ¥786 million in FY2021. The other net losses of approximately ¥180 million in FY2022 was mainly attributable to (i) the provision for impairment losses on the Group's property, plant and equipment of approximately ¥76 million due to the impairment loss relating to the competition horses, (ii) the losses on fair value changes on financial assets at fair value through profit or loss of approximately ¥504 million due to fluctuations in the market prices of the underlying assets in the Company's investments, (iii) the provision for impairment loss of investment properties of approximately ¥160 million primarily due to the decrease in fair value of the Group's car parks as a result of the expected drop in number of customers using the Group's car parks, which was partially offset by (iv) the gain on release of lease liabilities of approximately ¥460 million as compared with approximately ¥731 million in FY2021 due to the fewer number of lease agreements that were terminated in FY2022 as compared with that in FY2021, and (v) the net exchange gains of approximately ¥82 million in FY2022.

Hall operating expenses and administrative and other operating expenses

Hall operating expenses increased by approximately ¥209 million, or approximately 3.6%, from approximately ¥5,767 million in FY2021 to approximately ¥5,976 million in FY2022. This is primarily due to (i) the increase in pachinko and pachislot machine expenses by approximately ¥195 million, as a result of the replacement and phasing out of the pachinko and pachislot machines with the higher gaming element to comply with the Revised 2018 Regulations as mentioned above, (ii) the increase in impairment loss of approximately ¥405 million for right-of-use assets, (iii) the impairment loss of approximately ¥133 million for property, plant and equipment in FY2022 as compared with the reversal of impairment loss of approximately ¥22 million for property, plant and equipment in FY2021, and (iv) the increase of other hall operating expenses of approximately ¥62 million. The increase in impairment loss for right-of-use assets as set out in (ii) above and the change to impairment loss in FY2022 from the reversal of impairment loss in FY2021 as set out in (iii) above were mainly because more impairment loss to our Group's assets was recognised taking into account the continuing impact of COVID-19 on the business performance of a certain number of the Group's pachinko halls. This is offset by (i) the decrease in employee benefit expenses of approximately ¥163 million due to the decrease in number of employees arising from the closure of certain pachinko halls of the Group in FY2022, (ii) the decrease in impairment loss of approximately ¥141 million for intangible assets as the Group recognised much less impairment loss on the goodwill of one of its CGU, (iii) the decrease in depreciation and amortisation expenses of approximately ¥124 million due to the closure of three pachinko halls in FY2022 leading to a reduction in the Group's property, plant and equipment, and (iv) the decrease in outsourcing service expenses of approximately ¥64 million.

Administrative and other operating expenses decreased by approximately ¥25 million, or approximately 3.0%, from approximately ¥832 million in FY2021 to approximately ¥807 million in FY2022, primarily due to (i) the decrease in employee benefit expenses of approximately ¥10 million mainly due to the decrease in salaries of the Group's key management staff, (ii) the decrease in depreciation and amortisation expenses of approximately ¥10 million due to the termination of lease agreements relating to the Nagasaki Centre and horse management services, and (iii) the decrease in other administrative and other operating expenses of approximately ¥17 million as fewer number of trainings took place in FY2022 which led to a reduction in training costs as well as the closure of three pachinko halls which led to a decrease in union fees, which was partially offset by (iv) the increase in auditor's remuneration for audit services of approximately ¥28 million due to the additional auditing work performed in relation to the Bonds for FY2022.

Impairment loss for cash-generating units

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

In FY2021, the Group's management regarded operating loss for FY2021 or performing below management expectation, defined as not fulfilling the projected operating profit or loss for FY2021, as the impairment indicator. For FY2022, the Company continued to apply the aforementioned impairment indicator and the management identified 8 CGUs (FY2021: 15 CGUs) had resulted in operating loss or not fulfilling management's expectations for FY2022, and therefore the management considered there were impairment indicators for these CGUs. The management accordingly performed impairment assessment to assess the recoverable amounts of these CGUs. In addition, there is another CGU that has goodwill and is required to perform impairment assessment at least once per year.

The recoverable amounts of the 8 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. Value-in-use was calculated for all CGUs while fair value less cost of disposal was calculated for CGUs with significant self-owned properties. Accordingly, the recoverable amounts of 6 CGUs were determined by their value-in-use, and the remaining 2 CGUs with significant self-owned properties were determined by their fair value less cost of disposal. As a result, for FY2022, the Group recorded provisions for impairment losses of approximately ¥209 million and ¥160 million on property, plant and equipment and investment properties, respectively.

Value-in-use approach

The value-in-use calculations were based on future cash flow forecasts of the CGUs adopted under the single scenario approach.

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

(a) the revenue growth of the Group is 0% after incorporating the management's plan on the Group's operations based on its business performance in the fourth quarter of FY2022;

(b) discount rate is 10.97%; and

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

Save as disclosed above, there are no significant changes in the value of the inputs and assumptions from those previously adopted in FY2021.

Fair value less cost of disposal approach

The recoverable amounts of the 2 CGUs with significant self-owned properties were determined based on fair value less cost of disposal calculations performed by the Group's management based on their estimation 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 2 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 ¥1,205 million for FY2022, as compared with the loss before income tax of approximately ¥273 million for FY2021. This was mainly attributable to (i) the provision for impairment losses on the Group's property, plant and equipment, intangible assets and right-of-use assets, (ii) the provision for impairment loss of investment properties, (iii) the losses in relation to fair value changes on financial assets at fair value through profit or loss (iv) the decrease in gain on release of lease liabilities as compared with FY2021 and the other net losses recorded in the Year as compared with the other net gains in FY2021, 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 ¥1,321 million for FY2022, as compared with the loss for the year attributable to shareholders of the Company of approximately ¥577 million for FY2021. This was mainly due to the reasons mentioned in the paragraph headed "Loss before income tax" above, which is offset by the decrease in income tax expense of approximately ¥188 million given the increase in loss before income tax for FY2022 as compared with that in FY2021.

ANALYSIS OF FINANCIAL POSITION

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2022, the Company had total borrowings of approximately ¥5,404 million (30 June 2021: approximately ¥5,495 million), of which approximately 72.6% represented bank borrowings, approximately 26.8% represented loans from governmental financial institution, and approximately 0.6% represented bonds. The Company's borrowings are all denominated in Japanese Yen.

Investment policy

The Group adopted a treasury and investment policy for financial assets that sets out overall principles as well as detailed approval processes of the Group's investment activities. Such policy includes, amongst other things, the following:

(i) investments in low liquidity products being avoided;

(ii) investments should be yield-earning in nature and the primary objectives of investment activities are to diversify the Group's investments and control their risk;

(iii) investments should be undertaken only in situations where the Group has surplus cash not required for short or medium term of use; and

(iv) investments should be undertaken only to the extent that adequate liquid capital is maintained.

The Group's finance division is responsible for the initial assessment and analysis on the expected benefit and potential risk of the Group's investment activities and compiling of relevant data and information from banks. The Group's investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to the Group's short and medium-term cash requirement, the market conditions, the economic developments, the anticipated investment conditions, the investment cost, the duration of the investment and the expected benefit and potential loss of the investment.

For any investments, formal approval must be obtained from the Board before the execution or disposal of any investment. The Group's finance division is also responsible for reporting the status of the Group's investment activities to the Directors regularly. The report should include the total investment return.

Funding and treasury policy

The Group has adopted a prudent financial management approach towards its funding and treasury policy and thus maintained a healthy liquidity position for FY2022. 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 FY2022, the Group did not use any risk hedging instrument.

Cash and cash equivalents

As at 30 June 2022, the Company had cash and cash equivalents of approximately ¥2,340 million (30 June 2021: approximately ¥2,617 million), and short-term bank deposits of approximately ¥100 million (30 June 2021: approximately ¥100 million). The Company's cash and cash equivalents and short-term bank deposits are denominated in Japanese Yen, US Dollar and HK Dollar.

Capital structure

For FY2022, there has been no change to the Group's capital structure. As at 30 June 2022, the capital structure of the Group comprised share capital and reserves. As at 30 June 2022, equity attributable to shareholders of the Company amounted to approximately ¥2,160 million (30 June 2021: approximately ¥3,477 million). As at 30 June 2022, total assets of the Group amounted to approximately ¥18,602 million (30 June 2021: approximately ¥21,324 million).

Borrowings

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

	As at 30 June 2022		As at 30 June 2021	
	¥ million	*%*	*¥ million*	*%*
Within 1 year	**739**	**13.7**	792	14.4
Between 1 year and 2 years	**661**	**12.2**	738	13.4
Between 2 years and 5 years	**2,001**	**37.0**	1,992	36.3
Over 5 years	**2,003**	**37.1**	1,973	35.9
	5,404	**100.0%**	5,495	100.0

As illustrated above, the proportion of the Group's borrowings repayable within 1 year, repayable in between 1 year and 2 years decreased, while the borrowings repayable in between 2 years and 5 years, and repayable in over 5 years increased. The change of maturity profile of the Group's borrowings was primarily due to the (i) repayment of certain borrowings that are repayable within 1 year and in between 1 year and 2 years and (ii) the Company entered into new borrowings which are repayable over 5 years. As at 30 June 2022, the Group's borrowings of approximately ¥2,006 million were subject to a fixed interest rate.

Bonds

The Group issued its bonds 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 2022 amounted to approximately ¥32 million (30 June 2021: approximately ¥97 million). No new bond was issued during FY2022. For details, please refer to note 12 of the notes to the consolidated financial statements in this announcement.

Pledged assets

As at 30 June 2022, the Company pledged assets, including (i) property, plant and equipment, (ii) investment properties, and (iii) listed securities, in the sum of approximately ¥6,794 million (30 June 2021: approximately ¥7,004 million) to secure certain general banking facilities of the Group. The decrease in pledged assets was primarily attributable to the decrease in carrying amount of the underlying assets as a result of depreciation.

Gearing ratio

The gearing ratio, being the aggregate of interest-bearing loans and lease liabilities less cash and cash equivalents, and liquid investment divided by total equity of the Company, was approximately 84.9% as at 30 June 2022 (30 June 2021: approximately 78.8%). The increase was mainly attributable to the Company entering into a new loan of ¥700 million with a government-affiliated financial institution in February 2022.

Interest rate and foreign exchange exposure

The Group is exposed to interest rate risk as its bank balances and some of its bank borrowings are carried at variable rates. The Group manages its interest rate exposure with a focus on reducing its overall cost of debt and exposure to changes in interest rates. During FY2022, the Group did not use any hedge instrument or interest rate swap to manage its interest rate exposure.

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

Contractual and capital commitments

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

	As a lessor	
	As at 30 June	
	2022	2021
	¥ million	*¥ million*
No later than 1 year	**50**	52

As at 30 June 2022, 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 2021: nil).

Capital expenditures

Our capital expenditures mainly consisted of expenditures on additions to property, plant and equipment, right-of-use assets, investment properties and intangible assets. The Group incurred capital expenditures of approximately ¥1,007 million for FY2022 (FY2021: approximately ¥568 million), a majority of which came from equipment and fixtures for its pachinko halls. The increase in capital expenditures was due to the renovation of a pachinko hall which took place in July 2021. These capital expenditures were financed by the Group's internal funds.

Contingent liabilities

As at 30 June 2022, the Company did not have any material contingent liabilities or guarantees.

SIGNIFICANT INVESTMENTS

As at 30 June 2022, the Group held investments primarily in investment properties of approximately ¥2,982 million, which represented land and premises situated in Japan and rented out under operating leases, and financial assets of approximately ¥1,375 million, which represented bonds including the bonds issued by the Bond Issuer, trust funds, and listed and unlisted securities. As at 30 June 2022, save as the 1st Series Bond and the 2nd Series Bond which in aggregate constituted approximately 5.4% of the Company's total assets, the Group did not hold any other significant investment with a value of 5% or more of the Company's total assets.

Investment properties

The Group's investment properties comprise properties for office, residential and parking purposes which are rented out under operating leases and held by the Company for long-term rental yields. All of the Group's investment properties are stated at historical cost less accumulated depreciation and impairment losses. Impairment loss will be recognised by the Group where the valuation results indicate that the carrying amount of the investment properties exceed its recoverable amount. Impairment loss of approximately ¥160 million was recognised on the Group's investment properties for FY2022 (FY2021: approximately ¥44 million). The recoverable amounts for investment properties are stated at fair value less cost of disposal based on valuations performed by management. The valuation was determined using the income approach or the sales comparison approach. The fair values of all investment properties are within level 3 of the fair value hierarchy.

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

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

Financial assets

In relation to the Group's financial assets, the Group recorded a loss of approximately ¥504 million for the fair value changes on financial assets at fair value through profit or loss in FY2022 as opposed to a gain of approximately ¥16 million in FY2021 which is primarily attributable to fluctuations in the market prices of the underlying assets in the Company's investments. Although changes in market conditions will continue to result in fair value gains or losses from financial assets, the Directors are of the view that the investment in financial assets will help to increase the average yield earned from the excess funds from the Group's business overall. To the best of their knowledge and as at the date of this announcement, the Directors do not foresee any default or any impairment to be made to any financial assets held by the Group.

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

25 January 2022, the Company, the Bond Issuer and Everglory Capital entered into an amendment agreement to further extend the maturity/redemption date of the 2nd Series Bond. For details, please refer to the announcements of the Company dated 26 July 2018, 25 January 2019, 24 January 2020, 25 January 2021, 30 July 2021 and 25 January 2022 and the circular of the Company dated 29 October 2021.

As at 30 June 2022, the fair value of each of the 1st Series Bond and the 2nd Series Bond is ¥500 million, which in aggregate constitutes approximately 5.4% of the Company's total assets. There is no change to the fair value of each of the 1st Series Bond and the 2nd Series Bond for FY2022 as they are calculated at amortised cost. For FY2022, the amount of interest earned by the Group under each of the 1st Series Bond and the 2nd Series Bond is approximately ¥19.6 million and ¥20.0 million, respectively.

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

Save as disclosed herein, the Group did not hold any significant investments as at 30 June 2022.

HUMAN RESOURCES

Employees and remuneration policies

As at 30 June 2022, the Group had 367 employees (30 June 2021: 454 employees), almost all of whom were based in Japan, and of whom 305 were stationed at the Group's pachinko halls. For newly recruited employees, we prepared a series of training sessions which mainly focuses on pachinko hall operations and customer service. Upon appointment of every three years, as required by the Public Safety Commission, each hall manager is required to attend the training course conducted by the Public Safety Commission.

The staff costs include all salaries and benefits payable to the Group's employees and staff, including our Directors. The total staff costs for FY2022 amounted to approximately ¥1,136 million (FY2021: approximately ¥1,309 million), which accounted for approximately 16.7% (FY2021: approximately 19.8%) of the total operating expenses, including the remuneration of the Directors.

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

Apart from basic remuneration, share options may be granted to individual Directors and employees under the share option scheme (the "**Share Option Scheme**") adopted by 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 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 the Year, the Company did not issue for cash any equity securities (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 ACQUISITIONS AND/OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period up to the date of this announcement.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL INVESTMENTS

Save for those disclosed in this announcement, 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 FY2022 has been recommended by the Board (FY2021: Nil).

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 30 June 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the Year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on the preliminary announcement.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Audit Committee, together with the Board and its external auditor, had reviewed the accounting principles and policies adopted by the Group and the consolidated financial statements for FY2022.

CORPORATE GOVERNANCE

The Directors consider that the Company has applied the principles of the Corporate Governance Code (the "**CG Code**") (with amendments that came into effect on 1 January 2022) 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 C.2.1 (previously A.2.1)

Under code provision C.2.1 of the CG Code (previously A.2.1), the roles of chairman and chief executive should be separate and should not be performed by the same individual. For the Group, Mr. Katsuya YAMAMOTO holds both of such positions. Mr. Katsuya YAMAMOTO has been primarily responsible for overseeing the Group's general management and business development and for formulating business strategies and policies for the Group's business management and operations since the Group was founded in 1984. The Company and the Directors (including the independent non-executive Directors) believes the combined roles of Mr. Katsuya YAMAMOTO provide for better leadership of the Board and management and allow for more focus on developing the Group's business strategies and implementation of policies and objectives, and therefore the present arrangements are beneficial to and in the interests of the Company and its shareholders as a whole.

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the required standards for securities transactions by the Directors. Specific enquiries have been made to all the Directors and all Directors have confirmed that they had complied with the required standards, where applicable, set out in the Model Code for the year ended 30 June 2022.

ANNUAL GENERAL MEETING

The Company will hold its annual general meeting on Tuesday, 22 November 2022 (the "**2022 AGM**"), the notice of which will be published and despatched to the Company's 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 2022 AGM, the register of members of the Company will be closed from Thursday, 17 November 2022 to Tuesday, 22 November 2022 (both dates inclusive), during which period no transfer of Shares will be effected. In order to qualify for attending and voting at the 2022 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 16 November 2022.

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 the Company's shareholders and published on the aforesaid websites in due course.

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

Hong Kong, 28 September 2022

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

* *For identification purpose only*