Okura Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01655)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

- Gross pay-ins increased by approximately 18.9% to approximately ¥14,548 million for 6M2023 (6M2022: approximately ¥12,235 million).
- Revenue increased by approximately 13.6% to approximately ¥3,106 million for 6M2023 (6M2022: approximately ¥2,735 million).
- Operating profit was approximately ¥254 million for 6M2023 as compared with the operating loss of approximately ¥279 million for 6M2022.
- Profit before income tax was approximately ¥163 million for 6M2023 as compared with the loss before income tax of approximately ¥362 million for 6M2022.
- Profit for the period attributable to shareholders of the Company was approximately ¥90 million for 6M2023 as compared with the loss for the period attributable to shareholders of the Company of approximately ¥333 million for 6M2022.
- Basic and diluted earnings per share amounted to approximately ¥0.180 for 6M2023 (6M2022: basic and diluted loss per share amounted to approximately ¥0.666).
- The Board does not recommend the payment of an interim dividend for 6M2023 (6M2022: 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 unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 31 December 2022 ("**6M2023**"), together with the comparative figures for the six months ended 31 December 2021 ("**6M2022**").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

		(Unaudited) Six months ended 31 December	
		2022	2021
	Note	***¥ million***	*¥ million*
Revenue	6	**3,106**	2,735
Other income	7	**187**	215
Other (losses)/gains, net	7	**(36)**	137
Hall operating expenses	8	**(2,692)**	(2,965)
Administrative and other operating expenses	8	**(311)**	(401)
Operating profit/(loss)		**254**	(279)
Finance income		**23**	41
Finance costs		**(114)**	(124)
Finance costs, net	9	**(91)**	(83)
Profit/(loss) before income tax		**163**	(362)
Income tax (expense)/credit	10	**(73)**	29
Profit/(loss) for the period attributable to shareholders of the Company		**90**	(333)
Earnings/loss per share attributable to shareholders of the Company for the period (expressed in ¥ per share)			
Basic		**0.180**	(0.666)
Diluted		**0.180**	(0.666)

		(Unaudited) Six months ended 31 December	
		2022	2021
	Note	***¥ million***	*¥ million*
Profit/(loss) for the period		**90**	(333)
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of employee benefit obligations		**7**	(1)
Changes in fair value of financial assets at fair value through other comprehensive income		**16**	6
Deferred income tax arising from fair value changes		**(8)**	(2)
Total comprehensive income/(loss) for the period attributable to shareholders of the Company		**105**	(330)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	**(Unaudited) 31 December 2022 *¥ million***	(Audited) 30 June 2022 *¥ million*
Assets			
Non-current assets			
Property, plant and equipment	13	**7,574**	7,402
Right-of-use of assets	14	**2,678**	2,820
Investment properties	13	**2,940**	2,982
Intangible assets	13	**135**	122
Prepayments and deposits		**823**	851
Financial assets at fair value through other comprehensive income		**48**	32
Financial assets at amortised cost		**500**	—
Deferred income tax assets		**192**	175
		14,890	14,384
Current assets			
Inventories		**88**	83
Trade receivables	15	**12**	12
Prepayments, deposits and other receivables		**313**	340
Financial assets at fair value through profit or loss		**362**	343
Financial assets at amortised cost		**500**	1,000
Short-term bank deposits		**405**	100
Cash and cash equivalents		**1,819**	2,340
		3,499	4,218
Total assets		**18,389**	18,602
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	16	**20,349**	20,349
Reserves		**(18,084)**	(18,189)
Total equity		**2,265**	2,160

	Note	(Unaudited) 31 December 2022 ¥ *million*	(Audited) 30 June 2022 ¥ *million*
Liabilities			
Non-current liabilities			
Borrowings	19	**4,389**	4,665
Lease liabilities	14	**8,073**	8,434
Accruals, provisions and other payables		**350**	403
Employee benefit obligations	18	**186**	162
Deferred income tax liabilities		**54**	23
		13,052	13,687
Current liabilities			
Borrowings	19	**745**	739
Lease liabilities	14	**667**	663
Financial liabilities at fair value through profit or loss		**137**	134
Accruals, provisions and other payables		**1,438**	1,182
Trade payables	17	**15**	11
Amount due to directors	21	**3**	3
Current income tax liabilities		**67**	23
		3,072	2,755
Total liabilities		**16,124**	16,442
Total equity and liabilities		**18,389**	18,602

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The condensed consolidated interim financial information is presented in millions of Japanese Yen ("**¥**"), unless otherwise stated.

This condensed consolidated interim financial information was approved for issue by the board of directors (the "**Board**") of the Company on 28 February 2023.

This condensed consolidated interim financial information has not been audited.

The defined terms used in this condensed consolidated interim financial information have the same meaning as those set out in the Group's annual report 2022 published on 20 October 2022 (the "**Annual Report 2022**"), unless otherwise stated.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 31 December 2022 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants and International Accounting Standard ("**IAS**") 34, 'Interim Financial Reporting' issued by the International Accounting Standards Board. Hong Kong Financial Reporting Standards ("**HKFRS**") is substantially consistent with International Financial Reporting Standards ("**IFRS**") and the accounting policy selections that the Group has made in preparing the condensed consolidated interim financial information are such that the Group is able to comply with both HKFRS and IFRS. Reference to IFRS, IAS and Interpretations developed by the IFRS Interpretations Committee ("**IFRIC**") in the condensed consolidated interim financial information should be read as referring to the equivalent HKFRS, HKAS and Hong Kong (IFRIC) Interpretation ("**HK(IFRIC)-Int**") as the case may be. Accordingly, there are no differences of accounting practice between HKFRS and IFRS affecting the condensed consolidated interim financial information.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by the Group during the interim reporting period.

The financial information relating to the year ended 30 June 2022 that is included in the condensed consolidated interim financial information for the six months ended 31 December 2022 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 30 June 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 June 2022, as described in the annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) 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 2022:

Amendments under IFRS

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to IAS 37	Onerous contracts — Cost of Fulfilling a Contract
Annual Improvement to IFRS Standards 2018–2020	Amendments to IFRS 1, IRFS 9, IFRS 16 and IAS 41

Amendments under HKFRS

Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations

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

(b) New and amended standards, amended interpretation and practical statement to existing standards (collectively, the "Amendments") not yet adopted by the Group

The following Amendments have been published but not mandatory for the financial year beginning on or after 1 January 2023 and have not been early adopted by the Group.

Amendments under IFRS		**Effective for accounting periods beginning on or after**
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IFRS 17	Amendments to IFRS 17	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 IAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
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

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 2024

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 ESTIMATES

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2022, with the exception of changes in estimates that are required in determining the provision for income taxes.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

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

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Annual Report 2022.

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

5.2 Liquidity risk

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

5.3 Fair value estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1	**Level 2**	**Level 3**	**Total**
	¥ million	***¥ million***	***¥ million***	***¥ million***
As at 31 December 2022				
Assets				
Financial assets at fair value through profit or loss				
— Listed securities	**55**	**—**	**—**	**55**
— Debt securities	**—**	**307**	**—**	**307**
Financial assets at fair value through other comprehensive income				
— Listed securities	**46**	**—**	**—**	**46**
— Unlisted securities	**—**	**—**	**2**	**2**
	101	**307**	**2**	**410**
Liabilities				
Financial liabilities at fair value through profit or loss				
— Derivatives	**—**	**(137)**	**—**	**(137)**

	Level 1	Level 2	Level 3	Total
	¥ million	*¥ million*	*¥ million*	*¥ million*
As at 30 June 2022				
Assets				
Financial assets at fair value through profit or loss				
— Listed securities	22	—	—	22
— Debt securities	—	321	—	321
Financial assets at fair value through other comprehensive income				
— Listed securities	30	—	—	30
— Unlisted securities	—	—	2	2
	52	321	2	375
Liabilities				
Financial liabilities at fair value through profit or loss				
— Derivatives	—	(134)	—	(134)

There were no transfers of financial assets between levels 1, 2 and 3 during the six months ended 31 December 2022 and during the year ended 30 June 2022.

6 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	(Unaudited) Six months ended 31 December	
	2022	2021
	¥ million	*¥ million*
Revenue		
Gross pay-ins	**14,548**	12,235
Less: gross pay-outs	**(11,671)**	(9,761)
Revenue from pachinko and pachislot hall business	**2,877**	2,474
Vending machine income	**47**	44
Property rental	**177**	183
Revenue from other operation	**5**	34
	3,106	2,735

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

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker ("**CODM**") that are used for making strategic decisions. The CODM is identified as the executive directors of the Group. The CODM 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 the horse management operation, and the employment support services operation which was discontinued during the six months ended 31 December 2021).

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

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

The segment information provided to the executive directors for the six months ended 31 December 2022 and 2021 are as follows:

	Six months ended 31 December 2022 (Unaudited)				
	Pachinko and Pachislot hall operation *¥ million*	**Property rental** *¥ million*	**Other segments** *¥ million*	**Unallocated amounts** *¥ million*	**Total** *¥ million*
Segment revenue from external customers	**2,924**	**177**	**5**	**—**	**3,106**
Segment results	**187**	**86**	**(3)**	**(107)**	**163**
Profit before income tax					**163**
Income tax expense					**(73)**
Profit for the period					**90**
Other items					
Provision for impairment loss of property, plant and equipment	—	—	—	—	—
Provision for impairment loss of right-of-use assets	—	—	—	—	—
Provision for impairment loss of intangible assets	—	—	—	—	—
Provision for impairment loss of investment properties	—	—	—	—	—
Depreciation and amortisation	**(245)**	**(40)**	**(2)**	**(20)**	**(307)**
Finance income	—	—	—	**23**	**23**
Finance costs	**(62)**	**(21)**	—	**(31)**	**(114)**
Capital expenditures	**(289)**	—	**(15)**	**(15)**	**(319)**

	Six months ended 31 December 2021 (Unaudited)				
	Pachinko and pachislot hall operation *¥ million*	Property rental *¥ million*	Other segments *¥ million*	Unallocated amounts *¥ million*	Total *¥ million*
Segment revenue from external customers	2,518	183	34	—	2,735
Segment results	(81)	69	(6)	(344)	(362)
Loss before income tax					(362)
Income tax credit					29
Loss for the period					(333)
Other items					
Provision for impairment loss of property, plant and equipment	(35)	—	—	—	(35)
Provision for impairment loss of right-of-use assets	(281)	—	—	—	(281)
Provision for impairment loss of intangible assets	(241)	—	—	—	(241)
Provision for impairment loss of investment properties	—	(22)	—	—	(22)
Depreciation and amortisation	(375)	(40)	(12)	(42)	(469)
Finance income	—	—	—	41	41
Finance costs	(87)	(30)	—	(7)	(124)
Capital expenditures	(228)	—	—	—	(228)

	Pachinko and pachislot hall operation ¥ *million*	Property rental ¥ *million*	Other segments ¥ *million*	Total ¥ *million*
As at 31 December 2022 (Unaudited)				
Segment assets	11,021	3,319	6	14,346
Unallocated assets				2,441
Financial assets held at amortised cost				1,000
Financial assets at fair value through profit or loss				362
Financial assets at fair value through other comprehensive income				48
Deferred income tax assets				192
Total assets				18,389
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

There is no single external customer contributed more than 10% revenue to the Group's revenue for the six months ended 31 December 2022 and 2021.

The Group is domiciled in Japan and a majority of the non-current assets of the Group as at 31 December 2022 and 30 June 2022 is located in Japan.

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

	(Unaudited) Six months ended 31 December	
	2022	2021
	¥ million	*¥ million*
Other income		
Income from scrap sales of used pachinko machines	**168**	180
Dividend income	**—**	3
Income from expired IC card	**3**	3
Others	**16**	29
	187	215
Other (losses)/gains, net		
Gains on lease modification	**13**	392
Exchange (losses)/gains, net	**(20)**	16
Losses on fair value changes on financial assets at fair value through profit or loss, net	**(43)**	(253)
Provision for impairment loss of investment properties	**—**	(22)
Losses on written-off of property, plant and equipment	**(2)**	(12)
Gains on disposal of property, plant and equipment	**—**	2
Gains on disposal of securities, net	**4**	—
Others	**12**	14
	(36)	137

8 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	(Unaudited) Six months ended 31 December	
	2022	2021
	¥ million	*¥ million*
Pachinko and pachislot machines expenses (Note)	**1,388**	1,021
Auditor's remuneration	**10**	20
Employee benefits expenses	**547**	620
Operating lease rental expense in respect of land and buildings	**9**	12
Depreciation and amortisation	**307**	469
Provision for impairment loss of right-of-use assets	**—**	281
Provision for impairment loss of property, plant and equipment	**—**	35
Provision for impairment loss of intangible assets	**—**	241

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

9 FINANCE COSTS, NET

	(Unaudited) Six months ended 31 December 2022 ¥ million	2021 ¥ million
Finance income		
Interest income	**1**	1
Interest from debt securities	**22**	40
	23	41
Finance costs		
Interest expense on lease liabilities	**(83)**	(89)
Interest expense on long-term payables	**(1)**	—
Borrowings interest expenses	**(30)**	(34)
Bond interest expenses	**—**	(1)
	(114)	(124)
Finance costs, net	**(91)**	(83)

10 INCOME TAX (EXPENSE)/CREDIT

Japan corporate income tax has been calculated on the estimated assessable profit/(loss) for the period at the rates of taxation prevailing in Japan in which the Group operates. The rates of taxation are based on management's estimate of the weighted average effective statutory income tax rate for the full financial year.

The Group is subject to national corporate income tax, inhabitants tax, and enterprise tax in Japan, which in aggregate, resulted in an effective statutory income tax rate of 34.3% for the six months ended 31 December 2022 and 2021.

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 31 December 2022 and 2021.

	(Unaudited) Six months ended 31 December 2022 ¥ million	2021 ¥ million
Current income tax		
— Japan corporate income tax	**(67)**	(19)
Deferred income tax	**(6)**	48
	(73)	29

11 EARNINGS/(LOSS) PER SHARE

Basic Earnings/(loss) per share for the six months ended 31 December 2022 and 2021 are calculated by dividing the profit/(loss) attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	(Unaudited) Six months ended 31 December	
	2022	2021
Profit/(loss) attributable to shareholders of the Company (¥ million)	**90**	(333)
Weighted average number of ordinary shares in issue (million)	**500**	500
Basic and diluted earnings/(loss) per share (¥)	**0.180**	(0.666)

No diluted earnings/(loss) per share is presented as there was no potential dilutive share during the six months ended 31 December 2022 and 2021. Diluted earnings/(loss) per share is equal to the basic earnings/(loss) per share.

12 DIVIDENDS

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2022 (30 June 2022: Nil).

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

During the six months ended 31 December 2022, the Group incurred capital expenditures of approximately ¥304 million (six months ended 31 December 2021: ¥228 million) for property, plant and equipment, and ¥15 million for intangible assets (six months ended 31 December 2021: Nil). No capital expenditure was incurred for investment property during the six months ended 31 December 2022 (six months ended 31 December 2021: Nil).

During the six months ended 31 December 2022, the net book amounts of written-off property, plant and equipment amount to approximately ¥2 million (six months ended 31 December 2021: ¥12 million) and there was no material disposal or write-off of investment property and intangible asset (six months ended 31 December 2021: Nil).

The net carrying amount of the Group's property, plant and equipment and investment properties that were pledged for the banking facilities granted to the Group as at 31 December 2022 and 30 June 2022 has been disclosed in Note 19.

At 31 December 2022, the Group carried out reviews of the recoverable amount of each cash-generating unit ("**CGU**"), which is determined as each individual pachinko and pachislot hall, each individual investment property and the horse management operation.

Pachinko and pachislot operation

For the six months ended 31 December 2022, the management regards CGU with operating loss for current period or performance below management's expectation, defined as not fulfilling the projected operating profit or loss for the period (six months ended 31 December 2021: Same) as having impairment indicator.

As a result, 7 CGUs within the pachinko and pachislot operation (six months ended 31 December 2021: 8 CGUs) were identified as showing indications of impairment. The management has reviewed the recoverability of the relevant carrying amounts of these CGUs.

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

The value-in-use calculations used pre-tax cash flow projections over the useful lives of CGUs, which based on financial budgets approved by management covering a five-year period. Management prepared the value-in-use calculations by using pre-tax cash flow projections over the useful lives of CGUs. Management's forecast for the first year takes into account the performance of each of the CGUs in current period and incorporating management's latest plans for each CGUs, with annual revenue growth rate thereafter until the remaining useful life as 0% (six months ended 31 December 2021: The pre-tax cash flow forecasts of the CGUs adopted the multiple probability-weighted scenarios approach, whereas the key input is the assumed time length, ranging from half year to 2 years from 30 June 2021, for the revenue to resume to certain level, ranging from 70% to 90%, of the pre-pandemic level, which was determined based on the circumstance of each CGU, with annual revenue growth rate over the remaining useful life as 0%). The pre-tax discount rate used to determine the recoverable amounts was 9.20% (six months ended 31 December 2021: 12.80%).

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

The fair value less cost of disposal calculations were carried out based on the valuations performed by management using the cost approach, which largely used observable and unobservable inputs, including unit price per square meter of sales comparables for land as well as replacement cost per square meter for buildings. The fair values of all CGUs subject to fair value less cost of disposal calculations are within level 3 of the fair value hierarchy.

The key assumptions used for fair value less costs of disposal calculations for the six months ended 31 December 2022 and 2021 are as follows:

	31 December 2022	31 December 2021
Land — unit price per square meter	¥41,800–¥883,000	¥41,200–¥821,000
Building — replacement cost per square meter	¥175,000–¥283,000	¥60,000–¥283,000

For the six months ended 31 December 2022, as a result of the impairment review, no impairment loss on property, plant and equipment (six months ended 31 December 2021: ¥35 million), right-of-use asset (six months ended 31 December 2021: ¥281 million), and intangible assets (six months ended 31 December 2021: ¥241 million) has been recognized under the pachinko and pachislot hall operation segment.

If the revenue growth rate in the value-in-use calculations decreased by 2% or the pre-tax discount rate increased by 1%, with other assumptions remain constant, no addition impairment loss would be recorded (six months ended 31 December 2021: if the revenue growth rate in the value-in-use calculations decreased by 2% or the pre-tax discount rate increased by 1%, with other assumptions remain constant, addition in impairment loss of ¥146 million or ¥56 million would be recorded, respectively). If the unit price per square meter of land and replacement cost per square meter of building decrease by 1% in the fair value less cost of disposal calculations with other assumptions remaining constant, addition in impairment loss would be immaterial (six months ended 31 December 2021: if the unit price per square meter of land and replacement cost per square meter of building decrease by 1%, no additional impairment loss would be recorded).

Property rental operation

For the six months ended 31 December 2022, no impairment indicator was identified in property rental operation and no impairment review was performed (six months ended 31 December 2021: Same).

Investment property of the Group is measured under cost model, and is written down immediately to its fair value if the asset's carrying amount is greater than its fair value. As at 31 December 2022, no investment property with carrying amount exceeded individual valuation result, as a result no impairment loss on investment property has been recorded during the six months ended 31 December 2022 (six months ended 31 December 2021: carrying amounts of certain investment properties exceeded the recoverable amounts and impairment loss of ¥22 million was recognised during the period).

Horse management operation

For the six months ended 31 December 2022, no impairment indicator was identified and no impairment review was performed on this CGU (six months ended 31 December 2021: Same).

14 LEASES

	(Unaudited) 31 December 2022 *¥ million*	(Audited) 30 June 2022 *¥ million*
Right-of-use assets		
Land	**191**	196
Buildings	**2,419**	2,600
Leasehold improvements	**59**	13
Equipment and tools	**9**	11
	2,678	2,820
Lease liabilities		
Non-current	**8,073**	8,434
Current	**667**	663
	8,740	9,097

For the six months ended 31 December 2022, as a result of the impairment review, no impairment loss (six months ended 31 December 2021: ¥281 million) had been recognised on right-of-use assets. Refer to Note 13 for details of the impairment review.

15 TRADE RECEIVABLES

	(Unaudited) 31 December 2022	(Audited) 30 June 2022
	¥ million	*¥ million*
Trade receivables	**12**	12

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:

	(Unaudited) 31 December 2022	(Audited) 30 June 2022
	¥ million	*¥ million*
Less than 30 days	**12**	12

16 SHARE CAPITAL AND RESERVE

	Number of shares	**Share capital**
	million	*¥ million*
At 1 July 2021, 31 December 2021, 1 July 2022 and 31 December 2022	500	20,349

(a) Capital reserve

Capital reserve deficit of approximately ¥12,837 million (30 June 2022: ¥12,837 million) represented (i) the difference between the carrying value of the business and the share capital of the Company upon formation of the Company and transfer of the business to the Company and (ii) the difference between the consideration paid for acquiring the subsidiaries and the share capitals of acquired subsidiaries under common control.

(b) Legal reserve

The Japan Companies Act provides that a 10% dividend paid during the year shall be appropriated as legal reserve (a component of either capital surplus or retained earnings) until an aggregate amount of legal capital reserve and legal retained earnings equals 25% of share capital. The legal reserve may be used to reduce a deficit or transfer to share capital upon approval of the general meeting of shareholders.

(c) Other reserves

Other reserves of approximately ¥25 million (30 June 2022: ¥10 million) represented (i) the cumulative net change in the fair value of financial assets through other comprehensive income, and (ii) the remeasurement of employee benefit obligation arising from actuarial gains and losses.

17 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice date as at 31 December 2022 and 30 June 2022 is as follows:

	(Unaudited) 31 December 2022 ***¥ million***	(Audited) 30 June 2022 *¥ million*
Less than 30 days	**15**	11

The carrying amounts of trade payables approximate their fair values as at 31 December 2022 and 30 June 2022 and were denominated in ¥.

18 EMPLOYEE BENEFIT OBLIGATIONS

	(Unaudited) 31 December 2022 ***¥ million***	(Audited) 30 June 2022 *¥ million*
Long term benefit obligation for Katsuya Yamamoto (Note)	**148**	124
Retirement benefit obligations for employees	**38**	38
	186	162

Note: As at 31 December 2022 and 30 June 2022, long term benefit obligation for Katsuya Yamamoto represented the provision on the lump-sum payment made to him as a recognition of his contribution to the Group. The amount of provision was made according to his rank and years of service in the Group, using projected unit credit method. The defined benefit retirement plans of the Group were measured at present value which were determined with reference to the valuation performed by IIC Partners Co., LTD, an independent qualified professional valuer. The valuation was carried out by projected unit credit method.

19 BORROWINGS

	(Unaudited) 31 December 2022 ¥ million	(Audited) 30 June 2022 ¥ million
Non-current portion		
Bank loans	**3,064**	3,301
Loans from governmental financial institution	**1,325**	1,364
	4,389	4,665
Current portion		
Bank loans	**651**	621
Loans from governmental financial institution	**94**	86
Bonds	**—**	32
	745	739
Total borrowings	**5,134**	5,404

As at 31 December 2022 and 30 June 2022, the total borrowings are pledged by certain assets and their carrying values are shown as below:

	2022 ¥ million	2021 ¥ million
Property, plant and equipment	**5,052**	5,092
Investment properties	**1,652**	1,674
Financial assets at fair value through other comprehensive income — listed equity securities	**44**	28
	6,748	6,794

20 COMMITMENTS

(a) Capital commitments

As at 31 December 2022 and 30 June 2022, the Group did not have any outstanding capital commitments.

(b) Operating lease commitments

(i) As a lessor

As at 31 December 2022 and 30 June 2022, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	(Unaudited) **31 December** **2022** ***¥ million***	(Audited) 30 June 2022 *¥ million*
No later than one year	**39**	50

21 RELATED PARTY TRANSACTIONS

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

(a) Outstanding balances arising from transactions with related parties

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

	(Unaudited) **31 December** **2022** ***¥ million***	(Audited) 30 June 2022 *¥ million*
Amount due to directors		
— Katsuya Yamamoto	**2**	3
— Satoshi Maeda	**1**	—
	3	3

(b) Key management compensation

Key management includes executive directors and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	(Unaudited) Six months ended 31 December	
	2022	2021
	¥ million	*¥ million*
Salaries and other short-term employee benefits	**20**	44

22 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 27 January 2023, the Group entered into an amendment agreement with the bond issuer and the guarantor to extend the maturity/redemption date of a bond with face value of ¥500 million for one year from 31 January 2023 to 31 January 2024. Save as disclosed above, other terms and conditions of the bond remain unchanged. The aforementioned bond, which was classified as financial assets held at amortised cost under current assets as at 31 December 2022, would be classified as non-current assets upon the signing of the amendment agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry and business review

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

Amid the emergence and repeated spread of new variants and subvariants of the Coronavirus Disease 2019 ("**COVID-19**") in Japan in 6M2023, the Japanese government have eased certain restrictive measures in order to restore and stimulate social and economic activities in Japan, showing a shift in their policies from 'the need to suppress the spread of COVID-19' to 'living with the virus'. Following the lifting of certain restrictions, the Group has recorded a significant improvement in revenue for 6M2023 as compared with 6M2022. In spite of this development, the business outlook of the pachinko industry remains uncertain given the prolonged decline in the pachinko business coupled with high inflation in Japan resulting from rising commodity prices and the depreciation of Japanese Yen which has reduced the purchasing power of consumers and impeded the pace of business recovery.

Despite the recent global instability and inflation in Japan which discouraged consumers from spending money on entertainment activities, the Group observed a recovery of customer traffic at most of its pachinko halls in 6M2023 following the introduction of a newer version of pachislot machines in June 2022. This newer version of pachislot machines contains more gambling elements as compared with the former version and therefore attracted more customers. The Group has recorded a profit before income tax of approximately ¥163 million for 6M2023, as compared with a loss-making performance in 6M2022, which recorded a loss before income tax of approximately ¥362 million. The profit before income tax for 6M2023 as compared with the loss before income tax for 6M2022 was mainly attributable to (i) the increase in revenue of approximately ¥371 million, (ii) the decrease in hall operating expenses of approximately ¥273 million, and (iii) the decrease in administrative and other operating expenses of approximately ¥90 million. This is partially offset by (i) the other net losses of approximately ¥36 million as compared with the other net gains of approximately ¥137 million in 6M2022, and (ii) the decrease in other income of approximately ¥28 million, which will be further elaborated below. The management of the Company is optimistic and expects the impact of the COVID-19 outbreak to the pachinko industry in Japan will continue to diminish and the Group's business performance will improve steadily.

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 6M2023, the Group derived revenue from its pachinko hall business, its vending machines, its 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, 25 January 2022 and 27 January 2023, 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, 25 January 2022 and 27 January 2023 and the circular of the Company dated 29 October 2021.

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 and revised in May 2020 and May 2021 (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 were required to gradually phase out of the pachinko industry in batches by the end of January 2022. The phasing out and replacement of all pacinko and pachinko machines with a higher gaming element was completed by the Group by the end of January 2022.

In response to the 2018 Regulations, the Group's 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. In November 2022, the Group introduced the new coin-less model pachinko machines (the "**Smart Slot Machines**") in hopes of attracting more customers and improving the Group's revenue. The Smart Slot Machines serve to eliminate and replace the need to count and insert physical pachislot tokens directly into the pachislot machines to play and instead the number of tokens a customer has is transferred onto a personal electronic card. Even though the number of Smart Slot Machines accounted for approximately 1.6% of the total pachinko and pachislot machines owned by the Group for 6M2023, the Directors has observed that the Smart Slot Machines have gained popularity among certain customers who are interested in new models and customers who care about hygiene as they need not touch physical pachislot tokens which have been handled by other customers. It is therefore expected that the Smart Slot Machines will continue to attract more pachislot players. Moving forward, the Company will closely monitor the performance of the Smart Slot Machines at its pachinko halls and implement suitable marketing and promotion schemes as and when necessary to boost up revenue from the Smart Slot Machines.

Market threats and prospects

Although 2021 and 2022 have been the challenging years for Japan's pachinko industry overall, the Group's operational and financial performance for 6M2023 has managed to recover as a result of the management's efforts in prioritising the Group's resources in the recovery of customer traffic. As the Group considers that many customers have become more concerned with personal hygiene following the outbreak of COVID-19, it has implemented various measures to assure the health and safety of its customers who come to their pachinko halls. For instance, the Company has launched a new prize-exchange system called "Self-POS System" at several of its pachinko halls which enables customers to exchange their prizes on their own without requiring the assistance of the Group's staff, thereby reducing the need for human interaction between the Group's staff and the customers. The launch of the Self-POS system has also improved work efficiency and reduced the number of manpower required at the Group's 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 relating to horse management services. During 6M2023, revenue from pachinko and pachislot hall business remained the majority source of income for the Group, accounting for approximately 92.6% of the Group's total revenue (6M2022: approximately 90.5%). The Group's total revenue increased by approximately ¥371 million, or 13.6%, from approximately ¥2,735 million in 6M2022 to approximately ¥3,106 million in 6M2023. This increase was mainly a result of the increase in approximately 16.3% in revenue generated from the Group's overall pachinko and pachislot business, from approximately ¥2,474 million in 6M2022 to approximately ¥2,877 million in 6M2023, primarily due to the recovery of customer traffic at the Group's pachinko halls for the reasons as explained above.

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 relatively stable, with a slight increase of approximately ¥3 million, or 6.8%, from approximately ¥44 million in 6M2022 to approximately ¥47 million in 6M2023.

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 relatively stable, with a slight decrease of approximately ¥6 million, or 3.3%, from approximately ¥183 million in 6M2022 to approximately ¥177 million in 6M2023 due to a decrease in the occupancy rate of the commercial facilities.

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 ¥29 million, or 85.3%, from approximately ¥34 million in 6M2022 to approximately ¥5 million in 6M2023, due to the discontinuation of employment support services in August 2021 and the shift from providing horse sitting services to horse management services in February 2022 which involves lower service fees.

Gross pay-ins

The Group's gross pay-ins represent the gross amount received from customers for 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 6M2023.

The Group's gross pay-ins recorded an increase of approximately ¥2,312 million, or 18.9%, from approximately ¥12,235 million in 6M2022 to approximately ¥14,548 million in 6M2023, 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 ¥1,909 million, or approximately 19.6%, from approximately ¥9,761 million in 6M2022 to approximately ¥11,671 million in 6M2023 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 relatively stable at approximately 19.8% for 6M2023 and 20.2% for 6M2022.

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

Other income decreased by approximately ¥28 million, or approximately 13.0%, from approximately ¥215 million in 6M2022 to approximately ¥187 million in 6M2023, mainly due to (i) a decrease in income from scrap sales of used pachinko and pachislot machines of approximately ¥12 million, or 6.7%, from approximately ¥180 million in 6M2022 to approximately ¥168 million in 6M2023 due to the decrease in resale value of the older version of the pachislot machines, and (ii) a decrease in other income sources of approximately ¥16 million, or 45.7%, from approximately ¥35 million in 6M2022 to approximately ¥19 million in 6M2023, due to the decrease in premium income from derivative contracts since none of the put options triggered early termination in 6M2023 as compared to 6M2022 where some put options triggered early termination and the Company earned more premium income as a result.

Other net losses/gains

Other net losses/gains are mainly comprised of (i) gain on release of lease liabilities, (ii) net exchange gains/losses, (iii) losses on fair value changes on financial assets at fair value through profit or loss, (iv) provision for impairment loss of investment properties, (v) losses on write-off of property, plant and equipment, (vi) net gains/losses on disposal of securities, and (vii) other gains which are mainly comprised of insurance claims.

The Group recorded other net losses of approximately ¥36 million in 6M2023 as opposed to other net gains of approximately ¥137 million in 6M2022. The other net losses of approximately ¥36 million in 6M2023 was mainly attributable to (i) the decrease in the gain on lease modification of approximately ¥379 million, or 96.7%, from approximately ¥392 million in 6M2022 to approximately ¥13 million in 6M2023 since there were no termination of leases in 6M2023 as compared with the early termination of leases following the closure of the Group's three pachinko halls and one employment support centre in 6M2022, (ii) net exchange losses of approximately ¥20 million in 6M2023 as compared with net exchange gains of approximately ¥16 million in 6M2022, which was partially offset by the decrease in losses on fair value changes on financial assets at fair value through net profit or loss of approximately ¥210 million, or 83.0%, from approximately ¥253 million in 6M2022 to approximately ¥43 million in 6M2023 due to fluctuations in market prices of underlying assets in the Company's investments.

Hall operating expenses and administrative and other operating expenses

Hall operating expenses decreased by approximately ¥273 million, or approximately 9.2%, from approximately ¥2,965 million in 6M2022 to approximately ¥2,692 million in 6M2023. This is primarily due to (i) no provision for impairment loss of right-of-use assets, property, plant and equipment and intangible assets was recorded in 6M2023 as a result of the recovering market conditions of the pachinko industry and the reduced impact of COVID-19 on the business performance of the Group's pachinko halls, as compared with the recognition of impairment losses on the Group's property, plant and equipment, right-of-use assets and intangible assets in aggregate of approximately ¥557 million in 6M2022 given the then adverse market conditions of the pachinko industry and the continuing uncertainty in the business performance of the Group's pachinko halls caused by the prolonged impact of COVID-19 and its new variants in Japan, and (ii) the decrease of depreciation and amortisation expenses by approximately ¥130 million in 6M2023 mainly due to the absence of impairment loss in 6M2023 as compared with the impairment loss provided to fixed assets of approximately ¥557 million in 6M2022. This is partially offset by an increase in pachinko and pachislot machine expenses by approximately ¥367 million, or approximately 35.9%, from approximately ¥1,021 million in 6M2022 to approximately ¥1,388 million in 6M2023 due to the introduction of a newer version of pachislot machines with more gambling elements to attract customers.

Administrative and other operating expenses decreased by approximately ¥90 million, or approximately 22.4%, from approximately ¥401 million in 6M2022 to approximately ¥311 million in 6M2023, primarily due to (i) the decrease in employee benefit expenses by approximately ¥29 million due to the decrease in directors' fees and decrease in headcount of the Group's administrative departments, and (ii) the decrease in auditor's remuneration in 6M2023 by approximately ¥10 million.

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 the year ended 30 June 2022 ("**FY2022**"), the Group's management regarded operating loss for FY2022 or performing below management expectation, defined as not fulfilling the projected operating profit or loss for FY2022, as the impairment indicator. For 6M2023, the Company continued to apply the aforementioned impairment indicator and the management identified that seven CGUs (FY2022: eight CGUs) had resulted in operating loss or not fulfilling management's expectations for 6M2023, and therefore the management considered there were impairment indications for these CGUs. The management accordingly performed impairment assessment to assess the recoverable amounts of these CGUs.

The recoverable amounts of the seven CGUs identified by the Group were determined by using the higher of their value-in-use or 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 five CGUs were determined by their value-in-use, and the remaining two CGUs with significant self-owned properties were determined by their fair value less cost of disposal. As a result, for 6M2023, no provisions for impairment losses on property, plant and equipment, right-of-use assets, and intangible assets, were recorded.

Value-in-use approach

The value-in-use calculations were based on future cash flow forecasts of the CGUs that were determined with reference to the financial results for 6M2023.

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 ranges from 0 to 4% for the twelve months ending 31 December 2023 based on the business performance for each of the CGUs during 6M2023, and 0% after 31 December 2023 until the end of the respective useful life for each of the CGUs;

(ii) pre-tax discount rate is 9.20%; and

(iii) 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 FY2022.

Fair value less cost of disposal approach

The recoverable amounts of the two 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. 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 two CGUs.

Value of inputs and key assumptions

By using the cost approach, the management 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.

Profit/loss before income tax

Profit before income tax amounted to approximately ¥163 million for 6M2023, as compared with the loss before income tax of approximately ¥362 million for 6M2022. This is mainly attributable to (i) the increase in revenue of approximately ¥371 million, (ii) the decrease in hall operating expenses of approximately ¥273 million, and (iii) the decrease in administrative and other operating expenses of approximately ¥90 million.

This is partially offset by the other net losses of approximately ¥36 million as compared with the other net gains of approximately ¥137 million in 6M2022 and the decrease in other income of approximately ¥28 million as elaborated above.

Profit/loss for the period attributable to shareholders of the Company

Profit for period attributable to shareholders of the Company amounted to approximately ¥90 million for 6M2023, as compared with the loss for the period attributable to shareholders of the Company of approximately ¥333 million for 6M2022. This was mainly due to the reasons mentioned in the paragraph headed "Profit/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 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 31 December 2022, the Company had total borrowings of approximately ¥5,134 million (30 June 2022: approximately ¥5,404 million), of which approximately 72.4% represented bank borrowings and approximately 27.6% represented loans from a governmental financial institution. 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 6M2023. 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 6M2023, the Group did not use any risk hedging instrument.

Cash and cash equivalents

As at 31 December 2022, the Company had cash and cash equivalents of approximately ¥1,819 million (30 June 2022: approximately ¥2,340 million), and short-term bank deposits of approximately ¥405 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, Australian Dollar and HK Dollar.

Capital structure

For 6M2023, there was no change to the Group's capital structure. As at 31 December 2022, the capital structure of the Group comprised share capital and reserves. As at 31 December 2022, equity attributable to shareholders of the Company amounted to approximately ¥2,265 million (30 June 2022: approximately ¥2,160 million). As at 31 December 2022, total assets of the Group amounted to approximately ¥18,389 million (30 June 2022: approximately ¥18,602 million).

Borrowings

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

	As at 31 December 2022		As at 30 June 2022	
	¥ million	***%***	*¥ million*	*%*
Within 1 year	**745**	**14.5**	739	13.7
Between 1 year and 2 years	**661**	**12.9**	661	12.2
Between 2 years and 5 years	**1,857**	**36.2**	2,001	37.0
Over 5 years	**1,871**	**36.4**	2,003	37.1
	5,134	**100**	5,404	100

As illustrated above, the proportion of the Group's borrowings repayable within 1 year, and repayable in between 1 year and 2 years increased, while the borrowings repayable in between 2 years and 5 years, and repayable over 5 years decreased. The change of maturity profile of the Group's borrowings was primarily due to the repayment of long-term borrowings in 6M2023. As at 31 December 2022, the Group's borrowings of approximately ¥5,134 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, which had been fully redeemed at ¥260 million on 30 November 2022 upon its expiry date. No new bond was issued in 6M2023.

Pledged assets

As at 31 December 2022, the Company pledged assets, including (i) property, plant and equipment, (ii) investment properties, and (iii) listed securities, in the sum of approximately ¥6,748 million (30 June 2022: approximately ¥6,794 million) to secure certain general banking facilities of the Group. The decrease by approximately ¥46 million from approximately ¥6,794 million as at 30 June 2022 to approximately ¥6,748 million as at 31 December 2022 was due to the depreciation in the Group's fixed assets which lowered the carrying value of the pledged assets.

Gearing ratio

The gearing ratio, being the aggregate of interest-bearing loans and lease liabilities less cash and cash equivalents divided by total equity of the Company remained stable and maintained at approximately 84.2% as at 31 December 2022 as compared with approximately 84.9% as at 30 June 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 6M2023, 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 US Dollar 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 US Dollar in recent years, the Group will continue to look for opportunities to manage its exposures in US Dollar 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 31 December 2022	As at 30 June 2022
	¥ million	*¥ million*
Not later than 1 year	**39**	50

As at 31 December 2022, the Group did not have any capital commitments which were contracted but not provided for in respect of purchase of property, plant and equipment (30 June 2022: nil).

Capital expenditures

The Group's 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 ¥319 million for 6M2023 (6M2022: approximately ¥228 million), a majority of which came from equipment and fixtures for its pachinko halls. The increase in capital expenditures of approximately ¥91 million was mainly due to (i) the renovation of the pachinko hall named "K's Plaza Ohashi" which took place in December 2022, (ii) the acquisition of land adjacent to "K's Plaza Ohashi" for a consideration of approximately ¥45.4 million on 29 July 2022, and (iii) the replacement of air conditioners at several of the Group's pachinko halls. These capital expenditures were financed by the Group's internal funds.

Contingent liabilities

As at 31 December 2022, the Company did not have any material contingent liabilities or guarantees.

SIGNIFICANT INVESTMENTS

As at 31 December 2022, the Group held investments primarily in investment properties of approximately ¥2,940 million, which represented land and premises situated in Japan and rented out under operating leases, with each of their respective investment value being less than 5% of the Company's total assets as at 31 December 2022, and financial assets of approximately ¥1,410 million, which represented bonds including the bonds issued by the Bond Issuer, trust funds, and listed and unlisted securities. As at 31 December 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 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 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. No impairment loss was recognised on the Group's investment properties for 6M2023 (6M2022: approximately ¥22 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 5.5% 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.

As at the date of this announcement, the Company planned to continue to hold these investment properties for long-term rental yields.

Financial assets

In relation to the Group's financial assets, the losses on the fair value changes on financial assets at fair value through profit or loss decreased by approximately ¥210 million, or 83.0%, from approximately ¥253 million in 6M2022 to approximately ¥43 million in 6M2023, 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. On 27 January 2023, 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, 25 January 2022 and 27 January 2023 and the circular of the Company dated 29 October 2021.

As at 31 December 2022, the fair value of each of the 1st Series Bond and the 2nd Series Bond was ¥500 million, which in aggregate constituted 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 6M2023 as they are calculated at amortised cost. For 6M2023, the amount of interest earned by the Group under each of the 1st Series Bond and the 2nd Series Bond is approximately ¥10 million and ¥10 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 business outlook of the pachinko industry, 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.

Save as disclosed herein, the Group did not hold any significant investments as at 31 December 2022.

HUMAN RESOURCES

Employees and remuneration policies

As at 31 December 2022, the Group had 390 employees (31 December 2021: 392 employees), almost all of whom were based in Japan, and of whom 339 were stationed at the Group's pachinko halls. For newly recruited employees, the Group has 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 the Directors. The total staff costs for 6M2023 amounted to approximately ¥547 million (6M2022: approximately ¥620 million), which accounted for approximately 18.2% (6M2022: approximately 18.4%) 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 adopted by the Company on 10 April 2017, by reference to their performance.

The Share Option Scheme

On 10 April 2017, the Company adopted the Share Option Scheme. The principal terms of the Share Option Scheme were summarised in the paragraph headed "Statutory and General Information — F. Share Option Scheme" in Appendix VI to the prospectus of the Company.

The 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 in the form of share options of the Company to eligible participants ("**Eligible Participants**") and for such other purposes as the Board approves from time to time.

Eligible Participants includes among others, any full-time or part-time employees, or potential employees, executives or officers (including executive, non-executive and independent non-executive directors) of the Company or any of its subsidiaries and suppliers.

As at 1 July 2022 and at 31 December 2022, the maximum number of shares of the Company in respect of which options under the Share Option Scheme and any other share option schemes of the Company may be granted is 10% of the issued shares of the Company as at the date of the Company's listing (i.e., 15 May 2017), being 50,000,000 shares.

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 6M2023, the Company did not issue for cash any equity securities (including securities convertible into equity securities).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During 6M2023, 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 6M2023, the Group did not conduct any material acquisitions or disposals of subsidiaries, associates and joint ventures.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

On 27 January 2023, the Company, the Bond Issuer and Everglory Capital entered into a fifth amendment agreement to, among others, further extend the maturity/redemption date of the 2nd Series Bond from 31 January 2023 to 31 January 2024. For details, please refer to the Company's announcement dated 27 January 2023.

Save as disclosed in this announcement, 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.

INTERIM DIVIDEND

No interim dividend for 6M2023 has been recommended by the Board (6M2022: Nil).

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information and the interim results announcement for 6M2023 and discussed the financial related matters with the management. The unaudited condensed consolidated interim financial information of the Group for 6M2023 has been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE

The Directors consider 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 6M2023 as set out in the CG Code, except for the following deviation:

Code Provision C.2.1

Under code provision C.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 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) believe 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 6M2023.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.okura-holdings.com. The interim report of the Company for 6M2023 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 February 2023

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*