ANNUAL REPORT

2017

OKURA HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

Stock Code: 1655

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Katsuya Yamamoto (Chairman)
Mr. Fumihide Hamada
Mr. Yutaka Kagawa
Mr. Toshiro Oe

Independent Non-executive Directors

Mr. Mitsuru Ishii
Mr. Yuji Matsuzaki
Mr. Takamasa Kawasaki

COMPANY SECRETARY

Mr. Man Yun Wah *ACIS, ACS, MCG*

AUDIT COMMITTEE

Mr. Takamasa Kawasaki (Chairman)
Mr. Mitsuru Ishii
Mr. Yuji Matsuzaki

REMUNERATION COMMITTEE

Mr. Takamasa Kawasaki (Chairman)
Mr. Mitsuru Ishii
Mr. Yuji Matsuzaki
Mr. Katsuya Yamamoto
Mr. Yutaka Kagawa

NOMINATION COMMITTEE

Mr. Katsuya Yamamoto (Chairman)
Mr. Takamasa Kawasaki
Mr. Mitsuru Ishii
Mr. Yuji Matsuzaki
Mr. Yutaka Kagawa

RISK MANAGEMENT COMMITTEE

Mr. Fumihide Hamada (Chairman)
Mr. Yutaka Kagawa
Mr. Toshiro Oe
Mr. Satoshi Maeda
Mr. Koji Nakao
Mr. Hayato Tobisawa
Mr. Junichi Hitomi
Mr. Shota Miyano *(appointed in July 2017)*
Mr. Seiji Otofuji
Mr. Masayuki Sakata
Mr. Fumihiko Tanaka
Mr. Shuntaro Honda
Mr. Masaki Oka

AUTHORISED REPRESENTATIVES

Mr. Takamasa Kawasaki
Mr. Man Yun Wah *ACIS, ACS, MCG*

HEADQUARTER IN JAPAN

7/F, 13-10 Motofuna-machi,
Nagasaki City,
Nagasaki Prefecture,
Japan 850-0035

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

11/F, Admiralty Centre Tower II,
18 Harcourt Road,
Admiralty,
Hong Kong

Corporate Information

PRINCIPAL BANKERS

Sumitomo Mitsui Banking Corporation, Saga Branch
2-3, Hachimankoji,
Saga City, Saga Prefecture,
Japan 840-0834

Shinwa Bank, Sumiyoshi Branch
2-22, Sumiyoshimachi
Nagasaki City, Nagasaki Prefecture,
Japan 852-8154

The Eighteenth Bank, Ltd., Sumiyoshi Branch
1-6 Nakazonomachi,
Nagasaki City, Nagasaki Prefecture,
Japan 852-8155

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 22,
Hopewell Centre,
183 Queen's Road East,
Hong Kong

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building,
Central,
Hong Kong

HONG KONG LEGAL ADVISOR

H.M. Chan & Co
in association with Taylor Wessing
21/F,
No.8 Queen's Road Central,
Hong Kong

COMPLIANCE ADVISER

Oceanwide Capital Limited
18/F-19/F, China Building,
29 Queen's Road Central,
Hong Kong

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

1655

COMPANY'S WEBSITE

www.okura-holdings.com

Definitions

In this Report, unless the context otherwise requires, the following words and expressions shall have the following meanings.

"2017 AGM"	the 2017 annual general meeting of our Company to be held on Monday, 20 November 2017
"Adward"	Adward Co., Ltd.* (アドワード株式会社), a company incorporated under the laws of Japan on 16 October 2007 and a subsidiary indirectly wholly-owned by our Company
"Aisen"	Aisen Co., Ltd.* (株式会社アイセン), a company incorporated under the laws of Japan on 9 March 2000 and a subsidiary indirectly wholly-owned by our Company
"Allotment Result Announcement"	the announcement of our Company dated 12 May 2017 in respect of the allotment results of the Share Offer
"Amended Voluntary Regulations"	the amended voluntary regulations published by the Association as part of the pachinko industry's effort to curb the gaming element in the pachinko and pachislot game and to mandate a reduction in jackpot size of pachinko machines and pay-out ratios of pachislot machines
"Amusement Business Law"	the Act on Control and Improvement of Amusement Business etc.* (風俗営業等の規制及び業務の適正化等に関する法律) of Japan (Act No. 122 of 1948), as amended, supplemented or otherwise modified from time to time
"Aratoru"	Aratoru Co., Ltd.* (アラトル株式会社), a company incorporated under the laws of Japan on 22 February 2007 and a subsidiary indirectly wholly-owned by our Company
"Articles"	the articles of association of our Company as amended from time to time
"Association"	Association for Pachinko Machine Manufacturers in Japan
"Audit Committee"	the audit committee of our Company
"Board"	the board of Directors
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules, as amended from time to time
"Company"	Okura Holdings Limited
"Companies Ordinance"	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Controlling Shareholder"	Mr. Katsuya Yamamoto, being the controlling shareholder of our Company

Definitions

"Deed"	the deed of non-competition entered into between the Controlling Shareholder and our Company on 10 April 2017
"Director(s)"	the director(s) of our Company
"EQU"	EQU Co., Ltd.* （株式会社EQU）, a company incorporated under the laws of Japan on 9 March 2005, which merged with K's Works on 1 November 2015
"ESG Report"	the Environmental, Social and Governance Report of our Company
"FY 2016"	the financial year ended 30 June 2016
"Group"	our Company and our subsidiaries (or our Company and any one or more of our subsidiaries, as the content may require) or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their respective predecessors
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"K's Holdings"	K's Holdings Co., Ltd.* （株式会社ケーズ•ホールディングス）, a company incorporated under the laws of Japan on 27 October 2008 and a directly wholly-owned subsidiary of our Company
"K's Properties"	K's Property Co., Ltd.* （株式会社ケイズプロパティー）, a company incorporated under the laws of Japan on 30 March 2001 and a subsidiary indirectly wholly-owned by our Company
"K's Works"	K's works Co., Ltd.* （株式会社K's works）, a company incorporated under the laws of Japan on 18 November 2008 and a subsidiary indirectly wholly-owned by our Company, which merged with K's Properties on 1 November 2015
"Large-sized Pachinko Hall Operator(s)"	pachinko hall operator(s) which operate(s) 20 halls or more
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	15 May 2017, the date on which dealings in the Shares on the Main Board of the Stock Exchange first commenced
"Listing Rules"	the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited as amended, supplemented or otherwise modified from time to time

Definitions

"Mid-sized Pachinko Hall Operator(s)"	pachinko hall operator(s) which operate(s) 15 to 19 halls
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, as amended, supplemented or otherwise modified from time to time
"Nomination Committee"	the nomination committee of our Company
"Okura Japan"	Okura Co., Ltd.* （王蔵株式会社）, a company incorporated under the laws of Japan on 3 April 1984 and a subsidiary indirectly wholly-owned by our Company
"Okura Kyushu"	Okura Kyushu Co., Ltd.* （王蔵九州株式会社）, a company incorporated under the laws of Japan on 17 February 2017 and a subsidiary indirectly wholly-owned by our Company
"Okura Nishinihon"	Okura Nishinihon Co., Ltd.* （王蔵西日本株式会社）, a company incorporated under the laws of Japan on 3 December 2012 and a subsidiary indirectly wholly-owned by our Company
"Prospectus"	the prospectus of our Company dated 28 April 2017
"Remuneration Committee"	the remuneration committee of our Company
"Report"	the annual report for the Year
"Senior Management"	the senior management of our Group
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of our Company
"Shareholder(s)"	the holder(s) of the Shares
"Share Offer"	the public offer of the 12,500,000 Shares and the placing of the 112,500,000 Shares by our Company for subscription at HK$1.20 per Share
"Share Option Scheme"	the share option scheme adopted by our Company on 10 April 2017
"Small-sized Pachinko Hall Operator(s)"	pachinko hall operator(s) which operate(s) less than 15 halls
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time

"Three Party System"	the industry practice under which pachinko hall operators, G-prize buyers and G-prizes wholesalers participate in the sale and purchase cycle of G-prizes obtained by a customer of a pachinko hall operator by playing pachinko and pachislot machines in Japan, as described in more detail in the sections headed "Three Party System" and "Applicable Laws and Regulations" of the Prospectus
"Year"	the financial year ended 30 June 2017
"HK$", "HKD", "Hong Kong dollar(s)" or "cent(s)"	Hong Kong dollar(s) and cent(s), respectively, the lawful currency of Hong Kong
"¥" or "JPY"	Japanese Yen, the lawful currency of Japan
"%"	per cent

* The English titles marked with "*" are unofficial English translation of the Japanese titles of natural persons, legal persons, governmental authorities, institutions, laws, rules, regulations and other entities for which no official English translation exists. These titles are for identification purpose only.

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to present to you the annual report of Okura Holdings Limited together with our subsidiaries for the Year.

COMPANY OVERVIEW

Our Group is a pachinko hall operator in Japan. Customers come to our halls to play pachinko and pachislot games, one of the most popular forms of entertainment for adults in Japan. We are a Mid-sized Pachinko Hall Operator with 18 pachinko halls, out of which, 12 are in the Kyushu region, four in the Kanto region and one each in the Kansai region and the Chugoku region, respectively. During the course of our business development, we have established five brands, namely, *"K's Plaza", "Monaco", "Big Apple", "Big Apple." and "Big Apple. YOUPARK"*.

Our management team is highly experienced and well-qualified with proven track record in operating pachinko halls and has established strong and extensive relationships with machine suppliers. All these allowed us to, over the years, maintain and increase customer traffic in multiple operating locations by acquiring machines aiming to generate most customers' interest, operating our halls in an optimal mix of machines in terms of types and playing costs in each operating location, providing a refreshing and spacious environment, and offering free parking to enhance customers' convenience. For instance, we install in our halls in the Kanto region a higher ratio of pachislot machines to cater for the preference of the younger population. We have also shifted part of our advertising effort from traditional paper media to digital platforms, which helps us to reach out to younger players and at the same time reduces our advertising expenses. Our Group is committed to continue adapting our halls, machine mix on a hall by hall basis to ensure a sustainable development of our pachinko and pachislot operations.

Building on our key strengths, we aim to continue to strengthen our market position and further expand our business by strategically expanding our pachinko hall operations through establishing new or acquiring pachinko halls, and to enhance our appeal to the younger population, a significant source of revenue to our Group.

BUSINESS AND INDUSTRY REVIEW

During the Year, the pachinko and pachislot industry had been affected by the continuous decline in pachinko and pachislot players with more forms of entertainment, such as horse racing, web-based gaming, online social gaming through mobile phones or other mobile entertainment services and potentially interactive gaming channels available in the market. Such continued decline is reflected by our Group's continued decrease in gross pay-ins and revenue from ¥42,988 million and ¥10,098 million, respectively, for the year ended 30 June 2016 to ¥37,740 million and ¥9,238 million, respectively, for the Year.

In addition, the Association published announcements in the first half of 2016 (the "2016 Announcements") to enforce the Amended Voluntary Regulations as part of the pachinko industry's effort to curb the gaming element in the pachinko and pachislot game and to mandate a reduction in jackpot size of pachinko machines and pay-out ratios of pachislot machines. Pursuant to the 2016 Announcements, a collection of 138 types of machines were required to be withdrawn from pachinko halls, and more than 700,000 machines were withdrawn from the market by the end of December 2016. The aforesaid withdrawal and the resulting replacement of machines in our pachinko halls gave rise to an increase in the amount of pachinko and pachislot machines expenses incurred from ¥3,330 million for the year ended 30 June 2016 to ¥3,409 million for the Year.

Together with the establishment of the new Chugoku hall as further detailed below, our hall operating expenses increased from ¥8,129 million for the year ended 30 June 2016 to ¥8,278 million for the Year.

The new Chugoku hall, being our first pachinko hall in the Chugoku region, operates a total of 642 machines, of which 372 are pachinko machines and 270 are pachislot machines. Since its opening, the Chugoku hall had recorded stable growth in revenue and had strengthened our presence outside the Kyushu region.

In addition to the new Chugoku hall, we acquired a property at a prime location for pachinko hall operations in Nagasaki in February 2017 to establish a new flagship hall. This new Nagasaki hall is expected to be one of the largest pachinko halls in the centre of Nagasaki, our headquarter and the largest base of operations. As disclosed in the Prospectus, the Directors had expected that the new Nagasaki hall to commence operations in the third quarter of 2017. As at the date of this Report, the new Nagasaki hall is expected to commence operations by the end of September 2017. We also expect the hall to house approximately 670 pachinko and pachislot machines. Our experience is that a new large scale pachinko hall generally draws in strong customer awareness and players who habitually visit small scale pachinko halls in the surrounding area, and thereby strengthen our corporate image in the area. As such, the Directors expect the new Nagasaki hall to contribute to our business results and consolidate our position as the market leader in the Nagasaki prefecture significantly from October 2017 onwards.

The aforesaid factors, together with the listing expenses incurred during the Year for the Listing, resulted in a decrease in profit before income tax from approximately ¥1,028 million for the year ended 30 June 2016 to approximately ¥437 million for the Year. Excluding the non-recurring listing expenses of approximately ¥370 million (FY 2016: ¥379 million), our Group's profit before income tax would be approximately ¥807 million for the Year (FY 2016: ¥1,407 million).

With our proven management capability and the market consolidation opportunities in the contracting markets of the pachinko industry in Japan as further detailed below, we remain prudently optimistic about the long term growth potential of our Group amidst the current industry-wide transition despite the deterioration in financial performance during the Year. Our Shares were successfully listed on the Main Board of the Stock Exchange on 15 May 2017 and the net proceeds from such Listing totalled approximately HK$74 million. We intend to apply such proceeds to facilitate our growth through business expansion and acquisitions.

Chairman's Statement

MARKET THREATS AND PROSPECTS

The pachinko industry in Japan has been contracting since 2005 due to the increasing competition from other forms of entertainment in Japan and the introduction of measures by the pachinko industry to curb the gaming element in the pachinko and pachislot games. In December 2016, the Act Concerning Promotion of Development of Integrated Resort Areas (the "IR Act") was passed into law by the Japanese parliament, the Japanese National Diet. Although the IR Act does not on its own legalise casino operations in Japan, the Japanese government is required to implement anti-gambling measures to curb gambling and associated negative social behaviour.

In August 2017, the National Public Safety Commission issued the "Draft Regulations to Amend Partially Regulations on the Entertainment and Amusement Trades Rationalizing Act and Regulations on Certifying Machines and Conducting Type Test on Machines" (the "2018 Draft Regulation"). According to the 2018 Draft Regulation, the pay-out ability of both pachinko and pachislot machines will be further limited, and the market expects such regulation to be passed and implemented by February 2018 with little change to its current draft. As a result, it is likely that the attractiveness of the pachinko and pachislot machines to customers, especially young customers, and the profitability of the operation of such machines, will be adversely affected from February 2018 onwards. Coupled with the continued immense competition of other forms of entertainment and the continuing aging population, the market contraction of the pachinko industry is expected to continue and profitability of pachinko hall operation may further deteriorate in the near future.

Pachinko hall operators in Japan had, over the past 10 years, installed a higher proportion of low playing costs machines given the general popularity with such machines among customers. In light of the 2018 Draft Regulation, which is likely to further reduce pay-out ratio and attractiveness of low playing costs machines, certain hall operators, including our Group, has, since August 2017, begun adjusting its business strategies to increase the proportion of high playing costs machines at strategically selected halls to maintain customer traffic, where customers prefer playing with machines with higher gaming element. For instance, our Group has installed a higher proportion of high playing costs machines in the new Nagasaki hall to enhance customer traffic in the long run.

Furthermore, in light of the continued market contraction, our management has, in line with our multi-strategy approach of enhancing customer experience, been constantly reviewing the performance of each individual hall, as well as the growth potential or market saturation risks of various geographical regions. For instance, we are closely monitoring the performance of our pachinko halls in Tokyo, which competition has intensified recently with more notable adverse impact on profitability when compared to our pachinko halls in other regions. Our management has conducted operational review and will implement measures necessary to improve the performance of such halls. Our halls in Nagasaki, on the other hand, have on an overall basis demonstrated more promising performance. Our management will undertake further studies to align its business strategies in terms of regional spread to ensure our Group can capture market opportunities in the most effective and profitable manner.

Chairman's Statement

Although the pachinko industry continues to face significant threats, it remains as the largest contributor to the Japanese entertainment market in terms of market share while highly fragmented. This continues to present consolidation opportunities for larger market players. For instance, any further enforcement of the Amended Voluntary Regulations and the constantly changing market trends and customer preference on machine types and playing costs are likely to demand that pachinko hall operators replace machines more frequently and strategically. The expenses in relation to machine replacement are burdensome for Small-sized Pachinko Hall Operators as most of these halls do not have the financial resources to enable frequent machine replacement. Thus the pachinko industry remains relatively favourable for Mid-sized Pachinko Hall Operators and Large-sized Pachinko Hall Operators as they may further develop their business by absorbing the market share of Small-sized Pachinko Hall Operators. Together with our enhanced equity base and public credibility following the Listing, we are optimistic that we can continue to tap into the potential acquisition opportunities of Small-sized Pachinko Hall Operators to achieve economies of scale in operations. Furthermore, as long as our management remains responsive to the changes and flexible in adjusting our strategies to ensure our operations remain efficient and the mix of machines types in each of our halls remain optimal for each operating location, the Directors reasonably believe that we can operate and expand our business sustainably notwithstanding the continued contraction of the pachinko industry and the competition with other forms of entertainment in Japan.

APPRECIATION

I would like to take this opportunity to convey my deepest appreciation to our Senior Management and employees for their unswerving dedication and invaluable expertise over the past financial year. The management and staff of our Group will strive to deliver better performance and generate attractive returns to our Shareholders.

On behalf of the Board
Katsuya Yamamoto
Chairman

Hong Kong, 20 September 2017

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

Our total revenue comprised revenue from (i) pachinko and pachislot business, being gross pay-ins less gross pay-outs, (ii) vending machine income, and (iii) property rental. During the Year, revenue from pachinko and pachislot business remained the majority source of income for our Company, accounting for 95.0% of the total revenue (FY 2016: 95.8%). Our total revenue decreased by 8.5%, from ¥10,098 million for the year ended 30 June 2016, to ¥9,238 million for the Year. This decrease was mainly a result of the decrease in 9.3% in revenue generated from our overall pachinko and pachislot business, from ¥9,677 million for the year ended 30 June 2016 to ¥8,773 million for the Year. The decrease in revenue from pachinko and pachislot business was primarily due to (i) a reduced number of pachinko and pachislot machines installed in our halls and hence a reduced amount of gross pay-ins as we subleased certain areas of one of our halls to an independent third party for operation of an internet café, and (ii) imposition of G-prize mark-up for our certain halls which stalled customer traffic as a result.

We derived income from vending machines installed at our halls provided by vending machine operators under service agreements. The vending machines sell drinks and food and we share a certain portion of income generated by such vending machines. Our vending machine income decreased from ¥147 million, or 3.4%, for the year ended 30 June 2016 to ¥142 million for the Year, due to a result of decrease in customer traffic.

We derived rental income from renting out car parks, offices, and premises to G-prize wholesalers or G-prize buyers within the vicinity of our halls. Property rental income increased from ¥265 million, or 21.9%, for the year ended 30 June 2016 to ¥323 million for the Year, due to an increase in rental income generated from subleasing certain areas of one of our halls to an independent third party for operation of an internet café.

We had historically derived income from household support services provided to independent third parties, which we had ceased to provide since April 2016. Consequently, no such revenue was recorded for the Year, as compared to ¥9 million for the year ended 30 June 2016.

Gross Pay-ins

Our gross pay-ins represents gross amount received from customers for rental of pachinko balls and pachislot tokens. Gross pay-ins is primarily affected by the level of customer spending at our halls, which is in turn largely affected by (i) G-prize mark-ups, (ii) pay-out ratios, (iii) number, types and mixes of machines, (iv) number and types of halls, (v) number, playing time and preferences of customers, (vi) competitors' behaviour and the general trend of the pachinko industry, and (vii) macroeconomic factors (including tax and inflation). Our accounting policy recognises gross pay-ins net of consumption tax. The consumption tax rate is 8% in Japan.

Our gross pay-ins recorded a decrease of ¥5,248 million, or 12.2%, from ¥42,988 million for the year ended 30 June 2016 to ¥37,740 million for the Year, which was mainly due to (i) changes in the machines composition for two of our pachinko halls, whereby high playing cost machines were replaced by low playing cost machines in line with our general operating strategy in 2016, (ii) reduced number of pachinko and pachislot machines as we subleased certain areas of one of our pachinko halls to an independent third party for operation of an internet cafe, and (iii) imposition of G-prize mark-up from nil to a range mark-ups, ranging from 10.0% to 25.0%, for 13 of our halls.

Gross Pay-outs

Our gross pay-outs represent the aggregate cost of G-prizes and general prizes exchanged by our customers, taking into consideration the prize mark-up and the value of any unutilised balls and tokens during the relevant period. Gross pay-outs recorded a decrease of ¥4,344 million, or 13.0%, from ¥33,311 million in the year ended 30 June 2016 to ¥28,967 million in the Year as a result of the imposition of G-prize mark-up as aforesaid which reduced pay-out levels and the decrease in customer visits which led to lower utilisation of pachinko and pachislot machines.

Revenue Margin

The level of revenue margin is dependent on the combination of the payout ratio of the pachinko and pachislot machines, the G-prize mark-up imposed and the mix of pachinko and pachislot machines with different jackpot probability in our halls, and as a result of the resultant changes in customer behaviour (i.e. rounds of play and machine utilisation). We adjust these parameters from time to time to strike a balance between revenue margin and customer traffic subject to the prevailing market response and players' preference, with a view to maximise revenue and profitability. Our revenue margin improved slightly from 22.5% in the year ended 30 June 2016 to 23.2% in the Year, mainly as a result of imposition of G-prize mark-up which reduced pay-out level as aforementioned.

Other Income

Our other income mainly comprised (i) income from scrap sales of used pachinko machines to machines brokers for reselling in the second-hand market, (ii) rental income from staff quarters, (iii) dividend income from our investments, (iv) income from expired IC card, and (v) other income sources, which mainly included income from forfeited pachinko balls and pachislot tokens.

Other income increased from ¥819 million, or 32.6%, for the year ended 30 June 2016 to ¥1,086 million for the Year, due to an increase in income from scrap sales of used pachinko machines from ¥735 million for the year ended 30 June 2016 to ¥1,019 million for the Year. Such increase was resulted from the sale of an increased number of pachinko and pachislot machines in preparation of the renewal of several halls for reopening in the third quarter of 2017.

Hall Operating Expenses

Hall operating expenses increased by ¥149 million, or 1.8%, from ¥8,129 million in the year ended 30 June 2016 to ¥8,278 million in the Year. This was primarily due to expenses incurred for the preparation of the opening of the Chugoku Hall in December 2016, in addition to the usual machine replacement expenses we incur in our ordinary course of business in response to, among other things, changing customers' preference.

Administrative and Other Operating Expenses

Administrative and other operating expenses decreased by ¥34 million, or 2.4%, from ¥1,405 million in the year ended 30 June 2016 to ¥1,371 million in the Year. This was primarily due to the decrease of the employee benefit obligations as partially offset by the increase of, among other things, auditor's remuneration for audit and non-audit services.

Management Discussion and Analysis

Profit Before Income Tax

Profit before income tax decreased by ¥591 million, or 57.5%, from ¥1,028 million in the year ended 30 June 2016 to ¥437 million in the Year. This was mainly attributable to the decrease in revenue and increase in hall operating expenses for the reasons set out above. Excluding the non-recurring listing expenses of ¥370 million (FY 2016: ¥379 million), our Group's profit before income tax would be approximately ¥807 million for the Year (FY 2016: ¥1,407 million).

Profit for the Year Attributable To Shareholders of our Company

Profit for the year attributable to shareholders of our Company decreased by ¥335 million, or 55.5%, from ¥604 million in the year ended 30 June 2016 to ¥269 million in the Year. The decrease in profit for the Year was mainly due to, among other things, (i) the decrease in revenue of approximately ¥860 million, and (ii) the increase in hall operating expenses of ¥149 million as offset by (a) the increase of other income of ¥267 million, (b) the decrease in administrative and other operating expenses of ¥34 million, and (c) decrease in income tax expenses of ¥256 million, as compared with year ended 30 June 2016.

LIQUIDITY AND FINANCIAL RESOURCES

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

Investment Policy

We adopted a treasury and investment policy for financial assets that set out overall principles as well as detailed approval processes of our investment activities. Such policy includes, amongst other things, the following:

— investments in low liquidity products being avoided;

— investments should be yield-earning in nature and the primary objectives of investment activities is to diversify our investment and control their risk;

— investments should be undertaken only in situations where we have surplus cash not required for short or medium term of use; and

— investments should be undertaken only to the extent that adequate liquid capital is maintained.

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

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

Capital Structure

As at 30 June 2017, our Company had a total borrowings of ¥5,220 million (30 June 2016: ¥2,722 million), of which 98.3% represented bank borrowings and 1.7% represented bonds.

Cash and Cash Equivalents

As at 30 June 2017, our Company had a cash and cash equivalents of ¥3,272 million (30 June 2016: ¥1,354 million).

Borrowings

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

	As at 30 June 2017		As at 30 June 2016	
	¥ million	**%**	¥ million	%
Within 1 year	**827**	**15.8%**	953	35.0%
Between 1 year and 2 years	**781**	**15.0%**	452	16.6%
Between 2 years and 5 years	**1,984**	**38.0%**	955	35.1%
Over 5 years	**1,628**	**31.2%**	362	13.3%
	5,220	**100.0%**	2,722	100.0%

As illustrated above, the proportion of our borrowings repayable within 1 year decreased significantly, while the proportion of our borrowings repayable in over 5 years increased significantly. The change of maturity profile of our borrowings was primarily attributed to the substantial increase in borrowings taken by our Group for the capital expenditures and expenses in relation to the establishment of the new Chugoku Hall and the new Nagasaki Hall during the Year, which are mostly long term loans.

Bonds

The value of outstanding bonds issued by our Group as at 30 June 2017 amounts to ¥90 million (30 June 2016: ¥149 million). As disclosed in the Prospectus, these relate to bonds which were issued in March 2011 and July 2013. No new debentures were issued during the Year.

Pledged Assets

As at 30 June 2017, our Company pledged assets, including (i) property, plant and equipment, (ii) investment properties, and (iii) listed securities, in the sum of ¥6,868 million (30 June 2016: ¥3,941 million) to secure certain general banking facilities of our Group. The increase in pledged assets was primarily attributable to the increase in secured bank borrowings for the acquisition of property for the new Nagasaki hall, which was completed in February 2017. For further details, please see note 25 to the consolidated financial statements set out in this Report.

Gearing Ratio

The gearing ratio, being the aggregate of interest-bearing loans and obligations under finance leases divided by total equity of our Company, was 81.8% as at 30 June 2017 (30 June 2016: 74.2%). The increase of 7.6% was mainly attributable to the increase in bank borrowing for the acquisition of the property for the new Nagasaki hall which was completed in February 2017.

Interest Rate and Foreign Exchange Exposure

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

We operate in Japan and our business transactions are principally denominated in Japanese Yen. However, we are exposed to foreign exchange risk arising primarily from the transactions in its cash and cash equivalents, deposits, financial assets and accruals, provisions and other payables denominated in United States Dollars. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency. Our finance division monitors our foreign exchange fluctuation exposure closely. In light of the continued fluctuation of Japanese Yen against United States Dollars in recent years, we have managed to minimise our exposures in United States Dollars by maintaining a majority of the cash and bank balances into Japanese Yen. As at 30 June 2017, the Directors considered the volatility of the exchange rate of Japanese Yen against United States Dollars and our currency exposures of United States Dollars to be acceptable. During the Year, we did not use any hedge instrument to manage our foreign currency exposure.

Contractual and capital commitments

As both lessees and lessors, our Group had future aggregate minimum lease payments and lease receipts under non-cancellable operating leases as follows:

	As a lessee As at 30 June		As a lessor As at 30 June	
	2017	2016	**2017**	2016
	¥ million		¥ million	
No later than 1 year	**1,081**	722	**65**	65
Later than one year and no later than five years	**17**	17	**—**	—
Over five years	**38**	43	**—**	—

As at 30 June 2017, our Group had capital commitments, which were contracted but not provided for, in respect of purchase of property, plant and equipment in the sum of ¥43 million (30 June 2016: ¥9 million).

Capital expenditures

Our capital expenditures mainly consisted of expenditures on acquisitions of property, plant and equipment for its operations. Our Group incurred capital expenditures of approximately ¥3,703 million for the Year (FY 2016: ¥252 million), majority of which came from freehold land, buildings, leasehold improvements and equipment and tools for our pachinko halls of which ¥243 million was settled under finance lease. The increased capital expenditure was mainly incurred for the establishment of the new Chugoku hall and the new Nagasaki hall. These capital expenditures were, and expected to be principally financed through the net proceeds we received from the Share Offer, cash generated from its operations and bank borrowings.

Contingent liabilities

As at 30 June 2017, our Company did not have any material contingent liabilities or guarantees.

SIGNIFICANT INVESTMENTS

As at 30 June 2017, our Group held significant investments primarily in investment properties of ¥2,345 million, which represented buildings and carparks situated in Japan and rented out under operating lease, and financial assets of ¥269 million, which represented bonds, trust funds, and listed and unlisted securities.

In relation to our investment properties, impairment loss will be recognised by our Group where the valuation results indicate that the carrying amount of the investment properties exceed its recoverable amount. No impairment loss was recognised during the Year and as at the date of this Report, the Directors do not foresee any significant impairment loss to our investment properties in the near future.

In relation to our financial assets, our Group recorded (i) a gain of ¥82 million for the changes from financial assets at fair value through profit or loss, (ii) and a gain of ¥8 million for the changes in fair values of financial assets at fair value through other comprehensive income, and there has been no default or any impairment made to any debt securities held by our Group, during the Year. 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 our business overall. To the best of their knowledge and as at the date of this Report, the Directors do not foresee any default or any impairment to be made to any financial assets held by our Group.

MATERIAL ACQUISITIONS AND/OR DISPOSALS OF SUBSIDIARIES

On 28 February 2017, Okura Japan, a wholly-owned subsidiary of our Company completed the acquisition of Okura Kyushu, whereby Okura Japan purchased all issued shares in Okura Kyushu for a consideration of ¥3,086,252,720, which was determined in a bidding process with reference to, among other things, our valuation of the property held by Okura Kyushu in Nagasaki, Kyushu. It was intended that such property will be developed into a new flagship pachinko hall in Nagasaki. All issued shares of Okura Kyushu became legally and beneficially owned as to 100% by Okura Japan on 28 February 2017.

VALUATION OF PROPERTIES

For the purpose of the Listing, a valuation as at 28 February 2017 was conducted on certain properties held by our Group, namely, investment properties and the new Nagasaki hall. The valuation of investment properties as at 30 June 2017 is disclosed in note 14 to the consolidated financial statements of this Report. The new Nagasaki hall was valued at ¥1,870,000,000 as at 28 February 2017 by DTZ Cushman & Wakefield Limited, as disclosed in the Prospectus. As detailed in note 2 to the consolidated financial statements of this Report and in the Accountant's Report set out in Appendix I to the Prospectus, the net book amount of freehold land of our Group is stated at historical cost less impairment losses. Accordingly, no additional depreciation would be charged against the statement of profit or loss and other comprehensive income regardless of the market value of the new Nagasaki Hall.

HUMAN RESOURCES

Employees and Remuneration Policies

As at 30 June 2017, our Group had 519 employees, almost all of whom were based in Japan, and of whom 472 were stationed at our pachinko halls. For newly recruited employees, we prepared a series of training sessions which mainly focuses on pachinko hall operations and customer service. Upon appointment of every three years, as required by the Public Safety Commission, each hall manager is required to attend the training course conducted by the Public Safety Commission.

Our staff costs include all salaries and benefits payable to our employees and staff, including the Directors. Our total staff costs for the Year amounted to ¥1,522 million (FY 2016: ¥1,589 million), which accounted for approximately 15.8% (FY 2016: 16.7%) of the total operating expenses, including the remuneration of directors.

Our 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 or employee's experience, responsibility, performance and the time devoted to our business. Apart from basic remuneration, share options may be granted to individual Directors and employees under the Share Option Scheme, by reference to their performance.

The Share Option Scheme

On 10 April 2017, our Company adopted a 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.

The purpose of the Share Option Scheme is to provide our Company 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 Report, no option was granted, exercised, cancelled or lapsed under the Share Option Scheme.

ISSUE OF SHARES AND USE OF PROCEEDS

On 15 May 2017, our Shares were listed on the Main Board of the Stock Exchange. A total of 125,000,000 Shares were issued at HK$1.20 each by way of public offer and placing, raising a total of approximately HK$150 million. The net proceeds raised by our Company from such share offer, after deduction of the underwriting commissions and other related listing expenses, amounted to approximately HK$74.0 million. The following table sets forth the intended utilisation of such net proceeds as disclosed in the Prospectus and the Allotment Result Announcement:

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

For details, please refer to the section headed "Future Plans and Use of Proceeds" in the Prospectus and Allotment Result Announcement. As at 30 June 2017, such net proceeds had not been utilised and such net proceeds have been deposited in interest-bearing accounts with a licensed bank in Hong Kong. Our Directors expect to utilise such net proceeds in accordance with the related disclosure in the Prospectus and the Allotment Result Announcement.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL INVESTMENTS

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

Biographies of the Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Katsuya YAMAMOTO

Mr. Yamamoto, aged 57, is the chief executive officer of our Company, an executive Director and the chairman of the Board. He was appointed as an executive Director on 16 June 2015 and is primarily responsible for overseeing the general management and business development of our Group, and formulating business strategies and policies for our business management and operations.

Mr. Yamamoto is the son of Mr. Katsumitsu Yamamoto, our founder and a member of our Senior Management. Mr. Yamamoto founded our Group in 1984 by incorporating Okura Japan to operate a pachinko hall in Nagasaki and has been the chairman of Okura Japan since June 2001. As at 30 June 2017, Mr. Yamamoto was also a representative director of each of Okura Japan, K's Holdings, K's Properties, Aisen, Okura Nishinihon and Okura Kyushu.

Mr. Yamamoto has spent over 32 years operating and managing the pachinko hall business of our Group, during which he obtained extensive experience in the management and operation of pachinko halls, corporate governance, strategic planning, and financial management.

Mr. Yamamoto graduated from Chuo University in Japan with a bachelor's degree in commerce in March 1982 and had worked towards the establishment and development of Okura Japan since then.

Details of Mr. Yamamoto's interest in the Shares as at 30 June 2017 are set out in the paragraph headed "Interests and Short Positions of the Directors and the Chief Executive of the Company in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" of this Report.

Mr. Fumihide HAMADA

Mr. Hamada, aged 68, was appointed as an executive Director on 27 April 2016. Mr. Hamada has been a general manager of Okura Japan since August 2015 and was primarily responsible for overseeing the administrative management of our Group. He first joined our Group as the head of audit office of EQU in February 2004. He then served various positions in K's Works between April 2006 and August 2015, with his last position as the general manager and director of K's Works.

Prior to joining our Group, Mr. Hamada worked for Kyushu Bank, Ltd. between April 1971 and January 2004 and served various positions including branch manager in the Nagasaki area.

Mr. Hamada graduated from Kanagawa University in Japan with a bachelor's degree in economics in March 1971.

Biographies of the Directors and Senior Management

Mr. Yutaka KAGAWA

Mr. Kagawa, aged 39, was appointed as an executive Director on 27 April 2016. Mr. Kagawa has been the head of corporate planning department of K's Holdings since June 2017 and is primarily responsible for overall corporate planning including pachinko hall development. He was previously a manager of the general affairs team of K's Works from April 2012 to January 2014 and the head of planning and development office of K's Holdings from February 2014 to May 2017. Prior to that, he served various positions in Okura Japan between May 2007 and March 2012 with his last position as the managing executive officer. He also served as an exclusive member of business standardisation committee and head of system promotion team of EQU from April 2004 to April 2007.

Before joining our Group, Mr. Kagawa was a researcher at Toyoshinyaku Co., Ltd., a company engaged in manufacturing healthy food, from April 2002 to March 2003.

Mr. Kagawa graduated from Kyushu University in Japan with a bachelor's degree in agricultural chemistry in March 2000 and a master's degree in bioscience and biotechnology in March 2002.

Mr. Toshiro OE

Mr. Oe, aged 58, was appointed as an executive Director on 27 April 2016. Mr. Oe has been the group manager of finance and accounting group of Okura Japan since May 2016 and was primarily responsible for overseeing the accounting and financial management of our Group. Mr. Oe first joined our Group as the chief of the finance section in EQU Limited Company in September 2001 and had then served in various positions. He worked in K's Works from October 2008 to August 2015 with his last position as a team leader of the accounting team. Prior to that, Mr. Oe worked in EQU between June 2002 and September 2008 with his last position as the head of finance department.

Prior to joining our Group, Mr. Oe worked in Hiroshi Yamashita Certified Tax Accountant Office between June 1991 and September 2001, and Ishii Certified Tax Accountant Office between October 1989 and October 1990.

Mr. Oe obtained a bachelor's degree in commerce in Chuo University in Japan in March 1982.

Biographies of the Directors and Senior Management

Independent Non-executive Directors

Mr. Mitsuru ISHII

Mr. Ishii, aged 63, was appointed as an independent non-executive Director on 10 April 2017.

Mr. Ishii has been the representative director of Ishii Co., Ltd., a company engaged in restaurant management business, since April 1987, and the chairman and director of M Factory Co., Ltd., a company engaged in restaurant management business, since December 1999.

Mr. Ishii was elected as a leading role by Restaurant Industry Press Association for setting a trend of 'standing bar style restaurant', and was awarded with "Restaurant Business Award 2005" by Restaurant Industry Press Association in October 2006.

Mr. Ishii graduated from Nihon University in Japan with a bachelor's degree in physical education in March 1977.

Mr. Yuji MATSUZAKI

Mr. Matsuzaki, aged 51, was appointed as an independent non-executive Director on 10 April 2017.

Mr. Matsuzaki has been the non-executive director of, Fukukuru Foods, Inc., a company engaged in restaurant business, since January 2014 and the representative director of Rokuji Sangaku Kyoudo Jigyo Corporation, a company involved in restaurant business, since April 2014. He has also been a representative director in Will Sourcing Co., Ltd., a company engaged in business consultancy services, since April 2011. From January 2002 to March 2011, he worked in Future Create Co., Ltd. (currently known as Tenpo Ryutsuu Net, Inc.), a company engaged in general business support for restaurant business, with his last position as a board director.

Mr. Matsuzaki obtained a bachelor's degree in political science and economics from Meiji University in Japan in March 1990.

Mr. Takamasa KAWASAKI

Mr. Kawasaki, aged 38, was appointed as an independent non-executive Director on 10 April 2017.

He worked in Redhorse Corporation, a company engaged in selling souvenirs as well as travel goods with presence in Hong Kong and Taiwan, and listed on the Taiwan OTC Exchange, since August 2012. He is currently a director and the chief executive officer of Redhorse Corporation. He has also been a director in Redhorse Holdings Ltd., a company engaged in investment, since September 2013. He was the founder and has been the chairman of Odigo Hong Kong Ltd., a company engaged in information technology services, since July 2014. He joined the Japan office of Corporate Directions, Inc., a company engaged in consultancy business, as a project manager between February 2005 and March 2008, and was seconded to the China office between April 2008 and August 2011, initially as a general manager and then an associate partner. Mr. Kawasaki served as a senior accountant in KPMG AZSA LLC between June 2003 and December 2004.

Mr. Kawasaki obtained a bachelor's degree in agricultural structure and business management in University of Tokyo in Japan in March 2002, and a master's degree in business administration in the Hong Kong University of Science and Technology in Hong Kong in May 2013. Mr. Kawasaki has been a member of the Japanese Institute of Certified Public Accountants since April 2005.

Senior Management

Mr. Katsumitsu YAMAMOTO

Mr. Katsumitsu Yamamoto, aged 92, is the adviser of our Group, and is primarily responsible for advising our Group on its strategic directions and business development. Mr. Katsumitsu Yamamoto is the father of Mr. Yamamoto, our chief executive officer, executive Director and chairman. Mr. Katsumitsu Yamamoto founded the business of our Group by establishing the first pachinko hall of our Group, Monaco Sumiyoshi Honten in Nagasaki in 1968.

Mr. Katsumitsu Yamamoto has been engaged in the pachinko hall industry for over 40 years. Mr. Katsumitsu Yamamoto has been a representative director of Okura Japan from April 1984 to March 2000 and from June 2001 up to the date of this Report. He was also the representative director of a number of former subsidiaries of our Company which were merged with other subsidiaries and dissolved as part of the reorganisation of our Group for the purpose of the Listing.

As at 30 June 2017, Mr. Katsumitsu Yamamoto was a representative director of each of Okura Japan, K's Holdings, K's Properties, Aisen, Okura Nishinihon and Okura Kyushu.

Biographies of the Directors and Senior Management

Mr. Satoshi MAEDA

Mr. Maeda, aged 37, is the marketing supervisor of our Group, and is primarily responsible for managing the marketing functions of our Group.

He has been the marketing supervisor of our Group since April 2011 and was a general manager of Kanto marketing department of our Group between June 2007 and March 2011.

He is the founder and has been the representative director of each of Aratoru and Adward since February 2007 and October 2007, respectively, both of which became wholly-owned subsidiaries of our Company in June 2015. Mr. Maeda worked as a general manager of the sales department at Iwamoto Development Co., Ltd., a company involved in entertainment business, from March 2000 to May 2007.

As at 30 June 2017, Mr. Maeda was a representative director of Aratoru and Adward.

Mr. Maeda graduated from Yokohama Senior High School in Japan in March 1998.

Mr. Koji NAKAO

Mr. Nakao, aged 47, is the manager of system promotion office and the head of information systems, and is primarily responsible for the creation, renewal and enhancement of our internal controls systems and policies of our Group.

He has been the manager of the purchasing group at the administration headquarters of Okura Japan from August 2015 to August 2017. He acted as a representative director in K's Works between October 2008 and August 2015. He worked in EQU, with his last position as the manager of the general affairs team between February 2005 and September 2008.

Prior to joining our Group, he worked in Lumax Co., Ltd., a company engaged in entertainment business, between April 1994 and January 2005, as the manager of the food and beverage department.

Mr. Nakao graduated from Meiji University in Japan with a bachelor's degree in commerce in March 1994.

COMPANY SECRETARY

Mr. Man Yun Wah

Mr. Man, aged 34, was appointed as our company secretary on 27 April 2016. He is the principal and head of corporate advisory division of Dominic K.F. Chan & Co and a director of RHT Corporate Advisory (HK) Limited.

Mr. Man has been an associate member of the Institute of Chartered Secretaries and Administrators and an associate member of the Hong Kong Institute of Company Secretaries since 2015.

Mr. Man obtained a bachelor's degree in business administration and management from University of Huddersfield in the United Kingdom through distance learning in March 2010 and a master's degree of corporate governance from The Open University of Hong Kong in November 2014.

Mr. Man has over seven years of experience in corporate services and has extensive experience servicing listed and private companies with their business in Hong Kong, Mainland China and overseas in areas of company secretarial services, corporate advisory, corporate administration and internal audit.

Directors' Report

PRINCIPAL ACTIVITIES

Our Group is principally engaged in the business of operating pachinko halls in Japan, and opened our first pachinko hall in Nagasaki in 1968, where our Group has been headquartered since then. As at 30 June 2017, our Group operated 18 pachinko halls in the Kyushu, Kanto, Kansai and Chugoku regions in Japan. The activities of our subsidiaries are set out in note 35 to the consolidated financial statements of this Report.

BUSINESS REVIEW

General

Further discussion and analysis of our Group's principal activities, including a business review for the Year and an indication of the likely future developments of our Group's business, can be found in the Management Discussion and Analysis of this Report and forms part of this directors' report.

Principle risks and uncertainties and the respective risk responses

Description of principal risks	**Risk responses**
Our business depends significantly on the services provided by our G-prize wholesalers and their G-prize buyers because the value of G-prize exchanged by our customers constituted over 98% of all prizes during the Year.	• Three Party System is widely adopted by a majority of, if not all, pachinko hall operators, and therefore, significant reliance on G-prize wholesalers and buyers is not uncommon within the pachinko industry. As a Mid-sized Pachinko Hall Operator with a long operating history, our Group has the experience to respond and accommodate quickly to any changes of the dealings between our Company and any of our G-prize wholesalers and G-prize buyers. Our Group is also constantly looking for new opportunities, for instance, during the year ended 30 June 2015, our Group has engaged a more sizable G-prize wholesaler with national coverage to facilitate our pachinko hall expansion.
We may be adversely affected by any breach of the independence requirements under the Three Party System.	• We have a set of tight internal policy and procedures governed by our compliance department, among other things, to oversee and monitor the whole selection process of G-prize wholesalers. Before engaging and conducting business with a G-prize wholesaler, our compliance department will conduct comprehensive background checks against the G-prize wholesalers, which focus on their independence and anti-social forces.

Description of principal risks	Risk responses
Our business and financial performance may be adversely affected by the continuous market contraction of the pachinko industry arising from competition from other forms of entertainment.	• As an experienced Mid-sized Pachinko Operator operating different types of pachinko halls, we are able to identify and venture into areas where other pachinko hall operators do not have a strong presence and therefore able to gain a first mover advantage.
We face intense competition in the pachinko industry in Japan.	• Our Company thrives to enhance our customer experience to attract recurring visits by our customers. To achieve this, we conduct analysis on customer preferences and acquire machines aiming to generate the most interests from customers and hence higher customer traffic. We have also been committed to provide a refreshing and spacious environment to our customers and had, where necessary, renovated our existing pachinko halls from time to time. In this regard, our Group intends to use part of the net proceeds from Share Offer to renovate and enhance facilities of our existing pachinko halls. We will also continue to improve the quality of our customer services by providing training to our staff, an important factor in retaining customer loyalty. Such dedication to our customers plays an essential role in differentiating ourselves from our competitors.

Further detailed illustrations of the principal risks and uncertainties faced by our Company are set out in the section headed "Risk Factors" in the Prospectus.

Environmental policies and performance

Pursuant to the Amusement Business Law and local regulations, a pachinko licence holder must conduct business in such a way that no noise or vibrations (limited to voices of people and other noises and vibrations in relation to business operation) exceed the limits specified by the prefectural ordinances in the area surrounding the place of business, and each pachinko hall must have the necessary equipment to maintain illumination in each hall at more than 10 Lux. Failure to comply with such restrictions may result in the Prefectural Public Safety Commission issuing administrative or instruction orders to require our pachinko halls to improve our operations. A material breach may lead to a suspension or cancellation of an operating licence.

To ensure compliance with such laws and regulations, we have appointed a manager in each hall to supervise and monitor our compliance and also our internal standards regarding such matters. During the Year, (i) there had been no material violation of environmental laws, rules and regulations applicable to our operations, (ii) all the required permits and environmental approvals for construction had been obtained, and (iii) there had been no claim or penalty imposed upon our Group as a result of violation of environmental laws, rules and regulations. Further information in relation to our Company's environmental policies and performance and compliance with the relevant laws and regulations can be found in the ESG Report.

Compliance with laws and regulations that have a significant impact on our Group

The pachinko industry is heavily regulated by the Amusement Business Law and its ancillary prefectural local regulations. Consequences for any non-compliance will depend on the severity of the breach. For relatively minor breaches, the Prefectural Public Safety Commission may issue administrative orders or instruction orders to give directions on the improvement of operations, and may also impose conditions on our operating licence(s). Criminal sanctions may also be imposed if significant regulations under the Amusement Business Law are violated. For detailed illustration of applicable laws and regulations to the pachinko industry, please refer to the section headed "Applicable Laws and Regulations" in the Prospectus. During the Year, our Group had no record of material non-compliance or violation incidents under the Amusement Business Law and prefectural local regulations. Our Company had also obtained all material licences, approvals and permits from the relevant regulatory authorities for all of its pachinko halls during the Year.

Since the Listing Date and up to 30 June 2017, our Company had complied with all the Listing Rules and is not aware of any non-compliance of any laws and regulations that have a significant impact on our Company.

Relationships with employees, customers and suppliers

Relationship with suppliers

Our Group's major suppliers consist of machines suppliers, G-prize wholesalers and general prize wholesalers. Along with our long operating history, our Group has established close relationships with a number of machine suppliers, which enable our Group to acquire the latest machine models that attract both new and recurring customers upon their release. In addition, to facilitate and coordinate with our pachinko hall expansion, we have engaged a more sizable G-prize wholesaler which had national coverage (as compared with our previous G-prize wholesalers which had with only regional coverage) to supply G-prize to our Group since 2015. We, therefore, are ready to elevate our position to be among larger pachinko hall operators who typically cooperate with more sizable G-prize wholesalers.

During the Year, our largest supplier accounted for approximately 47.2% of our total purchases and our five largest suppliers combined accounted for approximately 86.0% of our total purchases.

In light of the independence requirement under the Three Party System, none of the Directors and directors of our Company's subsidiaries, or their respective associates had any interest in the suppliers of our Group.

Relationship with customers

Our Group's main revenue comes from our pachinko and pachislot hall operation business and vending machines. As a pachinko hall operator, our Group has a large and diverse customer base across Japan, and therefore does not face any risk of over-reliance on any particular customer. With respect to our Group's other sources of revenue, none of our top five largest customers accounted for 30% or more of the total revenue for the Year. None of the Directors and directors of our Company's subsidiaries, or their respective associates had any interest in the customers of our Group.

Relationship with employees

Our Group's success, to a considerable extent, depends upon our ability to attract, motivate and retain a sufficient number of qualified employees, including area managers, hall managers, sales managers and other staff. Our Group offers competitive wages, bonuses and focused training and promotions to full time employees. As at 30 June 2017, our Group had 519 employees, almost all of whom were based in Japan, and of whom 472 were stationed at our Group's pachinko halls.

For newly recruited employees, our Group has prepared a series of training 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. Our executive Directors and our Senior Management have an average of over 22 years of experience in pachinko hall operations and have considerable experience and knowledge in their respective areas and responsibilities.

RESULTS AND DIVIDEND

The results of our Group for the Year are set out in the consolidated statement of comprehensive income of this Report.

The Directors did not recommend the payment of any final dividend for the Year.

Directors' Report

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of our Group for the last four financial years are set out in the section headed "Financial Summary" of this Report.

SHARE CAPITAL

Details of the share capital for the Year are set out in note 21 to the consolidated financial statements of this Report.

RESERVES AND PROFITS AVAILABLE FOR DISTRIBUTION

Movements in reserves during the Year are set out in note 32 to the consolidated financial statements of this Report. Profits available for distribution of our Company as at 30 June 2017, calculated under Part 6 of the Companies Ordinance amounted to ¥31 million (FY 2016: ¥76 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the property, plant and equipment for the Year are set out in note 13 to the consolidated financial statements of this Report.

ISSUE OF SHARES

For information on our Company's issue of shares, please refer to the paragraph headed "Issue of Shares and Use of Proceeds" of this Report.

INVESTMENT PROPERTIES

Details of the properties held for investment purposes are set out in note 14 to the consolidated financial statements and the section headed "Particulars of Investment Properties" of this Report.

EQUITY-LINKED AGREEMENTS

During the Year, our Company did not enter into any equity-linked agreements in respect of the Shares.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws of Hong Kong which would oblige our Company to offer new shares on a pro-rata basis to our existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF OUR COMPANY'S LISTED SECURITIES

Since the Listing Date and up to 30 June 2017, neither our Company nor any of our subsidiaries had purchased, sold or redeemed any of our Company's listed securities.

PUBLIC FLOAT

As at the date of this Report and based on the information that is publicly available to our Company and to the best knowledge of the Directors, our Company has maintained the minimum public float of 25% as required under the Listing Rules since the Listing Date and up to 30 June 2017.

DIRECTORS OF OUR COMPANY

The Directors during the Year and up to the date of this Report are:

Katsuya YAMAMOTO (山本勝也)	Executive Director, chairman and chief executive officer
Fumihide HAMADA (濵田文秀)	Executive Director
Yutaka KAGAWA (香川裕)	Executive Director
Toshiro OE (大江敏郎)	Executive Director
Mitsuru ISHII (石井満)	Independent non-executive Director
Yuji MATSUZAKI (松﨑裕治)	Independent non-executive Director
Takamasa KAWASAKI (川崎貴聖)	Independent non-executive Director

The biographical details of the Directors and Senior Management are set out in the section headed "Biographies of the Directors and Senior Management" of this Report. There is no other change in the Directors' biographical details which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules since the date of the Prospectus up to the date of this Report.

According to the Articles and the CG Code, Mr. Fumihide Hamada, Mr. Yutaka Kagawa, Mr. Toshiro Oe and Mr. Takamasa Kawasaki will retire at the 2017 AGM and, being eligible, offered themselves for re-election. Our Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules and our Company considers that all of the independent non-executive Directors are independent.

Directors' Report

The directors of our Company's subsidiaries during the Year and up to the date of this Report are:

Name of subsidiaries	Name of directors	Title
K's Holdings	Katsuya Yamamoto	Representative director
	Katsumitsu Yamamoto	Representative director
Okura Japan	Katsuya Yamamoto	Representative director
	Katsumitsu Yamamoto	Representative director
Aratoru	Satoshi Maeda	Representative director
Adward	Satoshi Maeda	Representative director
K's Properties	Katsuya Yamamoto	Representative director
	Katsumitsu Yamamoto	Representative director
Okura Nishinihon	Katsuya Yamamoto	Representative director
	Katsumitsu Yamamoto	Representative director
Aisen	Katsuya Yamamoto	Representative director
	Katsumitsu Yamamoto	Representative director
Okura Kyushu	Katsuya Yamamoto	Representative director
	Katsumitsu Yamamoto	Representative director

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the 2017 AGM has a service contract with our Company which is not determinable by our Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in this Report, no transactions, arrangements or contracts of significance to which our Company or any of our subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVE OF OUR COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF OUR COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2017, the interests and short positions of the Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required: (i) to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (iii) to be notified to our Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in the Shares:

Name	Capacity/nature of interest	Number and class of Shares	Approximate percentage of shareholding in the total issued share capital of our Company
Katsuya YAMAMOTO[1]	Beneficial interest	375,000,000	75%

Note:

(1) Mr. Yamamoto is an Executive Director, the Chief Executive Officer of our Company and the Chairman of the Board.

Save as disclosed above, as at 30 June 2017, none of the Directors or the chief executive of our Company had any interests or short positions in any shares, underlying shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which had been notified to our Company and the Stock Exchange or recorded in the Register or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES OF OUR COMPANY

As at 30 June 2017, the Directors were not aware of any persons or entities (other than a Director or the chief executive of our Company) who/which had or were deemed or taken to have interests or short positions in the Shares or the underlying Shares, which were required to be recorded in the register of substantial shareholders under section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Year, none of the Directors or directors of our Company's subsidiaries, or their respective associates had interests in businesses, which compete or are likely to compete either directly or indirectly, with the businesses of our Company and our subsidiaries as required to be disclosed pursuant to the Listing Rules.

Directors' Report

EVENTS AFTER THE REPORTING PERIOD

On 6 July 2017, an indirectly wholly-owned subsidiary of our Company (the "Purchaser") entered into an agreement with Orix Corporation (the "Vendor") pursuant to which the Purchaser has agreed to purchase and Vendor has agreed to sell all the beneficiary rights associated with the land and the building erected on the land situated at Lot 14-41, Motofuna-machi, Nagasaki City, Japan, at a consideration of JPY1,477,360,000 (equivalent to approximately HK$103,415,200). Completion of this acquisition took place on 9 August 2017.

PERMITTED INDEMNITY PROVISION

According to the Articles, subject to the provisions of the Companies Ordinance, but without prejudice to any indemnity to which a Director may otherwise be entitled, every Director, former Director, responsible person, officer or auditor of our Company shall be indemnified out of the assets of our Company against any liability, loss or expenditure incurred by him in defending any proceedings, whether civil or criminal, which relate to anything done or omitted to be done or alleged to have been done or omitted to be done by him as a Director, former Director, responsible person, officer or auditor of our Company. Such provisions have been in force since the Listing Date. Our Company has arranged for appropriate insurance cover for directors' liabilities in respect of legal actions that may be brought against the Directors and directors of our subsidiaries.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of our Company were entered into or existed during the Year.

SHARE OPTION SCHEME

As disclosed in the Prospectus, our Company conditionally approved and adopted a Share Option Scheme on 10 April 2017 by passing a written resolution of the then shareholders of our Company. The Share Option Scheme became effective on the Listing Date and will remain in force until the 10th anniversary of the Listing Date. No option under the Share Option Scheme has been granted since the Listing Date and up to the date of this Report.

Purpose

The purpose of the Share Option Scheme is to enable our Company to grant options to Eligible Participants (as defined below) as incentives or rewards for their contribution or potential contribution to our Group.

Eligible Participants

Under the Share Option Scheme, the Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with the Share Option Scheme to any full-time or part-time employees, or potential employees, executives or officers (including executive, non-executive and independent non-executive Directors) of our Company or any of our subsidiaries and any suppliers, customers, agents and advisers who, in the sole opinion of the Board, will contribute or have contributed to our Company and/or any of our subsidiaries (the "Eligible Participant").

Maximum Number of Shares

The maximum number of Shares in respect of which options under the Share Option Scheme and any other share option schemes of our Company may be granted is 10% of the issued Shares, being 50,000,000 Shares as at the Listing Date and the date of this Report. This limit may be renewed at any time provided that the new limit must not exceed 10% of the total number of Shares in issue as at the date of the Shareholders' approval for the renewal.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of our Company if such grant will result in this 30% limit being exceeded.

Maximum Entitlement of Each Eligible Participant

As required under Chapter 17 of the Listing Rules, unless approved by the Shareholders at general meeting, the maximum entitlement of each Eligible Participant is that the total number of Shares issued and to be issued upon exercise of the outstanding options granted and to be granted to such Eligible Participant (including exercised, outstanding and cancelled options) under the Share Option Scheme and other scheme(s) of our Company in any 12-month period must not exceed 1% of the issued share capital of our Company at the offer date.

Time of exercise of Option

Unless otherwise provided in the respective grantee's offer document, each of the grantees to whom an option has been granted under the Share Option Scheme shall be entitled to exercise his/her option in the manner set out in his/her offer document, provided that such period of time shall not exceed a period of 10 years commencing on the date which the option is granted.

Minimum Period for which an Option must be held before it is Exercised

Each grantee under the Share Option Scheme shall be entitled to exercise his/her option in the manner set out in his/her offer document. The period within which an option may be exercised under the Share Option Scheme is determined by the Board at its absolute discretion, provided that such period is consistent with any other terms and condition of the Share Option Scheme.

Payment on Acceptance of the Option

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the option duly signed by the grantee, together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date.

Basis of Determining the Exercise Price

The exercise price in relation to each option offered to an Eligible Participant is to be determined by the Board (or its committee) at its sole discretion, save that such price shall not be less than the highest of (i) the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of grant; or (ii) the average of the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant.

The Remaining Life of the Share Option Scheme

The Share Option Scheme remains valid for 10 years commencing on the Listing Date, unless otherwise terminated, cancelled or amended.

For more information on the Share Option Scheme, please refer to pages 12 to 23 of Appendix VI to the Prospectus.

REMUNERATION POLICY AND PENSION SCHEME

The remuneration policy of our Group is reviewed regularly by our Remuneration Committee, making reference to the legal framework, market condition and performance of our Group and individual staff. For detail illustration of the responsibilities of our Remuneration Committee, please refer to the section headed "Corporate Governance Report" of this Report.

The Directors and Senior Management receive compensation in the form of salaries, allowances, bonuses and other benefits-in-kind, including our contribution to the pension scheme. The respective amount of the remuneration of each of the Directors is determined on the basis of the relevant Director's experience, responsibility, performance and the time devoted to our Group's business.

To further provide incentives and awards to our employees in appreciation of their contribution or potential contribution of our Group, we have adopted a Share Option Scheme to enable our Company to grant options to any Eligible Participant. For further details of the Share Option Scheme, please refer to the paragraph headed "Share Option Scheme" in this section.

No Director has waived or has agreed to waive any emolument during the Year.

Our Group operates a defined contribution plan which covers all full-time employees and Directors. No forfeited contributions were incurred during the Year. For further information on the pension scheme operated by our Group, please refer to note 24 to the consolidated financial statements in this Report.

RIGHTS TO ACQUIRE OUR COMPANY'S SECURITIES

At no time during the Year was our Company, or any of our holding companies or subsidiaries, or any of our fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of our Company or their respective associates (as defined under the Listing Rules) to have any right to acquire benefits by means of the acquisition of shares in, or debenture of, our Company or any other body corporate.

CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the related party transactions disclosed in note 31 to the consolidated financial statements in this Report, no Controlling Shareholder had a material interest, either directly or indirectly, in any contract of significance (whether for the provision of services to our Company or not) to the business of our Group to which our Company or any of our subsidiaries was a party during the Year.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDER

In order to avoid potential conflict of interests with our Company, Mr. Katsuya Yamamoto, our Controlling Shareholder, entered into a deed of non-competition in favour of our Group, pursuant to which he unconditionally and irrevocably agrees, undertakes to and covenants with our Company (for himself and for the benefits of each other member of our Group) on 10 April 2017, pursuant to which he has undertaken, among others, not to compete with the business of our Group. Details of the Deed is set out in the section headed "Deed of Non-Competition" on page 224 of the Prospectus.

The Controlling Shareholder has made a written confirmation to the Board in respect of their compliance with the undertakings in the Deed since the entering of the Deed, on 10 April 2017, to 30 June 2017 (the "Relevant Period").

Upon receiving the confirmation from the Controlling Shareholder, the independent non-executive Directors had reviewed the same as part of the annual review process and confirmed that the Controlling Shareholder had complied with the Deed during the Relevant Period.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the ordinary course of business by our Group during the Year are set out in note 31 to the consolidated financial statements of this Report. The related party transactions set out in note 31 to the consolidated financial statements constitute "continuing connected transactions" (as defined under Chapter 14A of the Listing Rules) which are fully exempted from the disclosure requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

Between the Listing Date and 30 June 2017, our Group had not conducted any "connected transaction" or "continuing connected transaction" (as defined under Chapter 14A of the Listing Rules) which is subject to reporting and annual review requirements under the Listing Rules.

Directors' Report

AUDITOR

The consolidated financial statements for the Year have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of our Company will be proposed at the 2017 AGM.

TAX RELIEF

Our Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

All references above to other sections, reports or notes in this Report form part of this Report.

On behalf of the Board
Katsuya YAMAMOTO
Chairman

Tokyo, Japan, 20 September 2017

Good corporate governance has been a vital foundation of our Company's development. Our Company is dedicated to fulfilling its responsibilities to the Shareholders and protecting the interests of different stakeholders through sound governance practices. Our Company has developed and implemented comprehensive corporate governance practices and procedures in accordance with the Listing Rules and relevant applicable laws and regulations. The major principles are to ensure transparency in operation and accountability to Shareholders. The Board is responsible for performing the corporate governance duties and reviewing and monitoring the corporate governance of our Company with reference to the CG Code.

During the Year, our Company has fully complied with the CG Code set out in Appendix 14 of the Listing Rules, with the exception for code provision A.2.1 which requires the roles of chairman and chief executive to be held by different individuals.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. For our Group, Mr. Katsuya Yamamoto holds both of such positions. Mr. Katsuya Yamamoto has been primarily responsible for overseeing our Group's general management and business development of our Group and for formulating business strategies and policies for our business management and operations since our Group was founded in 1984. Taking into account the continuation of management and the implementation of our business strategies, the Directors (including our independent non-executive Directors) consider that it is suitable for Mr. Katsuya Yamamoto to hold both of the positions of chief executive officer and the chairman of the Board, and the present arrangements are beneficial and in the interests of our Company and our Shareholders as a whole.

MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

Our Company has adopted the Model Code as the required standards for securities transactions by the Directors. Having made specific enquiries to all the Directors, our Company confirmed that all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the Year.

BOARD OF DIRECTORS

Responsibilities

The Board is the primary decision-making body of our Company, setting fundamental business strategies and policies for the management and operation of our business and monitoring their implementations. The day-to-day operations and management are delegated by the Board to the management of our Company, who will implement the strategy and direction as determined by the Board.

Composition

The Board currently comprises of seven Directors, with four executive Directors and three independent non-executive Directors.

Corporate Governance Report

Executive Directors

Mr. Katsuya Yamamoto (chairman and chief executive officer)
Mr. Fumihide Hamada
Mr. Yutaka Kagawa
Mr. Toshiro Oe

Independent Non-executive Directors

Mr. Mitsuru Ishii
Mr. Yuji Matsuzaki
Mr. Takamasa Kawasaki

The biographical details of each of the Directors are set out in the section headed "Biographies of the Directors and Senior Management" of this Report.

Responsibilities of Executive Directors

The executive Directors are responsible for the leadership and control of our Company and overseeing our Group's businesses development, strategic planning and promoting the success of our Company.

Responsibilities of Independent Non-executive Directors

The independent non-executive Directors participate in the Board meetings to independently comment on our Company's strategies, policies, performance and progress in achieving the corporate goals. They are also responsible for ensuring a high standard of financial and other mandatory reporting of the Board as well as providing a balance to the Board to effectively and independently assess the corporate actions of our Company to safeguard Shareholders' interest and the overall interest of our Group.

Throughout the period commencing from the Listing Date to 30 June 2017, our Company has three independent non-executive Directors, which satisfies the requirement of the Listing Rules that the number of independent non-executive Directors must account for at least one-third of the Board and should not be less than three, and that at least one of the independent non-executive Directors must possess appropriate professional qualifications or accounting or related financial management expertise.

Each of the independent non-executive Directors has submitted a written confirmation of independence in writing pursuant to rule 3.13 of the Listing Rules and the Board is satisfied that all the independent non-executive Directors have been independent and complied with the independence guidelines set out in Rule 3.13 of the Listing Rules during the Year and up to the date of this Report.

Term of Directors

Each of the executive Directors entered into a service contract with our Company on 10 April 2017 and our Company has issued letters of appointment to each of the independent non-executive Directors on the same day. The principal particulars of these service contracts and letters of appointment are (i) for a term of three years commencing from the Listing Date, and (ii) subject to termination by not less than three months' notice in writing served by either party on the other. The term of the service contracts and the letters of appointment may be renewed subject to the provisions of the Articles and the applicable Listing Rules.

Directors' and Senior Management's Remuneration

The Directors and members of the Senior Management receive compensation in the form of salaries, allowances, bonuses and other benefits-in-kind, including contributions to their pension schemes.

The Remuneration Committee determines the salaries of the Directors and members of the Senior Management based on their qualifications, positions and seniority. Our Group will provide retirement benefits for certain family members of Mr. Yamamoto in recognition of their long-term contribution to our Group. Such benefits will be determined based on the highest monthly salary during directorship, their respective management rankings, and the number of years of service in our Group. As such, we have made provision for such benefits for the Year which have been expensed as employee benefit costs in accordance with the accounting policies. With respect to the provision made in recognition of the long term contribution from the executive Director, Mr. Yamamoto, the relevant amount will be reflected under the disclosure pertaining to "Benefits and interests of directors" in the notes to our Group's consolidated financial statements when the long term benefits become receivable by him (for example, upon his retirement). For details, please refer to note 33 to the consolidated financial statements in this Report.

The aggregate remunerations (including salaries, allowances, discretionary bonuses, other benefits and contributions to pension schemes) paid to the Directors for the Year were approximately ¥127 million.

The policy concerning the remunerations of the Directors is that the amount of remuneration is mainly determined on the basis of the relevant Director's experience, responsibility, performance and the time devoted to the business.

Details of the remuneration of the Directors and Senior Management for the Year are set out below. In addition, pursuant to Code Provision B.1.5 of the CG Code, the annual remuneration of members of the Senior Management by bands for the Year is set out below:

Remuneration of the Directors and the Senior Management by bands

	Number of Directors and Senior Management
Below ¥10,000,000	7
¥10,000,001 to ¥20,000,000	—
¥20,000,001 to ¥30,000,000	1
¥30,000,001 to ¥100,000,000	1
¥100,000,001 to ¥110,000,000	1

Save as disclosed in this Report, (i) no remuneration was paid to the Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group, (ii) no compensation was paid to, or receivable by, the Directors or past Directors or the five highest paid individuals during the Year for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group, and (iii) none of the Directors waived any emoluments during the same period.

Except as disclosed in this Report, no Director has been paid in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a Director, or otherwise for service rendered by him in connection with the promotion or formation of our Company.

Continuous Development of Directors and Senior Management

The Directors, namely Mr. Katsuya Yamamoto, Mr. Fumihide Hamada, Mr. Yutaka Kagawa, Mr. Toshiro Oe, Mr. Mitsuru Ishii, Mr. Yuji Matsuzaki and Mr. Takamasa Kawasaki, and Senior Management have attended training sessions in which they were given an overview of the key laws and regulations in Hong Kong and Japan that are applicable to the operations of an issuer. We will continue to arrange trainings which are provided by our external legal advisers and/or other appropriate accredited institutions, to reinforce the management's awareness on applicable laws and regulations.

Meetings of Board and Board Committees and Directors' Attendance Records

There is no fixed number of days when notice of regular Board meetings must be served on the Directors before the meeting. Notice will deem to be served on a Director if it is given to such Director in writing or orally or sent to him to his address. For other Board and Board committee meetings, reasonable notice is generally given.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board or Board committee meeting to keep Directors apprised of the latest developments and financial position of our Company and to enable them to make informed decisions. Each member of the Board has separate and independent access to the Senior Management of our Company where necessary.

The minutes of Board meetings and Board committee meetings are kept by our Company Secretary and are open to inspection by any Director. The minutes of Board meetings and Board committee meetings record in full details the matters considered and decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft minutes are sent to all Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

During the Year, no general meeting was held while one Board meeting was held whereat the Board approved, among other things, the Share Offer. The attendance of individual Directors at the aforesaid Board meeting is set out in the following table:

Name of Directors	Board meeting attended/eligible to attend
Mr. Katsuya Yamamoto	1/1
Mr. Fumihide Hamada	1/1
Mr. Yutaka Kagawa	1/1
Mr. Toshiro Oe	1/1
Mr. Mitsuru Ishii	1/1
Mr. Yuji Matsuzaki	1/1
Mr. Takamasa Kawasaki	1/1

Prior to the Listing Date, two sets of written resolutions were passed on 9 March 2017 and 10 April 2017 in the Year, respectively, to approve our statutory audited accounts and the Share Offer, respectively.

Corporate Governance Report

BOARD COMMITTEES

The Board delegates certain responsibilities to the Audit Committee, Remuneration Committee and Nomination Committee (together, the "Committees"). In accordance with the Listing Rules, the Articles and the relevant laws and regulations in Hong Kong, we have formed the Committees below for effective and efficient corporate governance. These Committees are established and operated in accordance with the specific written terms of reference, which could be found on the websites of our Company and the Stock Exchange.

Audit Committee

Our Company established an Audit Committee in compliance with Rule 3.21 of the Listing Rules on 10 April 2017. The Audit Committee comprises three members, namely Mr. Takamasa Kawasaki, Mr. Mitsuru Ishii and Mr. Yuji Matsuzaki, while Mr. Takamasa Kawasaki acts as the chairman. The primary duties of the Audit Committee are, among others:

(i) to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system;

(ii) to oversee the audit process; and

(iii) to monitor the integrity of our Company's consolidated financial statements, reports and accounts.

During the Year, no Audit Committee meeting was held as the Audit Committee was only established in April 2017 and our Company was listed in May 2017.

In addition, the Risk Management Committee was established as a sub-committee under the Audit Committee to, amongst others, identify, assess and mitigate the risks faced by the business, which include those pertaining to money laundering and compliance with the Three Party System. The Risk Management Committee comprises 13 members, namely Mr. Fumihide Hamada, Mr. Yutaka Kagawa, Mr. Toshiro Oe, Mr. Satoshi Maeda, Mr. Koji Nakao, Mr. Hayato Tobisawa, Mr. Junichi Hitomi, Mr. Shota Miyano[1], Mr. Seiji Otofuji, Mr. Masayuki Sakata, Mr. Fumihiko Tanaka, Mr. Shuntaro Honda, and Mr. Masaki Oka, and is chaired by our executive Director, Mr. Fumihide Hamada. During the period between the Listing Date and 30 June 2017, one Risk Management Committee meeting was held whereat the Risk Management Committee (i) reviewed the risk management and internal control systems of our Group, and (ii) reviewed the effectiveness of the internal audit function of our Group. The attendance of individual members is set out in the following table:

Name of committee members	Position in our Company	Meeting attended/ eligible to attend
Mr. Fumihide Hamada	Executive director	1/1
Mr. Yutaka Kagawa	Executive director	1/1
Mr. Toshiro Oe	Executive director	1/1
Mr. Satoshi Maeda	Marketing supervisor	1/1
Mr. Koji Nakao	Manager of system promotion office and Head of information systems	1/1
Mr. Hayato Tobisawa	General marketing manager	1/1
Mr. Junichi Hitomi	Head of marketing department Ⅰ	1/1
Mr. Shota Miyano[(1)]	Head of marketing department Ⅱ	N/A
Mr. Seiji Otofuji	General affairs and human resources department manager	1/1
Mr. Masayuki Sakata	Manager of procurement department	1/1
Mr. Fumihiko Tanaka	Head of internal audit office	1/1
Mr. Shuntaro Honda	Internal audit consultant	1/1
Mr. Masaki Oka	Head of investor relations office	1/1

Note:

(1) Mr. Shota Miyano was appointed as a member of the Risk Management Committee in July 2017.

For details on the internal control and risk management systems of our Company, please refer to the paragraph headed "Internal Controls and Anti-Money Laundering" of this Report.

Remuneration Committee

Our Company established the Remuneration Committee in compliance with rule 3.25 of the Listing Rules on 10 April 2017. The Remuneration Committee comprises five members, namely Mr. Takamasa Kawasaki, Mr. Mitsuru Ishii, Mr. Yuji Matsuzaki, Mr. Katsuya Yamamoto and Mr. Yutaka Kagawa, and is chaired by Mr. Takamasa Kawasaki. The primary duties of the Remuneration Committee are, among others, to make recommendations to the Board:

(i) on our Company's policy and structure for all Directors' and Senior Management remuneration; and

(ii) on the establishment of a formal and transparent procedure for developing a remuneration policy for our Company.

During the Year, no Remuneration Committee meeting was held as the Remuneration Committee was established in April 2017 and our Company was listed in May 2017.

Nomination Committee

Our Company established the Nomination Committee in compliance with the CG Code on 10 April 2017. The Nomination Committee is comprised of five members, namely Mr. Katsuya Yamamoto, Mr. Takamasa Kawasaki, Mr. Mitsuru Ishii, Mr. Yuji Matsuzaki and Mr. Yutaka Kagawa, and is chaired by Mr. Katsuya Yamamoto. The primary duties of the Nomination Committee are, among others:

(i) to make recommendations to the Board on the appointment of the Directors and members of the Senior Management in order to complement Company's corporate strategy; and

(ii) to identify suitable individuals who are qualified to become Directors and the Senior Management of our Company.

During the Year, no Nomination Committee meeting was held as the Nomination Committee was established in April 2017 and our Company was listed in May 2017.

We have limited the number of executive Directors in each of the Remuneration Committee and Nomination Committee to two, representing a minority in each of these committees, as a means to enhance transparency and protection of independent Shareholders.

Board Diversity Policy

With a view to achieve a sustainable and balanced development, our Company sees increasing diversity at the Board level as an essential element in supporting the attainment of our strategic objectives and sustainable development. In designing the Board's composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard to the benefits of diversity to the Board.

This diversity policy is reviewed by the Nomination Committee annually, and the Board's composition will be disclosed in the Corporate Governance Report.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the Code Provision D.3.1 of the CG Code. The Board reviewed our Company's corporate governance policies and practices, training and continuous professional development of Directors and Senior Management, our Company's policies and practices on compliance with legal and regulatory requirements, compliance of the Model Code and written employee guidelines, and our Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

EXTERNAL AUDITOR'S REMUNERATION

PricewaterhouseCoopers is appointed as the external auditor of our Company. The appointment and removal of the external auditor is recommended by our Company's Audit Committee. The Audit Committee also oversees the external auditor's independence and objectivity and the effectiveness of the audit process.

For the Year, the fees paid to PricewaterhouseCoopers for the audit of the annual consolidated financial statements of our Group are ¥35 million (excluding the expenses on the audit and non-audit service provided by PricewaterhouseCoopers related to the Share Offer of our Company). The fees charged by PricewaterhouseCoopers in respect of the non-auditing services for the Year are approximately ¥13 million. The remuneration paid to PricewaterhouseCoopers and its affiliated firm for services rendered is listed as follows:

	2017
	¥ million
Types of services	
Audit services	35
Non-audit services (Note)	13
Total	48

Note:

Non-audit services comprise consultancy services for Environmental, Social and Governance Reporting and Corporate Governance Reporting.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge that they have the responsibility to oversee the preparation of the consolidated financial statements, in order to give a true and fair view of the state of affairs of our Group, the results of operations and cash flow during the Year. In preparing the consolidated financial statements for the Year, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements on a going concern basis. There are no material uncertainties relating to events or conditions that may cast significant doubt on our Company's ability to continue as a going concern.

The statement from the external auditors regarding their reporting responsibilities on the consolidated financial statements is set out in the section headed "Independent Auditor's Report" of this Report.

RISK MANAGEMENT, INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

The Board is responsible for overseeing the overall management of compliance risks, including the review and approval of anti-money laundering measures as well as remediation of any issues that arise. The Directors are responsible for determining, designing, and implementing the internal control objectives on aspects such as governance, policies and procedures, due diligence, transaction monitoring and reporting, record keeping, and staff training.

Our Company is also well equipped with internal audit functions, which exercises adequate oversight of key aspects relating to the prevention of money laundering with respect to the pachinko operations. This includes (i) an inspection of each pachinko hall at least once every two months, (ii) periodic reviews of Company's compliance framework and effectiveness of its anti-money laundering measures and (iii) reporting of any findings to our Company's Audit Committee. Our Audit Committee is responsible for (among others) reviewing any internal control issues highlighted by the internal audit department and reporting of such findings to the Board on a regular basis to highlight any deficiencies in the anti-money laundering measures and internal control systems. In April 2017, we established our Risk Management Committee under our Audit Committee to, amongst others, identify, assess and mitigate the risks faced by our business, which include those pertaining to money laundering and compliance with the Three Party System.

The Directors are of the view that we have taken all reasonable steps to establish an adequate internal control and risk management procedures (the "Internal Control Systems") to address various potential operational, financial and legal risks identified in relation to the operations, including but not limited to procurement, management, project management, connected party transaction controls, information disclosure controls, human resources management, information system management, taxation and other various financial control and monitoring procedures. These Internal Control Systems enable our management to identify, categorise, analyse, mitigate and monitor various potential risks. The Internal Control Systems also set forth the relevant reporting hierarchy of risks identified in the operations. The Board is responsible for overseeing the overall Internal Control Systems in order to safeguard our Group's assets and Shareholders' interests so as to ensure that the Internal Control Systems in place are adequate and in compliance with applicable laws, rules and regulations.

During the Year, an internal control consultant was engaged to, amongst other things, review and comment on the design, implementation and operating effectiveness of the Internal Control Systems of our Group by reviewing the policies and procedures, minutes, reports, organisational charts and other supporting documentation, and performing selected walk-throughs and tests of samples. The Directors confirmed that all appropriate recommendations by the consultant had been adopted.

During the Year, the Board has reviewed, through the Risk Management Committee, our Group's risk management and internal control system as well as the adequacy of resources, qualifications and experience, training programmes and budget of our Group's accounting, internal audit and financial reporting functions. The risk management and internal control systems are reviewed once every financial year. The Board has reviewed the effectiveness of the risk management and internal control systems and considers them effective and adequate. The Board is not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the risk management and internal control system throughout the Year.

INSIDE INFORMATION

To ensure timely, fair, accurate and complete disclosure of inside information to our independent Shareholders, and for compliance with the applicable laws and regulations, our Company places a strong emphasis on our obligations under Part XIVA of the SFO and the Listing Rules.

Our Company has adopted a communication policy which describes definitions and examples of inside information, when/how to disclose inside information, role and responsibilities in relation to inside information communication, procedures for certain situations, consultation and approval procedures, accuracy and completeness of information, authority delegation and application of the safe harbour, etc. The policy serves as a clear and extensive guideline to the Directors and officers and all relevant employees so they could identify and carry out suitable measures to ensure inside information of our Group is to be disseminated to the public in an equal and timely manner.

INVESTOR RELATIONS AND SHAREHOLDER RIGHTS

Our Company believes that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of our Company's business performance and strategies. Our Company also recognises the importance of transparency and timely disclosure of corporate information, which enables Shareholders to make the most informed investment decisions. The goal of our communication activities is to provide a true and fair view of our Company.

General meetings of our Company provide the best opportunity for exchange of views between the Board and our Shareholders. Shareholders are encouraged to participate in the meeting and raise any questions about the proposed resolutions and general operations of our Group. Under the Articles, a Shareholder entitled to attend and vote at a meeting of our Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A Shareholder who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting attend and that such proxy does not need to be a Shareholder of our Company.

Code provision E.1.3 of the CG Code stipulates that our issuer should arrange for the notice to Shareholders to be sent in the case of the annual general meeting at least 20 clear business days before the meeting and in the case of all other general meetings, at least 10 clear business days before the meeting. Our Company has been in compliance with such code provision.

All resolutions put forward at the Shareholder meetings will be voted by poll pursuant to the Listing Rules and the poll results will be posted on the websites of our Company and the Stock Exchange after each Shareholder meeting.

Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to section 566 of the Companies Ordinance and section 68 of the Articles, the Directors must convene a general meeting on written requisition by Shareholders representing at least 5% of the total voting rights of all Shareholders having a right to vote at general meetings.

Corporate Governance Report

Procedures for Putting Forward Proposals at General Meeting

Pursuant to Section 615 of the Companies Ordinance, Shareholder(s) can submit a written requisition to move a resolution at our Company's Annual General Meeting(s) if they represent:

(i) at least 2.5% of the total voting rights of all Shareholders who have a right to vote at the annual general meeting to which the requests relate; or

(ii) at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The relevant written requisition must:

(i) identify the resolution of which notice is to be given;

(ii) be authenticated by the person or persons making it; and

(iii) be received by our Company not later than 6 weeks before the relevant annual general meeting to which the requests relate; or if later, the time at which notice is given of that meeting.

Any written requisition from Shareholders to our Company pursuant to Sections 566 and 615 of the Companies Ordinance must be deposited at our Company's registered office, situated at Level 11, Admiralty Centre Tower II, 18 Harcourt Road, Admiralty, Hong Kong, or by email to info@okura-holdings.com.

Procedures for Putting Enquiries to our Company and our Contact Details

Shareholders may, at any time, direct questions, request for publicly available information and provide comments and suggestions to the Directors or management of our Company. Such questions, requests and comments can be addressed to our Company by mail to 11/F, Admiralty Centre Tower II, 18 Harcourt Road, Admiralty, Hong Kong, or by email to info@okura-holdings.com.

CONSTITUTIONAL DOCUMENTS

During the period from the Listing Date to the date of this Report, there has not been any change to the Articles. The Articles are available on the websites of our Company (http://www.okura-holdings.com) and the Stock Exchange.

COMPANY SECRETARY AND PRIMARY CONTACT OF OUR COMPANY

Directors have access to the services of our company secretary to ensure that the Board procedures are followed. The company secretary of our Company is Mr. Man Yun Wah. He is the principal and head of corporate advisory division of Dominic K.F. Chan & Co., and a director of RHT Corporate Advisory (HK) Limited. In compliance with Rule 3.29 of the Listing Rules, Mr. Man Yun Wah has undertaken no less than 15 hours of relevant professional training during the Year. The primary corporate contact person at our Company is Mr. Masaki Oka, head of Investor Relations Office.

Environmental, Social and Governance Report

ABOUT THIS REPORT

In this Environmental, Social and Governance ("ESG") Report, our Group is going to disclose the information in relation to environment, social and governance with reference to the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Listing Rules.

This ESG Report mainly focuses on the pachinko business operated by our Group in Japan.

CORPORATE SOCIAL RESPONSIBILITY ("CSR") GOVERNANCE

The Directors are responsible for the CSR strategy, which includes identifying and evaluating CSR risks in our Group, implementing appropriate and effective risk management, and establishing internal control system where necessary.

STAKEHOLDER ENGAGEMENT

Our Group engages the stakeholders on an ongoing basis to identify CSR-related issues. Based on the results we obtained, our Group will hold discussions among our management and employees of different departments, assess the materiality of these issues against our Group's business and all stakeholders, and put forward suggestions and action-plans to improve decision-making and accountability on social and environmental issues. In this ESG Report, we include details of CSR-related issues that were identified during such discussions and which we considered important.

A. ENVIRONMENT

A.1 Our View on the Environment

To contribute to environmental protection, our Group always strives to take measures including reduction of emissions and resource usage. We identified the reduction of the amount of waste and emission of greenhouse gases (in particular, CO_2) as key areas of our contributions and have been taking various measures accordingly.

Regarding the impact on environment and natural resources, we believe they are not material to the nature of our business operations.

During the Year, our Group has been in compliance with the relevant environmental laws and regulations in Japan and the Directors are not aware of any material breach or violation of such laws and regulations.

A.2 Use of Resources and Reduction of Greenhouse Gas Emission

Our Group understands the importance of the reduction of greenhouse gas emission, therefore we have been taking steps to install LED Lightings and energy-saving air-conditioners at our pachinko halls.

Furthermore, we have also been implementing the following policies:

- Installation of electricity demand monitoring devices for better electricity consumption management
- Use of solar power generators and solar panels
- Utilisation of energy-saving mode of multifunction machines
- Lights off during recess time (Headquarter) and after business hours (Pachinko halls)
- Introduction of "cool biz" campaign to allow business casual wears during summer time

As the use of water and other raw materials are not material to the nature of our business, we do not have specific policies to address those areas.

A.3 Reduction of Waste

To enhance customer experience, our Group will from time to time renovate our pachinko halls and purchase new pachinko and pachislot machines. To avoid causing excessive harm to the environment by producing hazardous and non-hazardous wastes, our Group has been proactively promoting and processing of recycles of obsolete pachinko and pachislot machines.

Besides, our Group has also been implementing the following policies:

- Promoting a paperless environment (use of digital signage, digitisation of various documents, circulating internal document and notification via e-mail, etc.)
- Promoting the use of recycled paper (toilet paper, photocopying paper, etc.)

B. OUR PEOPLE

B.1 Our View on Talents

Our Group believes, our success is, to a large extent, attributable to the strategies and visions of the Directors, who are supported by our Senior Management and all other employees. Thus, our Group places a strong emphasis on the well-being of all our staff. As such, our Group is committed to enhance the overall corporate capacity by respecting each individual employee's attributes and personality, providing them a relaxing and fruitful environment where they can receive all-round training, and ensuring a safe and convenient workplace where they are encouraged to show their abilities in full.

B.2 Our Employment and Labour Practice

With respect to the recruitment and employment of our employees, our Group has been recruiting talents regardless of their age, gender, presence of disability and nationality. When it comes to promotion, we adopt a fair and equal process to all employees.

In order to improve work environment for female employees, we support a good work-life balance, for example, assisting them in balancing between children care and work duty.

Furthermore, to respond to various working needs of our employees, we have introduced a wide range of employment types such as a full-time employment, contract employment, temporary employment, part-time employment, re-employment, and specific region limited employment.

During the Year, our Directors are not aware of any breach or material non-compliance with the relevant laws and regulations that has a significant impact on our Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

B.3 Our Labour Safety and Health

In order to provide a safe working environment and to protect our employees from suffering from any occupational hazards, our Group conducts the following activities:

- Mental health care (mental stress check, consultation with supervisor)
- Periodic health checks
- Introduction of the "Personal System" which is a ball counting system that counts the number of winning balls within each pachinko machine to alleviate employees' physical work burden from lifting and carrying the winning balls for the purpose of counting them

During the Year, our Directors are not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on our Group relating to provide a safe working environment and protecting employees from occupational hazards.

B.4 Talent Training

Our Group has been working to support the growth of our talents for better work performance and enhancement of knowledge by providing in-house training and on-the-job training for new-comers.

B.5 Labour Standards

During the Year, our Group has been in compliance with the Labour Standard Law and the laws pertinent to proper labour relations, and our Group does not employ or advocate the employment of children or of people who are forced to work. All works are employed on a voluntary basis with agreed terms and are not forced or coerced into working for our Group. The Directors are not aware of any non-compliance or breach that have a significant impact on our Group in relation to such laws and regulations.

C. HEALTHY BUSINESS PRACTICE AND PREVENTION OF DISHONESTY

C.1 Relationship with Business Partners

With the Amusement Business Law and its ancillary prefectural local regulations in mind, when our Group engages with or enters businesses into with new or existing business partners, we always perform comprehensive compliance check and obtain a written confirmation from such business partners, and that they are not engaged in or associated with any anti-social force. Our compliance department will continue to monitor the status after signing contract.

In terms of contract value, we have been working to acquire an appropriate price through fair tendering by our internal procurement team.

During the Year, there has been no illegal business conducted between our Group and our business partners and the Directors are not aware of any material breach or violations against the Amusement Business Law and any of the relevant local regulations.

C.2 Product Responsibility

Our Group takes our obligation to customers seriously and aims to continue to provide high quality customer experience. To ensure our customers are able to enjoy our pachinko halls without affected by the possible negative social impacts of gambling, our Group has implemented the following policies:

- Mutual agreement with customers on gaming rules
- Prohibition of under-aged customers to enter our pachinko halls (our pachinko hall staff will request customers to present identity document or patrolling for age check)
- Installation of Automated External Defibrillator (AED)
- Measures against abandoning child inside the car (our pachinko hall staff will patrol around vehicles every 2 hours, etc.)
- Evacuation guidance training and drill exercise to our employees

In addition, posters and flags are installed in our pachinko halls for the prevention of indulgence on gambling which has particularly become a social problem in recent years. Self-assessment program is also introduced in most of the halls since July 2017.

Advertising matters are governed under the Amusement Business Law, Enforcement Ordinance and Police Advertisement Circular in Japan, which regulate how amusement business operators advertise and promote their businesses. Consumer data protection matters are governed under the Act on the Protection of Personal Information in Japan, which regulate the collection, use, handling, and transfer of personal information by Japanese business operators. Our Company strives to adhere to all these requirements under the relevant laws and regulations and has established written procedures to ensure compliance.

The Directors are not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on our Group relating to health and safety, advertising, labelling and privacy matters relating to services provided.

C.3 Anti-corruption and anti-money laundering

Our Group has been taking the following measures to prevent corruption and money laundering incidents:

- Installation of CCTVs
- Regular patrols or data checks for the detection of cheating or abnormal matters at an early stage
- Regulation on high-value prize exchange
- Introduction and maintenance of a whistleblowing hotline
- Establishment of Risk Management Committee and evaluation and verification of prevention and/or detection measures against money laundering transactions

As risks relating to bribery, fraud and extortion are not considered as material risks to our Group, we have not implemented specific policies to address those areas, other than the policies mentioned above.

During the Year, the Directors are not aware of any non-compliance with laws and regulations that have a significant impact on our Group relating to bribery, extortion, fraud and money laundering.

In addition, the prohibition of bribery is regulated by the Code of Ethical Practice. This is helpful in the maintenance of healthy business practice and the prevention of dishonesty.

D. CONTRIBUTION TO THE LOCAL COMMUNITY

We consider our Group to be making the most significant contribution to the local community through service provision to our customers via our main pachinko business, continuing employment and proper tax payment.

In addition, we are currently reviewing as to how to make contribution to the local community in various forms such as partnership for events.

To the Shareholders of Okura Holdings Limited
(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of Okura Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 137, which comprise:

- the consolidated statement of financial position as at 30 June 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with both Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill Refer to Note 4 (Critical accounting estimates and judgements) and Note 15 (Intangible assets) to the consolidated financial statements for the related disclosures. As at 30 June 2017, the Group had goodwill of ¥740 million arising from the acquisition of a subsidiary in previous years which engaged in the pachinko and pachislot business. The goodwill is subject to an annual impairment assessment performed by management. Management performed an impairment assessment in respect of the goodwill to determine the recoverable amount using the value-in-use method which involved significant judgement in determining the assumptions used in the calculations. The key assumptions include the revenue growth rate and discount rate. We focused on this area due to the significant judgements and estimates involved in the determination of value-in-use calculations, including revenue growth rate and discount rate.	Our procedures in relation to management's value-in-use calculations of the goodwill balance include: • Assessed management's assumption of revenue growth rate by comparing the rate to industry trends, the Group's historical performance and operational development; • Assessed management's determination of discount rate by comparing to the cost of capital and cost of debt of comparable organisations in the industry; • Compared the current year actual results with the prior year forecasts to consider the reasonableness of management's forecasts; • Traced the data input to supporting evidence, such as budgets approved by the Board of Directors and considered the reasonableness of the key assumptions (i.e. revenue growth rate and discount rate) applied in the budgets based on our knowledge to the business; and • Evaluated the sensitivity analysis performed by management around the revenue growth rate and discount rate to ascertain the extent and likelihood of such changes have been appropriately considered. Based on the procedures performed, we found the judgements and estimates made by management in relation to the value-in-use calculations of the goodwill balance were supportable by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRS issued by the HKICPA and with IFRS issued by the IASB and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

As part of an audit in accordance with HKSA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Ka Ho.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 September 2017

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017

	Note	2017 ¥million	2016 ¥million
Revenue	5	**9,238**	10,098
Other income	6	**1,086**	819
Other losses, net	6	**(8)**	(131)
Hall operating expenses	7	**(8,278)**	(8,129)
Administrative and other operating expenses	7	**(1,371)**	(1,405)
Operating profit		**667**	1,252
Finance income		**7**	25
Finance costs		**(237)**	(249)
Finance costs, net	9	**(230)**	(224)
Profit before income tax		**437**	1,028
Income tax expense	10	**(168)**	(424)
Profit for the year attributable to shareholders of our Company		**269**	604
Earnings per share attributable to shareholders of our Company for the year (expressed in ¥ per share)			
Basic	11	**1**	2
Diluted	11	**1**	2

The notes on pages 70 to 137 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017

	Note	2017 ¥million	2016 ¥million
Profit for the year		**269**	604
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit retirement plans		**1**	(1)
Remeasurement of long term benefit obligations		**149**	—
Change in fair value of equity investments at fair value through other comprehensive income		**8**	(33)
Deferred income tax arising from fair value change		**(3)**	24
		155	(10)
Total comprehensive income for the year attributable to shareholders of our Company		**424**	594

The notes on pages 70 to 137 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2017

	Note	**2017**	2016
		¥million	*¥million*
Assets			
Non-current assets			
Property, plant and equipment	13	**11,320**	8,304
Investment properties	14	**2,345**	2,394
Intangible assets	15	**805**	831
Prepayments, deposits and other receivables	19	**1,377**	1,751
Financial assets at fair value through other comprehensive income	17(b)	**43**	38
Financial assets at fair value through profit or loss	17(a)	**49**	34
Deferred income tax assets	27	**697**	762
		16,636	14,114
Current assets			
Inventories	18	**193**	101
Prepayments, deposits and other receivables	19	**1,131**	515
Financial assets at fair value through profit or loss	17(a)	**177**	225
Income tax recoverable		**128**	445
Short-term bank deposits	20	**100**	100
Cash and cash equivalents	20	**3,272**	1,354
		5,001	2,740
Total assets		**21,637**	16,854
Equity and liabilities			
Equity attributable to shareholders of our Company			
Share capital	21	**20,349**	11,968
Reserves	21	**(10,121)**	(4,138)
Total equity		**10,228**	7,830

The notes on pages 70 to 137 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2017

	Note	2017 ¥million	2016 ¥million
Liabilities			
Non-current liabilities			
Borrowings	25	**4,393**	1,769
Obligations under finance leases	26	**2,913**	2,917
Accruals, provisions and other payables	23	**444**	422
Employee benefit obligations	24	**878**	1,087
Deferred income tax liabilities	27	**424**	406
		9,052	6,601
Current liabilities			
Borrowings	25	**827**	953
Trade payables	22	**23**	23
Accruals, provisions and other payables	23	**1,232**	1,180
Amount due to a related party	31(b)	**—**	1
Obligations under finance leases	26	**230**	171
Current income tax liabilities		**45**	95
		2,357	2,423
Total liabilities		**11,409**	9,024
Total equity and liabilities		**21,637**	16,854

The consolidated financial statements on pages 62 to 137 were approved by the Company's Board of Directors on 20 September 2017 and were signed on its behalf.

Katsuya Yamamoto
Director

Yutaka Kagawa
Director

The notes on pages 70 to 137 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

	Share capital (Note 21) *¥million*	Capital reserve (Note 21(a)) *¥million*	Legal reserve (Note 21(b)) *¥million*	Investment revaluation reserve (Note 21(c)) *¥million*	Retained earnings *¥million*	Total *¥million*
Balance at 1 July 2015	11,968	(6,430)	38	20	6,380	11,976
Profit for the year	—	—	—	—	604	604
Other comprehensive loss						
Remeasurement of defined benefit retirement plans	—	—	—	—	(1)	(1)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	—	—	—	(9)	—	(9)
Total comprehensive (loss)/income	—	—	—	(9)	603	594
Transactions with shareholders in their capacity as shareholders						
Dividend paid	—	—	—	—	(4,740)	(4,740)
Transfer to legal reserve	—	—	2	—	(2)	—
Total transactions with shareholders in their capacity as shareholders	—	—	2	—	(4,742)	(4,740)
Balance at 30 June 2016	11,968	(6,430)	40	11	2,241	7,830

The notes on pages 70 to 137 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

	Share capital (Note 21) ¥million	Capital reserve (Note 21(a)) ¥million	Legal reserve (Note 21(b)) ¥million	Investment revaluation reserve (Note 21(c)) ¥million	Retained earnings ¥million	Total ¥million
Balance at 1 July 2016	11,968	(6,430)	40	11	2,241	7,830
Profit for the year	—	—	—	—	269	269
Other comprehensive income						
Remeasurement of defined benefit retirement plans	—	—	—	—	1	1
Remeasurement of long term benefit obligations	—	—	—	—	149	149
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	—	—	—	5	—	5
Total comprehensive income	—	—	—	5	419	424
Transactions with shareholders in their capacity as shareholders						
Issue of new shares pursuant to the initial public offering	2,183	—	—	—	—	2,183
Bonus issue	6,407	(6,407)				—
Share issuance cost	(209)	—	—	—	—	(209)
Total transactions with shareholders in their capacity as shareholders	8,381	(6,407)	—	—	—	1,974
Balance at 30 June 2017	20,349	(12,837)	40	16	2,660	10,228

The notes on pages 70 to 137 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

	Note	2017 ¥million	2016 ¥million
Cash flows from operating activities			
Cash generated from operations	28	**1,169**	2,178
Income tax refunded/(paid)		**182**	(1,126)
Interest received		**7**	25
Interest paid		**(237)**	(249)
Net cash generated from operating activities		**1,121**	828
Cash flows from investing activities			
Proceeds from disposal of financial assets at fair value through profit or loss		**115**	1,708
Proceeds from disposal of financial assets at fair value through other comprehensive income		**—**	84
Purchase of property, plant and equipment		**(3,453)**	(234)
Purchase of investment properties		**(1)**	(4)
Proceeds from disposal of property, plant and equipment and intangible assets	28	**—**	15
Purchase of intangible assets	15	**(6)**	(14)
Placement of bank deposit with maturity over 3 months		**—**	(100)
Withdrawal of pledged deposits		**—**	500
Amounts due from related parties		**—**	1,485
Net cash (used in)/generated from investing activities		**(3,345)**	3,440

The notes on pages 70 to 137 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

	Note	2017 ¥million	2016 ¥million
Cash flows from financing activities			
Proceeds from borrowings		**3,500**	2,157
Repayment of borrowings		**(1,002)**	(2,434)
Proceeds from issuance of new shares		**1,974**	—
Dividends paid		**—**	(4,740)
Repayment of loan from a director		**—**	(162)
Payment of listing expenses (equity portion)		**(142)**	(122)
Repayment of obligations under finance leases		**(188)**	(179)
Net cash generated from/(used in) financing activities		**4,142**	(5,480)
Net increase/(decrease) in cash and cash equivalents		**1,918**	(1,212)
Cash and cash equivalents at beginning of the year		**1,354**	2,566
Cash and cash equivalents at end of the year		**3,272**	1,354

The notes on pages 70 to 137 are an integral part of these consolidated financial statements.

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 (the "Business") in Japan.

On 28 April 2017, the Company issued a prospectus (the "Prospectus") and launched an initial public offering of 125,000,000 ordinary shares in the Company offered at an offer price of HK$1.20 per share (the "Offer Price"). The shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 May 2017.

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.

2.1 Basis of preparation

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

The preparation of consolidated financial statements in conformity with 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) **New and amended standards adopted by the Group**

The following improvements and amendments to standards are mandatory for the Group's financial years beginning on or after 1 July 2016:

IAS 1 (Amendment)	Disclosure initiative
IAS 16 and IAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation
IAS 16 and IAS 41 (Amendment)	Agriculture: bearer plants
IAS 27 (Amendment)	Equity method in separate financial statements
IFRS 10, IFRS 12 and IAS 28 (Amendment)	Investment entities: applying the consolidation exception
IFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations
IFRS 14	Regulatory deferral accounts
Annual Improvements Project	Annual improvements 2012-2014 cycle

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(b) New standards early adopted by the Group

IFRS 9 is mandatorily effective for annual periods beginning on or after 1 July 2018. The Group decided to early adopt IFRS 9 (2014) from 1 July 2011, being its date of transition to IFRS.

The complete version of IFRS 9 replaces the guidance in IAS 39. IFRS 9 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The incurred loss impairment model used in IAS 39 has been replaced by an expected credit loss model, with the result that a loss event will no longer need to occur before an impairment allowance is recognised. Debt instruments and equity investments are subsequently measured at fair value through profit or loss. However, at initial recognition, the Group is permitted to make an irrecoverable election (on an instrument-by-instrument basis) to present in other comprehensive income subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination. For those elected equity investments, there is no subsequent reclassification of fair value gains and losses to consolidated statement of comprehensive income. Under the new expected loss approach, it is no longer necessary for a loss event to occur before an impairment loss is recognised. Impairment is made on the expected credit losses, which are the present value of the cash shortfalls over the expected life of the financial assets. Management assesses that the expected credit loss model has no material impact noted. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

There are no changes to classification and measurement of financial liabilities. Hedge accounting under IFRS 9 requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one used by an entity's management for risk management purposes. This replaces the hedge effectiveness test under the current standard. The Group did not apply hedge accounting for the financial year ended 30 June 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

The following are standards and amendments to existing standards that have been published and are mandatory for the Group's financial years beginning on or after 1 July 2016, but have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
IAS 7 (Amendment)	Disclosure initiative	1 January 2017
IAS 12 (Amendment)	Recognition of deferred tax assets for unrealised losses	1 January 2017
IAS 28 (Amendment)	Investments in associates and joint ventures	1 January 2018
IAS 40 (Amendment)	Transfers of investment property	1 January 2018
IFRS 1 (Amendment)	First-time adoption of IFRS	1 January 2018
IFRS 2 (Amendment)	Classification and measurement of share-based payment transactions	1 January 2018
IFRS 4 (Amendment)	Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance contracts"	1 January 2018
IFRS 12 (Amendment)	Disclosure of interest in other entities	1 January 2017
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 15 (Amendment)	Clarifications to IFRS 15	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 10 and IAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IFRIC 23	Uncertainty over income tax treatments	1 January 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) New standards and amendments to existing standards not yet adopted by the Group *(continued)*

IFRS 15 "Revenue from Contracts with Customers"— This new standard replaces the previous revenue standards: IAS 18 "Revenue" and IAS 11 "Construction Contracts", and the related Interpretations on revenue recognition. IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Revenue recognition model under the new standard moves away from risks and rewards approach to transfer of control approach. IFRS 15 provides specific guidance on capitalisation of contract cost, license arrangements and principal versus agent considerations. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Group is in the process of assessing the impact of the application of IFRS 15 and based on its preliminary assessment, does not expect the adoption would have a material impact to the Group's results of operations and financial position. The new standard is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

IFRS 16 "Leases"– This new standard will result in operating leases being recognised on the consolidated statement of financial position, and the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised.

The only exceptions are short-term and low-value leases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) New standards and amendments to existing standards not yet adopted by the Group *(continued)*

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of ¥1,136 million, see Note 30(b)(i). The Group is in the process of assessing the impact of the application of IFRS 16 and based on its preliminary assessment, it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. Management is in the process of making an assessment on the impact of these standards and amendments to existing IFRS and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries are required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in ¥, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

2.4 Property, plant and equipment

Land and buildings comprise mainly pachinko and pachislot halls and offices. All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses except for freehold land which is not subject to depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress is stated at cost less impairment loss. It is not depreciated until completion of the construction and the relevant assets are available for use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to consolidated statement of comprehensive income during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Property, plant and equipment *(continued)*

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

– Buildings	7 to 47 years
– Leasehold improvements	Shorter of lease term or useful lives
– Equipment and tools	2 to 20 years
– Motor vehicles	2 to 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within "Other losses, net" in the consolidated statement of comprehensive income.

2.5 Investment properties

Investment properties, principally comprising land and buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. The Group adopts the alternative treatment by using the cost model provided under the IAS 40 "Investment Property". Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of investment properties, except for the freehold land which is not subject to depreciation, is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives of 15 to 47 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Computer software

Computer software is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives, which does not exceed five years.

(c) Club membership

Club membership has an indefinite useful life and is stated at cost less accumulated impairment losses.

Impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories according to IFRS 9 "Financial Instruments": financial assets at amortised costs and financial assets at fair value. Management determines the classification of its financial assets at initial recognition. This classification depends on whether the financial asset is a debt or equity instrument.

Debt instruments

Financial assets at amortised costs are debt instruments that meet the Group's business model for holding the investments to collect contractual cash flows and the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The nature of any derivatives embedded in the debt instrument are considered in determining whether the cash flows of the instrument are solely payment of principal and interest on the principal outstanding and are not accounted for separately. Other debt instruments are held-for-trading and classified as financial assets at fair value through profit or loss.

Equity instruments

All the Group's equity instruments are measured at fair value. Equity instruments that are held for trading are measured at fair value through profit or loss. For all other equity instruments, the Group has made an irrevocable election at initial recognition to recognise changes in their fair values through other comprehensive income.

Financial assets are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Financial assets *(continued)*

(b) Recognition, derecognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income.

Debt instruments that fulfil both the business model and the cash flow characteristic conditions are measured at amortised cost using the effective interest method. Other debt instruments are held-for-trading and measured at fair value through profit or loss.

Equity instruments are measured at fair value through profit or loss, except where the equity instruments are not held for trading and are irrevocably elected to measure at fair value through other comprehensive income at initial recognition, in which case, those financial assets are measured at fair value through other comprehensive income and there is no subsequent recycling of fair value gains and losses to consolidated statement of comprehensive income. Dividends from such investments continue to be recognised in consolidated statement of comprehensive income as long as they represent a return on investments.

The Group reclassifies its financial assets when and only when its business model for managing those financial assets changes.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in consolidated statement of comprehensive income within 'Other losses, net' in the period in which they arise. Changes in the fair value of financial assets through other comprehensive income are recognised in other comprehensive income except for the impairment loss (if any) on debt instruments which are accounted for in consolidated statement of comprehensive income.

Gain or loss (if any) on derecognition or impairment (if any) of debt instruments at amortised cost is recognised in consolidated statement of comprehensive income.

Interest income from debt instruments at fair value through profit or loss are recognised in the consolidated statement of comprehensive income. Dividend income from equity instruments included in financial assets at fair value and fair value through other comprehensive income are recognised in the consolidated statement of comprehensive income when the Group's right to receive payments is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.10 Impairment of financial assets

Impairment charges on the Group's investment in debt instruments at amortised cost are calculated based on an expected credit loss model. The Group considers these debt instruments as other receivables in nature and they do not have a significant financing component. Therefore, the Group elected to recognise lifetime expected credit losses of these debt instruments as provision for impairment allowance at the end of each reporting period. The Group applies a provision matrix, which is prepared by using historical loss experience on its other receivables and adjusted for information about current conditions and reasonable and supportable forecasts of future economic conditions, to estimate the lifetime expected credit losses. Impairment charge is recognised in the consolidated statement of comprehensive income.

2.11 Inventories

Inventories represent supplies, including uninstalled pachinko and pachislot machines with useful life typically less than one year, and other consumables which are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

2.12 Other receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.8(b) for further information about the Group's accounting for financial assets and Note 2.10 for a description of the Group's impairment policies.

If collection of other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits with original maturity of three months or less, other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are obligations to pay for services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

All borrowing costs are recognised in consolidated statement of comprehensive income in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Current and deferred income tax *(continued)*

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Employee benefits

The Group operates defined benefit plan as post-employment schemes.

(a) Pension obligations

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognised in the statement of comprehensive income in employee benefits expenses, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Employee benefits *(continued)*

(a) Pension obligations *(continued)*

Past-service costs are recognised immediately in consolidated statement of comprehensive income.

The interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is included in employee benefits expenses in the consolidated statement of comprehensive income.

Remeasurements arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(b) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group’s activities, as described below.

Revenue from pachinko and pachislot business represents the gross pay-ins, net of the gross pay-outs to customers. Gross pay-ins represent the amount received from pachinko balls and pachislot tokens rented to customers. Gross pay-outs represent the aggregate costs of G-prizes and general prizes exchanged by customers. G-prizes are decorative cards with a small embedded piece of gold or silver or coin-shaped pendants of gold or silver which can be sold by customers to a G-prize buyer for cash, and general prizes are generally the types of goods sold in convenience stores, such as snacks, drinks and cigarettes.

Customers rent pachinko balls and pachislot tokens to play the games, and the balls or tokens won can be either exchanged for prizes or saved for subsequent visits. The Group offers both general prizes and G-prizes. Customers who opt to claim G-prizes in exchange for the pachinko balls and pachislot tokens won during play may sell their G-prizes to an independent prize buyer for cash outside of the pachinko hall. Revenue is recognised at the end of each player’s visit to a machine.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Revenue recognition *(continued)*

Vending machine income is recognised on a straight-line basis over the accounting periods covered by the terms and conditions as stipulated in the agreement. Vending machine income is recognised in the accounting period in which they are earned.

Rental income from investment properties is recognised on a straight-line basis over the term of the leases.

Interest income is recognised on a time-proportion basis using the effective interest method.

Income from expired prepaid integrated circuit ("IC") and membership cards is recognised upon the expiry of the usage period.

Dividend income is recognised when the right to receive payment is established.

Income from scrap sales of used pachinko machines is recognised when the Group has delivered the used pachinko machines to the purchaser.

2.21 Leases

(a) As lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Leases *(continued)*

(b) As lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

The method for allocating gross earnings to accounting periods is the "actuarial method". The actuarial method allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

When assets are leased out under an operating lease, the asset is included in the consolidated statement of financial position based on the nature of the asset.

Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments for speculative purposes.

Risk management is carried out by management of the Group. Formal and informal management meetings are held to identify significant risks and to develop procedures to deal with any risks in relation to the Group's businesses.

(a) Market risk

(i) Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates in Japan and its business transactions are principally denominated in Japanese Yen. However, the Group is exposed to foreign exchange risk arising primarily from the transactions in its cash and cash equivalents, financial assets and accruals, provisions and other payables denominated in United States dollars ("USD").

As at 30 June 2017, if USD had weakened/strengthened by 5% against Japanese Yen with all other variables held constant, post-tax profit for the year would have been approximately ¥73 million (2016: ¥8 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated cash and cash equivalents and financial assets.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank balances and borrowings which are carried at variable rates, which expose the Group to cash flow interest rate risk.

As at 30 June 2017, if interest rates were increased or decreased by 50 basis points and all other variables were held constant, the Group's post-tax profit would decrease or increase by approximately ¥6 million (2016: ¥5 million) respectively as a result of increase or decrease in net interest expense.

The Group's fair value interest rate risk arises from bank balances and borrowings which are carried at fixed rates, which expose the Group to fair value interest rate risk.

As at 30 June 2017, if interest rates were increased or decreased by 50 basis points and all other variables were held constant, the Group's post-tax profit would decrease or increase by approximately ¥1 million (2016: ¥1 million) as a result of increase or decrease in net interest expense.

(iii) Price risk

The Group is exposed to equity securities price risk because of investments in listed and unlisted securities held by the Group which are classified on the consolidated statement of financial position as financial assets at fair value through other comprehensive income.

The table below summarises the impact of increases/decreases of the share prices of underlying financial instruments on the Group's equity. The analysis is based on the assumption that the share prices of the underlying financial instruments had increased or decreased by 5% with all other variables held constant.

	2017	2016
	¥million	*¥million*
Impact on other components of equity		
Share prices:		
– increase by 5%	**2**	2
– decrease by 5%	**(2)**	(2)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk

Credit risk arises mainly from cash deposited at banks, deposits and other receivables, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

In respect of cash deposited at banks and financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, the credit risk is considered to be low as the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Approximately 99% of our Group's revenue is received in cash. The Group's credit risk mainly arises from service income from other operations.

The Group has set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these customers. Management makes periodic assessment on the recoverability of other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The Group's historical experience in collection of other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the consolidated financial statements.

(c) Liquidity risk

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets.

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of committed credit facilities from leading banks and the ability to close out market position.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets and receivables; and long-term financing including long-term borrowings. The Group aims to maintain flexibility in funding by keeping sufficient bank balances and interest bearing borrowings which enable the Group to continue its business for the foreseeable future.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal to their carrying amounts as the impact of discounting is not significant.

The Group	**Within 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
	¥million	***¥million***	***¥million***	***¥million***	***¥million***
As at 30 June 2017					
Trade payables	**23**	**—**	**—**	**—**	**23**
Other payables (excluding accruals and provisions)	**842**	**—**	**15**	**72**	**929**
Borrowings	**899**	**842**	**2,135**	**1,737**	**5,613**
Obligations under finance leases	**404**	**408**	**1,185**	**2,488**	**4,485**
	2,168	**1,250**	**3,335**	**4,297**	**11,050**
As at 30 June 2016					
Trade payables	23	—	—	—	23
Other payables (excluding accruals and provisions)	839	4	—	71	914
Borrowings	988	484	988	402	2,862
Obligations under finance leases	354	354	1,061	2,838	4,607
Amount due to a related party	1	—	—	—	1
	2,205	842	2,049	3,311	8,407

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group uses bank borrowings to finance its operations.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (include bank borrowings and obligations under finance leases) less cash and cash equivalents. Total capital is calculated as "Equity" as shown in the consolidated statement of financial position, plus net debt, where applicable.

	2017	2016
	¥million	*¥million*
Borrowings	**5,220**	2,722
Obligations under finance leases	**3,143**	3,088
Less: cash and cash equivalents (Note 20)	**(3,272)**	(1,354)
Net debt	**5,091**	4,456
Total equity	**10,228**	7,830
Total capital	**15,319**	12,286
Gearing ratio	**33.2%**	36.3%

The decrease in the gearing ratio as at 30 June 2017 resulted from the increase in total equity due to issuance of new shares upon initial public offering during the year (Note 21).

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 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 30 June 2017				
Assets				
Financial assets at fair value through profit or loss				
– Debt securities	**—**	**225**	**1**	**226**
Financial assets at fair value through other comprehensive income				
– Listed securities	**39**	**—**	**—**	**39**
– Unlisted securities	**—**	**—**	**4**	**4**
	39	**225**	**5**	**269**
As at 30 June 2016				
Assets				
Financial assets at fair value through profit or loss				
– Debt securities	—	255	4	259
Financial assets at fair value through other comprehensive income				
– Listed securities	33	—	—	33
– Unlisted securities	—	—	5	5
	33	255	9	297

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. As at 30 June 2017 and 2016, instruments included in level 1 represent listed equity investments classified as financial assets at fair value through other comprehensive income which were not held for trading purpose.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. As of 30 June 2017 and 2016, instruments included in level 2 comprise bonds and trust funds issued by financial institutions in Japan which were classified as financial assets at fair value through profit or loss.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

As at 30 June 2017 and 2016, financial assets at fair value through profit or loss mainly comprise investment in a venture capital fund.

The venture capital fund is not traded on an active market, and the fair value is determined using valuation techniques. The value is primarily based on the latest available financial statements of the venture capital fund as reported by the General Partner of the venture capital fund, unless the Group is aware of reasons that such a valuation may not be the best approximation of fair value. The Group may make adjustments to the value based on considerations such as: the underlying investments of the venture capital fund, the value date of the net asset value provided, cash flows since the last value date, geographic and sector exposures, market movements and the basis of accounting of the underlying of the venture capital fund. The unobservable inputs which significantly impact the fair value are the net asset value advised by the venture capital fund's General Partner. No adjustment has been made by the Group on such value.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

(c) Financial instruments in level 3 *(continued)*

The following table presents the changes in level 3 instruments for the years ended 30 June 2017 and 2016:

	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
	¥million	*¥million*	*¥million*
Balance at 1 July 2015	4	14	18
Fair value gain/(loss) on valuation	1	(10)	(9)
Balance at 30 June 2016	5	4	9
Balance at 1 July 2016	**5**	**4**	**9**
Fair value loss on valuation	**(1)**	**(3)**	**(4)**
Balance at 30 June 2017	**4**	**1**	**5**

There were no transfers between levels 1, 2 and 3 during the years ended 30 June 2017 and 2016.

3.4 Offsetting financial assets and financial liabilities

As at 30 June 2017 and 2016, there were no financial assets or financial liabilities which were subject to offsetting, enforceable master netting or similar agreements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Current and deferred income taxes

The Group is subject to income taxes in Japan and Hong Kong. Judgement is required in determining the provision for income taxes. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates for whether additional taxes may be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimates, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(b) Impairment assessment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.6. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(c) Impairment assessment of property, plant and equipment

The Group has substantial investments in property, plant and equipment. Judgement is required in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may indicate that the related asset values may not be recoverable: (2) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and value in use, which is the net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions used to determine the level, if any, of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of comprehensive income.

(d) Classification of leases

The Group classifies leases into finance leases or operating leases in accordance with the accounting policies stated in Note 2.21. Classification as a finance lease or an operating lease determines whether the leased asset is capitalised and recognised in the consolidated statement of financial position or the lease payment is charged to the consolidated statement of comprehensive income. Determining whether a lease transaction is a finance lease or an operating lease is a complex issue and requires substantial judgement as to whether the lease agreement transfers substantially all the risks and rewards of ownership to or from the Group. Careful and considered judgement is required on various complex aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether renewal options are included in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments.

5 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2017 ¥million	2016 ¥million
Revenue		
Gross pay-ins	**37,740**	42,988
Less: gross pay-outs	**(28,967)**	(33,311)
Revenue from pachinko and pachislot hall business	**8,773**	9,677
Vending machine income	**142**	147
Property rental	**323**	265
Revenue from other operations	**—**	9
	9,238	10,098

(b) Segment information

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

The management has identified three reportable segments based on the types of services, namely (i) pachinko and pachislot hall operation; (ii) property rental; and (iii) others.

Segment assets consist primarily of property, plant and equipment, investment properties, inventories, prepayments, deposits and other receivables and cash and cash equivalents. They exclude deferred income tax assets and assets used for corporate functions including financial assets at 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.

5 REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Segment information *(continued)*

The segment information provided to the executive directors for the years ended 30 June 2017 and 2016 are as follows:

	Year ended 30 June 2017			
	Pachinko and pachislot hall operation ¥million	Property rental ¥million	Others ¥million	Total ¥million
Segment revenue from external customers	**8,915**	**323**	**—**	**9,238**
Segment results	**333**	**104**	**—**	**437**
Profit before income tax				**437**
Income tax expense				**(168)**
Profit for the year				**269**
Other segment items				
Depreciation and amortisation	**(666)**	**(52)**	**—**	**(718)**
Finance income	**7**	**—**	**—**	**7**
Finance costs	**(190)**	**(47)**	**—**	**(237)**
Capital expenditures	**(3,703)**	**—**	**—**	**(3,703)**

5 REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Segment information *(continued)*

	Year ended 30 June 2016			
	Pachinko and pachislot hall operation *¥million*	Property rental *¥million*	Others *¥million*	Total *¥million*
Segment revenue from external customers	9,824	265	9	10,098
Segment results	1,250	92	(314)	1,028
Profit before income tax				1,028
Income tax expense				(424)
Profit for the year				604
Other segment items				
Depreciation and amortisation	(644)	(54)	(22)	(720)
Finance income	24	1	—	25
Finance costs	(197)	(49)	(3)	(249)
Impairment loss on property, plant and equipment	(19)	—	—	(19)
Capital expenditures	(252)	—	—	(252)

5 REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Segment information *(continued)*

The segment assets as at 30 June 2017 and 2016 are as follows:

	Pachinko and pachislot hall operation	**Property rental**	**Others**	**Total**
	¥million	***¥million***	***¥million***	***¥million***
As at 30 June 2017				
Segment assets	**14,557**	**2,465**	**—**	**17,022**
Unallocated assets				**3,649**
Financial assets at fair value through profit or loss				**226**
Financial assets at fair value through other comprehensive income				**43**
Deferred income tax assets				**697**
Total assets				**21,637**

	Pachinko and pachislot hall operation	Property rental	Others	Total
	¥million	*¥million*	*¥million*	*¥million*
As at 30 June 2016				
Segment assets	12,041	2,657	133	14,831
Unallocated assets				964
Financial assets at fair value through profit or loss				259
Financial assets at fair value through other comprehensive income				38
Deferred income tax assets				762
Total assets				16,854

There is no single external customer contributed more than 10% revenue to the Group's revenue for the years ended 30 June 2017 and 2016.

The Group is domiciled in Japan and majority of the non-current assets of the Group as at 30 June 2017 and 2016 are located in Japan.

6 OTHER INCOME AND OTHER LOSSES, NET

	2017	2016
	¥million	*¥million*
Other income		
Income from scrap sales of used pachinko machines	**1,019**	735
Rental income from staff quarters	**2**	2
Dividend income	**5**	18
Income from expired IC card	**9**	10
Others	**51**	54
	1,086	819
Other losses, net		
Exchange losses, net	**(48)**	(26)
Losses on disposal of property, plant and equipment and intangible assets, net (Note 28)	**(44)**	(42)
Gains/(losses) on fair value change on financial assets at fair value through profit or loss	**82**	(109)
Recovery from insurance companies	**4**	56
Others	**(2)**	(10)
	(8)	(131)

7 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2017 ¥million	2016 ¥million
Pachinko and pachislot machines expenses (Note)	**3,409**	3,330
Auditor's remuneration		
– Audit services	**35**	—
– Non-audit services	**13**	—
Employee benefits expenses (Note 8)		
– Hall operating expenses	**1,067**	983
– Administrative and other operating expenses	**455**	606
Operating lease rental expense in respect of land and buildings	**1,181**	1,104
Depreciation and amortisation (Notes 13, 14 and 15)	**718**	720
Advertising and promotion expenses	**447**	446
Equipment and consumables costs	**189**	205
Impairment loss of property, plant and equipment (Note 13)	**—**	19
Repairs and maintenance	**190**	172
Other taxes and duties	**126**	128
Outsourcing service expenses	**336**	423
Utilities expenses	**348**	346
G-prize procurement expenses to wholesalers	**224**	221
Legal and professional fees	**39**	52
Listing expenses	**370**	379
Travel expenses	**48**	48
Insurance fee	**30**	30
Others	**424**	322
	9,649	9,534

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.

8 EMPLOYEE BENEFITS EXPENSES

	2017	2016
	¥million	*¥million*
Salaries, bonuses and allowances	**1,397**	1,357
Other employee benefits	**125**	232
	1,522	1,589

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2017 include one (2016: one) director whose emolument is reflected in the analysis shown in Note 33. The emoluments payable to the remaining four (2016: four) individuals during the year are as follows:

	2017	2016
	¥million	*¥million*
Salaries, allowances and other benefits	**111**	106

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Nil to HK$1,000,000 (equivalent to Nil to approximately ¥14,925,000)	**—**	1
HK$1,000,001 to HK$1,500,000 (equivalent to approximately ¥14,925,001 to ¥22,388,000)	**2**	1
HK$1,500,001 to HK$2,000,000 (equivalent to approximately ¥22,388,001 to ¥29,851,000)	**—**	—
HK$2,000,001 to HK$2,500,000 (equivalent to approximately ¥29,851,001 to ¥37,313,000)	**1**	1
HK$2,500,001 to HK$3,000,000 (equivalent to approximately ¥37,313,001 to ¥44,776,000)	**—**	—
HK$3,000,001 to HK$15,000,000 (equivalent to ¥44,776,001 to ¥223,881,000)	**1**	1
	4	4

No inducement for joining the Group or compensation for loss of office was paid or payable to any five highest paid individuals during the year (2016: Nil).

9 FINANCE COSTS, NET

	2017	2016
	¥million	*¥million*
Finance income		
Interest income	**—**	21
Interest from debt securities	**7**	4
	7	25
Finance costs		
Obligations under finance leases	**(183)**	(193)
Bank borrowings interest expenses	**(47)**	(47)
Bond interest expenses	**(2)**	(3)
Others	**(5)**	(6)
	(237)	(249)
Finance costs, net	**(230)**	(224)

10 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 2017 and 2016.

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

	2017	2016
	¥million	*¥million*
Current income tax		
– Japan corporate income tax	**88**	542
Deferred income tax (Note 27)	**80**	(118)
	168	424

10 INCOME TAX EXPENSE *(continued)*

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

	2017	2016
	¥million	*¥million*
Profit before income tax	**437**	1,028
Tax calculated at applicable Japan corporate income tax rate	**151**	360
Expenses not deductible for tax purpose	**6**	9
Tax effect of deductible temporary differences not recognised	**21**	26
Utilisation of previously unrecognised deductible temporary differences	**(47)**	(15)
Recognition of previously unrecognised deductible temporary differences	**(1)**	(5)
Tax losses not recognised	**15**	1
Utilisation of previously unrecognised tax losses	**—**	(7)
Effect of changes in tax rates	**4**	24
Taxable temporary differences relating to investments in subsidiaries	**18**	35
Others	**1**	(4)
Income tax expense	**168**	424

For the year ended 30 June 2017, deferred income tax liabilities arising from withholding income tax which result in an increase in income tax of ¥18 million (2016: ¥35 million). The dividend distributed to the Company is subject to 5% of withholding income tax based on Japan tax law as the dividend recipient was incorporated outside Japan. The income tax of ¥18 million (2016: ¥35 million) was calculated at 5% of the distributable reserve of the Group's subsidiaries as at 30 June 2017.

The Group is subject to national corporate income tax, inhabitants tax, and enterprise tax in Japan, which, in aggregate, resulted in effective statutory income tax rates 34.5% (2016: 35.0%) for the year ended 30 June 2017. The effective tax rate was approximately 38.4% (2016: 41.2%) for the year. The Group's effective tax rate was higher than the applicable statutory tax rate due to movements in deferred income tax arising from changes in the Group's various subsidiaries' abilities to generate future taxable profits to utilise the deductible temporary differences that the relevant subsidiaries have recorded.

As a result of the 2016 Tax Reform passed on 29 March 2016, the applicable effective tax rate was reduced to 34.5% for the year ended 30 June 2017 and would remain at 34.5% for the year ending 30 June 2018, and to 34.3% for the year ending 30 June 2019 and the years afterward. As at 30 June 2017, the relevant deferred income tax assets and liabilities have been remeasured at tax rate that is expected to apply to the periods when the related assets and liabilities are realised or settled.

11 EARNINGS PER SHARE

Basic earnings per share for the years ended 30 June 2017 and 2016 are calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares in issue during the year ended 30 June 2017 used to calculate the basic earnings per share includes 8,000,000 ordinary shares issued on 16 June 2015, 367,000,000 bonus issue of ordinary shares issued on 15 May 2017 as if the shares had been in issue throughout the year ended 30 June 2017 and 125,000,000 ordinary shares offered to the public issued on 15 May 2017.

	2017	2016
Profit attributable to shareholders of the Company (¥million)	**269**	604
Weighted average number of ordinary shares in issue (million) (Note)	**391**	375
Basic and diluted earnings per share (¥)	**1**	2

Note:

The weighted average number of ordinary shares in issue during the year ended 30 June 2016 used to calculate the basic earnings per share includes 8,000,000 ordinary shares issued on 16 June 2015 and 367,000,000 bonus issue of ordinary shares issued on 15 May 2017 as if the shares had been in issue throughout the year ended 30 June 2016.

No diluted earnings per share is presented as there was no potential dilutive share during the years ended 30 June 2017 and 2016. Diluted earnings per share is equal to the basic earnings per share.

12 DIVIDENDS

The board of directors did not recommend the payment of dividend for the year ended 30 June 2017 (2016: ¥592.5 per share, totaling ¥4,740 million).

	2017	2016
	¥million	*¥million*
Proposed final dividend of ¥Nil (2016: ¥592.5) per ordinary share	**—**	4,740

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land ¥million	Buildings ¥million	Leasehold improvements ¥million	Equipment and tools ¥million	Motor vehicles ¥million	Total ¥million
At 1 July 2015						
Cost	3,173	6,676	3,454	2,770	54	16,127
Accumulated depreciation and provision for impairment	(112)	(3,027)	(1,961)	(2,208)	(25)	(7,333)
Net book amount	3,061	3,649	1,493	562	29	8,794
Year ended 30 June 2016						
Opening net book amount	3,061	3,649	1,493	562	29	8,794
Additions	—	6	24	185	19	234
Disposals	—	—	(28)	(14)	(15)	(57)
Provision for impairment (Note 7)	—	—	(13)	(6)	—	(19)
Depreciation (Note 7)	—	(268)	(157)	(215)	(8)	(648)
Closing net book amount	3,061	3,387	1,319	512	25	8,304
At 30 June 2016						
Cost	3,173	6,682	3,427	2,842	42	16,166
Accumulated depreciation and provision for impairment	(112)	(3,295)	(2,108)	(2,330)	(17)	(7,862)
Net book amount	3,061	3,387	1,319	512	25	8,304
Year ended 30 June 2017						
Opening net book amount	**3,061**	**3,387**	**1,319**	**512**	**25**	**8,304**
Additions	**2,273**	**769**	**252**	**398**	**4**	**3,696**
Disposals	**—**	**—**	**(26)**	**(6)**	**(2)**	**(34)**
Depreciation (Note 7)	**—**	**(253)**	**(157)**	**(229)**	**(7)**	**(646)**
Closing net book amount	**5,334**	**3,903**	**1,388**	**675**	**20**	**11,320**
At 30 June 2017						
Cost	**5,446**	**7,451**	**3,605**	**3,211**	**43**	**19,756**
Accumulated depreciation and provision for impairment	**(112)**	**(3,548)**	**(2,217)**	**(2,536)**	**(23)**	**(8,436)**
Net book amount	**5,334**	**3,903**	**1,388**	**675**	**20**	**11,320**

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation of ¥623 million (2016: ¥621 million) have been charged in "Hall operating expenses" and ¥23 million (2016: ¥27 million) have been charged in "Administrative and other operating expenses" for the year ended 30 June 2017.

The net carrying amount of our Group's property, plant and equipment that were pledged for the banking facilities granted to the Group for the years ended 30 June 2017 and 2016 has been disclosed in Note 25.

The Group's property, plant and equipment held under finance leases included in the total amount of buildings were as follows:

	2017	2016
	¥million	*¥million*
Buildings		
Cost - capitalised finance leases	**3,222**	3,738
Accumulated depreciation	**(1,651)**	(2,006)
	1,571	1,732

The Group carried out reviews of the recoverable amounts of each CGU, which is determined as each individual pachinko and pachislot hall.

As at 30 June 2017 and 2016, management assessed and considered that none of the CGUs have impairment indicator.

14 INVESTMENT PROPERTIES

	2017	2016
	¥million	*¥million*
At cost		
At beginning of year	**2,394**	2,440
Additions	**1**	4
Depreciation (Note 7)	**(50)**	(50)
At end of year	**2,345**	2,394
At end of year		
Cost	**3,661**	3,660
Accumulated depreciation	**(923)**	(873)
Accumulated provision for impairment	**(393)**	(393)
	2,345	2,394

14 INVESTMENT PROPERTIES *(continued)*

The investment properties that have been pledged to secure general facilities granted to the Group are disclosed in Note 25. The Group had no unprovided contractual obligations for future repairs and maintenance as at 30 June 2017 and 2016.

Investment properties are situated in Japan and rented out under operating leases. Amounts recognised in consolidated statement of comprehensive income for investment properties are as follows:

	2017	2016
	¥million	*¥million*
Rental income	**261**	256
Direct operating expenses from the properties that generated rental income	**(70)**	(71)
	191	185

The Group's investment properties were valued as at 30 June 2017 and 2016 by an independent professionally qualified valuer, DTZ Cushman & Wakefield Limited ("DTZ"), who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. The valuation was determined using the investment approach, which largely used observable and unobservable inputs, including market rent, capitalisation rate and estimation in vacancy rate after expiry of current lease, or the direct comparison approach, which largely used comparables occurred in the real estate market.

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

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assess property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

Where the valuation results indicate that the carrying amount of the investment properties exceed its recoverable amount, impairment loss will be recognised by the Group. The fair value of the investment properties at 30 June 2017 is ¥2,636 million (2016: ¥2,646 million). No impairment loss was recognised.

Notes to the Consolidated Financial Statements

15 INTANGIBLE ASSETS

	Goodwill *¥million*	Computer software *¥million*	Club membership *¥million*	Total *¥million*
At 1 July 2015				
Cost	740	111	—	851
Accumulated amortisation	—	(12)	—	(12)
Net book amount	740	99	—	839
Year ended 30 June 2016				
Opening net book amount	740	99	—	839
Additions	—	14	—	14
Amortisation (Note 7)	—	(22)	—	(22)
Closing net book amount	740	91	—	831
At 30 June 2016				
Cost	740	125	—	865
Accumulated amortisation	—	(34)	—	(34)
Net book amount	740	91	—	831
Year ended 30 June 2017				
Opening net book amount	**740**	**91**	**—**	**831**
Additions	**—**	**1**	**5**	**6**
Disposals	**—**	**(10)**	**—**	**(10)**
Amortisation (Note 7)	**—**	**(22)**	**—**	**(22)**
Closing net book amount	**740**	**60**	**5**	**805**
At 30 June 2017				
Cost	**740**	**109**	**5**	**854**
Accumulated amortisation	**—**	**(49)**	**—**	**(49)**
Net book amount	**740**	**60**	**5**	**805**

15 INTANGIBLE ASSETS *(continued)*

Intangible assets represent computer software, club membership and goodwill arising from purchase of a pachinko and pachislot hall from certain third parties during the year ended 30 June 2013. Amortisation expenses relating to computer software of ¥2 million (2016: ¥4 million) have been charged in "Hall operating expenses" and ¥20 million (2016: ¥18 million) have been charged in "Administrative and other operating expenses" for the year ended 30 June 2017.

Goodwill arising from acquisition is allocated to the relevant CGU expected to benefit from the business combination. A CGU is determined as each individual pachinko and pachislot hall. Management reviews annually whether the carrying amount of a CGU is higher than the recoverable amount which results in impairment of goodwill. The recoverable amount of a CGU is determined based on value-in-use calculation. The calculation uses pre-tax cash flow projections based on financial budget approved by executive directors. Cash flows beyond the five-year period are extrapolation using the estimated growth rates. The key assumptions used for the value-in-use calculation are as follows:

	2017	2016
Five-year revenue growth rates	**0%**	0%
Long term growth rate	**0%**	0%
Discount rate	**9.8%**	9.8%

As a result of the impairment review, the recoverable amounts of the CGUs in which goodwill has been allocated are higher than their carrying amounts as at 30 June 2017. As a result, no impairment loss was charged during the year ended 30 June 2017 (2016: Nil).

The recoverable amount calculated based on the value in use calculation exceeded carrying amount by ¥2,701 million as at 30 June 2017 (2016: ¥4,015 million). In the event that the Group's business continues to experience a general decline, the headroom will be reduced to nil if the five-year revenue growth rate is adjusted to -5.5% (2016: -9.5%). A rise in discount rate to 24.2% (2016: 30.0%) would also remove the remaining headroom.

16 FINANCIAL INSTRUMENTS BY CATEGORY

	2017	2016
	¥million	*¥million*
Financial assets		
Financial assets at fair value		
Financial assets at fair value through profit or loss	**226**	259
Financial assets at fair value through other comprehensive income	**43**	38
	269	297
Financial assets at amortised cost		
Deposits and other receivables	**2,049**	1,758
Short-term bank deposits	**100**	100
Cash and cash equivalents	**3,272**	1,354
	5,421	3,212
	5,690	3,509

	2017	2016
	¥million	*¥million*
Financial liabilities		
Financial liabilities at amortised cost		
Trade payables	**23**	23
Other payables	**929**	914
Amount due to a related party	**—**	1
Borrowings	**5,220**	2,722
Obligations under finance leases	**3,143**	3,088
	9,315	6,748

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(a) Financial assets at fair value through profit or loss

	2017	2016
	¥million	*¥million*
Unlisted securities		
– Debt securities	**226**	259
Less: non-current portion	**(49)**	(34)
Current portion	**177**	225

Changes in fair values of financial assets at fair value through profit or loss are recorded in "Other losses, net" in consolidated statement of comprehensive income (Note 6).

The fair values of certain debt securities are within levels 2 and 3 of fair value hierarchy (Note 3.3).

(b) Financial assets at fair value through other comprehensive income

	2017	2016
	¥million	*¥million*
Listed securities		
– Equity securities	**39**	33
Unlisted securities		
– Equity securities	**4**	5
	43	38

Changes in fair values of financial assets at fair value through other comprehensive income are recorded in "Investment revaluation reserve" in the consolidated statement of changes in equity.

The fair values of all listed equity securities are based on the current bid prices and recent transaction prices in an active market. The fair values are within level 1 of the fair value hierarchy (Note 3.3). The fair values of all unlisted equity securities are within level 3 of the fair value hierarchy (Note 3.3).

Certain listed equity securities have been pledged to secure general facilities granted to the Group (Note 25).

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(continued)*

The carrying amounts of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are denominated in the following currencies:

	2017	2016
	¥million	*¥million*
¥	**94**	72
USD	**175**	203
Brazilian Real ("BRL")	**—**	22
	269	297

18 INVENTORIES

	2017	2016
	¥million	*¥million*
Uninstalled pachinko and pachislot machines	**193**	101

The cost of inventories recognised as expense and included in "Hall operating expenses" amounted to ¥3,409 million (2016: ¥3,330 million) for the year ended 30 June 2017.

19 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	¥million	*¥million*
Non-current portion		
Rental and other deposits	**1,302**	1,663
Prepaid expenses	**75**	88
	1,377	1,751
Current portion		
Prepayment for prizes in operation for pachinko and pachislot halls	**160**	167
Prepaid expenses	**224**	253
Other receivables	**266**	61
Rental and other deposits	**481**	34
	1,131	515

The carrying amounts of prepayments, deposits and other receivables of the Group approximate their fair values as at 30 June 2017 and 2016 and are denominated in Japanese Yen.

20 CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS

	2017	2016
	¥million	*¥million*
Bank deposits with maturity of more than three months	**100**	100
Cash on hand	**346**	347
Cash at bank	**2,926**	1,007
Cash and cash equivalents	**3,272**	1,354
Total cash and bank balances	**3,372**	1,454

The carrying amounts of cash and bank balances are denominated in the following currencies:

	2017	2016
	¥million	*¥million*
¥	**1,285**	1,400
USD	**2,074**	42
Others	**13**	12
	3,372	1,454

21 SHARE CAPITAL AND RESERVE

	Number of shares	**Share capital**
	million	*¥million*
At 1 July 2015 and 30 June 2016	8	11,968
Bonus issue (Note)	367	6,407
Issuance of ordinary shares upon initial public offering (Note)	125	1,974
At 30 June 2017	500	20,349

Note: Pursuant to the written resolutions of the shareholders dated 10 April 2017, it was approved for the Company to allot and issue to Katsuya Yamamoto by way of a bonus issue immediately prior to the listing of our Company's shares. Such shares were issued on 15 May 2017, being the date on which dealings in the shares of the Company first commenced on The Hong Kong Stock Exchange.

On 15 May 2017, 125,000,000 ordinary shares were issued at an offer price of HK$1.20 per share for a total consideration of HK$150,000,000 as a result of the completion of the initial public offering with share issuance costs amounted to approximately ¥208,700,000, after taking into account of the issuance costs, being credited to the share capital of the Company.

21 SHARE CAPITAL AND RESERVE *(continued)*

(a) Capital reserve

Capital reserve deficit of approximately ¥12,838 million represented (i) the difference between the carrying value of the Business and the share capital of the Company upon formation of the Company and transfer of the Business to the Company and (ii) the difference between the consideration paid for acquiring the subsidiaries and the share capitals of acquired subsidiaries under common control.

(b) Legal reserve

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

(c) Investment revaluation reserve

Investment revaluation reserve represents the cumulative net change in the fair value of financial assets through other comprehensive income held as at 30 June 2017 and 2016.

22 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice dates as at 30 June 2017 and 2016 were as follows:

	2017	2016
	¥million	*¥million*
Less than 30 days	**23**	23

The carrying amounts of trade payables approximate their fair values as at 30 June 2017 and 2016 and are denominated in Japanese Yen.

23 ACCRUALS, PROVISIONS AND OTHER PAYABLES

	2017	2016
	¥million	*¥million*
Non-current portion		
Provision for reinstatement costs	**357**	347
Rental deposits receipt in advance	**87**	75
	444	422
Current portion		
Payable for pachinko and pachislot machines	**326**	222
Accrued staff costs	**164**	150
Accrued advertising expenses	**37**	46
Accrued bonuses	**71**	69
Accrued outsourcing fee	**70**	76
Accrued audit fee	**48**	—
Other taxes payables	**147**	190
Rental deposits receipt in advance	**5**	15
Unearned revenue	**18**	12
Unutilised balls and tokens	**227**	181
Consumables payable	**32**	81
Utilities payable	**47**	42
Listing expenses payable	**15**	73
Other payables	**25**	23
	1,232	1,180

The carrying amounts of accruals, provisions and other payables approximate their fair values as at 30 June 2017 and 2016 and are mainly denominated in Japanese Yen.

24 EMPLOYEE BENEFIT OBLIGATIONS

	2017	2016
	¥million	¥million
Long term benefit obligations for Yamamoto Family (Note)	844	1,054
Retirement benefit obligations for employees	34	33
	878	1,087

Note:

Yamamoto Family refers to Katsuya Yamamoto and his family members, namely Katsumitsu Yamamoto, Kai Yamamoto, Kinya Yamamoto and Kakuya Yamamoto.

As at 30 June 2017, long term benefit obligations for Yamamoto Family represents the provision on the lump-sum payment made to two (2016: two) Yamamoto Family members as a recognition of their contribution to the Group. A particular amount of provision is made for each particular member mainly according to their ranks and years of service in the Group, using projected unit credit method. The defined benefit retirement plans of the Group are measured at present value which are 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.

The Group's defined benefit retirement plans are the unfunded pension plans for full-time employees upon retirement.

(a) Movements of the liability in connection with long term benefit obligations for Yamamoto Family recognised in the consolidated statement of financial position are as follows:

	2017	2016
	¥million	¥million
At beginning of year	1,054	1,037
(Reversal)/provision recognised during the year	(61)	70
Remeasurement of long term benefit obligations	(149)	—
Payment during the year	—	(53)
At end of year	844	1,054

24 EMPLOYEE BENEFIT OBLIGATIONS *(continued)*

(b) Movements of the liability in connection with retirement benefit obligations for employees recognised in the consolidated statement of financial position are as follows:

	2017	2016
	¥million	*¥million*
At beginning of year	**33**	31
Current service cost	**3**	3
Benefit paid	**(1)**	(2)
Actuarial (losses)/gains	**(1)**	1
At end of year	**34**	33

(c) Expense recognised in consolidated statement of comprehensive income is as follows:

	2017	2016
	¥million	*¥million*
Current service cost	**3**	3

(d) Item recognised in other comprehensive income is as follows:

	2017	2016
	¥million	*¥million*
Actuarial (losses)/gains	**(1)**	1

(e) The principal actuarial assumptions adopted as at 30 June 2017 and 2016 are as follows:

	2017	2016
Discount rate	**0.74%**	0.20%

25 BORROWINGS

	2017 ¥million	2016 ¥million
Non-current portion		
Bank loans	**4,363**	1,680
Bonds	**30**	89
	4,393	1,769
Current portion		
Bank loans	**767**	893
Bonds	**60**	60
	827	953
Total borrowings	**5,220**	2,722

As at 30 June 2017 and 2016, the Group's borrowings were repayable as follows:

	2017 ¥million	2016 ¥million
Within 1 year	**827**	953
Between 1 and 2 years	**781**	452
Between 2 and 5 years	**1,984**	955
Over 5 years	**1,628**	362
	5,220	2,722

The average effective interest rates (per annum) at 30 June 2017 and 2016 were set out as follows:

	2017	2016
Bank loans	**1.40%**	1.44%
Bonds	**1.08%**	1.23%

25 BORROWINGS *(continued)*

As at 30 June 2017 and 2016, the total borrowings are pledged by certain assets and their carrying values are shown as below:

	2017	2016
	¥million	*¥million*
Property, plant and equipment	**6,186**	3,258
Investment properties	**644**	651
Financial assets at fair value through other comprehensive income - listed equity securities	**38**	32
	6,868	3,941

No borrowings were guaranteed by the directors as at 30 June 2017 and 2016.

The carrying amounts of borrowings of the Group approximate their fair values as at 30 June 2017 and 2016 and are denominated in Japanese Yen.

During the years ended 30 June 2017 and 2016, details of bonds issued by the Group are as follows:

Issue date	**Principal amount**	**Interest rate**	**Due date**
	¥million		
31 March 2011	200	6 months TIBOR	31 March 2016
31 July 2013	300	6 months TIBOR	31 July 2018

26 OBLIGATIONS UNDER FINANCE LEASES

	2017	2016
	¥million	*¥million*
Gross finance lease liabilities - minimum lease payments		
No later than 1 year	**404**	354
Later than 1 year and no later than 2 years	**408**	354
Later than 2 years and no later than 5 years	**1,185**	1,061
Later than 5 years	**2,488**	2,838
	4,485	4,607
Future finance charges on finance leases	**(1,342)**	(1,519)
Present values of finance lease liabilities	**3,143**	3,088

26 OBLIGATIONS UNDER FINANCE LEASES *(continued)*

The present value of finance lease liabilities is as follows:

	2017	2016
	¥million	*¥million*
No later than 1 year	**230**	171
Later than 1 year and no later than 2 years	**247**	182
Later than 2 years and no later than 5 years	**780**	618
Later than 5 years	**1,886**	2,117
Total finance lease liabilities	**3,143**	3,088
Less: Amount included in current liabilities	**(230)**	(171)
Non-current portion	**2,913**	2,917

Assets arranged under finance leases represent buildings for pachinko and pachislot halls and investment properties. The average lease term is 13 years (2016: 18 years) with effective interest rate of 5.78% (2016: 6.23%) per annum as at 30 June 2017.

27 DEFERRED INCOME TAX

The net movement on the deferred income tax account is as follows:

	2017	2016
	¥million	*¥million*
At beginning of year	**356**	214
(Charged)/credited to other comprehensive income	**(3)**	24
(Charged)/credited to profit or loss (Note 10)	**(80)**	118
At end of year	**273**	356

27 DEFERRED INCOME TAX *(continued)*

Deferred income tax assets

The summary of the balances comprising temporary differences is as follows:

	2017 **¥million**	2016 *¥million*
Property, plant and equipment	**1,365**	1,030
Pachinko and pachislot machines	**452**	524
Financial assets at fair value through profit or loss	**1**	32
Financial assets at fair value through other comprehensive income	**10**	13
Retirement benefit plans	**12**	11
Losses carried forward	**151**	92
Other provisions	**90**	116
Total deferred income tax assets	**2,081**	1,818
Set-off of deferred income tax liabilities pursuant to set-off provisions	**(1,384)**	(1,056)
Net deferred income tax assets	**697**	762

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Property, plant and equipment *¥million*	Pachinko and pachislot machines *¥million*	Financial assets at fair value through profit or loss *¥million*	Financial assets at through other comprehensive income *¥million*	Retirement benefit plans *¥million*	Losses carried forward *¥million*	Other provisions *¥million*	Total *¥million*
Balances at 1 July 2015	1,092	599	2	—	11	153	202	2,059
Credited to other comprehensive income	—	—	—	13	—	—	—	13
(Charged)/credited to profit or loss	(62)	(75)	30	—	—	(61)	(86)	(254)
Balances at 30 June 2016	1,030	524	32	13	11	92	116	1,818
Charged to other comprehensive income	—	—	—	(3)	—	—	—	(3)
Credited/(charged) to profit or loss	335	(72)	(31)	—	1	59	(26)	266
Balances at 30 June 2017	1,365	452	1	10	12	151	90	2,081

27 DEFERRED INCOME TAX *(continued)*

Deferred income tax liabilities

The summary of the balances comprising temporary differences is as follows:

	2017	2016
	¥million	*¥million*
Property, plant and equipment	**(1,342)**	(1,006)
Provision for reinstatement costs	**(23)**	(28)
Financial assets at fair value through profit or loss	**(9)**	(2)
Taxable temporary differences relating to investments in subsidiaries	**(424)**	(404)
Others	**(10)**	(22)
Total deferred income tax liabilities	**(1,808)**	(1,462)
Set-off of deferred income tax assets pursuant to set-off provisions	**1,384**	1,056
Net deferred income tax liabilities	**(424)**	(406)

	Property, plant and equipment	**Provision for reinstatement costs**	**Financial assets at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Taxable temporary differences relating to investments in subsidiaries**	**Others**	**Total**
	¥million	*¥million*	*¥million*	*¥million*	*¥million*	*¥million*	*¥million*
Balances at 1 July 2015	(1,122)	(37)	(35)	(11)	(629)	(11)	(1,845)
Credited to other comprehensive income	—	—	—	11	—	—	11
Credited/(charged) to profit or loss	116	9	33	—	225	(11)	372
Balances at 30 June 2016	(1,006)	(28)	(2)	—	(404)	(22)	(1,462)
(Charged)/credited to profit or loss	(336)	5	(7)	—	(20)	12	(346)
Balances at 30 June 2017	(1,342)	(23)	(9)	—	(424)	(10)	(1,808)

27 DEFERRED INCOME TAX *(continued)*

The Group takes into account the probability that deductible temporary differences or tax losses carried forward can be utilised against future taxable profits on recognition of deferred income tax assets. In assessing recoverability of deferred income tax assets, the Group takes into account scheduled reversal of deferred income tax liabilities, projected future taxable profit and tax planning.

As a result of the assessment of the recoverability of deferred income tax assets, the Group does not recognise deferred income tax assets for a portion of deductible temporary differences or tax losses carried forward. The amounts of deductible temporary differences and tax losses carried forward for which deferred income tax assets that are not recognised as of 30 June 2017 and 2016 are as follows:

	2017	2016
	¥million	*¥million*
Deductible temporary differences	**2,519**	2,596
Losses carried forward	**45**	1
Total	**2,564**	2,597

Tax losses amounting to ¥45 million (2016: ¥1 million) can be carried forward indefinitely.

28 CASH GENERATED FROM OPERATIONS

	2017	2016
	¥million	*¥million*
Profit before income tax	**437**	1,028
Adjustments for:		
Depreciation of property, plant and equipment and investment properties	**696**	698
Losses on disposal of property, plant and equipment, net	**34**	42
Losses on disposal of intangible assets	**10**	—
Impairment loss of property, plant and equipment	**—**	19
Amortisation of intangible assets	**22**	22
Other employment benefits	**(59)**	18
Finance income	**(7)**	(25)
Finance costs	**237**	249
(Gains)/losses on fair value change on financial assets at fair value through profit or loss	**(82)**	109
Changes in working capital:		
Inventories	**(92)**	(19)
Prepayments, deposits and other receivables	**(100)**	171
Trade payables	**—**	(4)
Accruals, provisions and other payables	**74**	(131)
Amount due to a related party	**(1)**	1
Cash generated from operations	**1,169**	2,178

28 CASH GENERATED FROM OPERATIONS *(continued)*

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment and intangible assets comprise:

	2017	2016
	¥million	*¥million*
Net book amount (Notes 13 and 15)	**44**	57
Losses on disposal of property, plant and equipment and intangible assets	**(44)**	(42)
Proceeds from disposal of property, plant and equipment and intangible assets	**—**	15

Non-cash transactions:

During the year ended 30 June 2017, purchase of property, plant and equipment amounted to approximately ¥243 million was settled under finance lease.

29 CONTINGENCIES

As at 30 June 2017 and 2016, the Group did not have any significant contingent liabilities.

30 COMMITMENTS

(a) Capital commitments

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

	2017	2016
	¥million	*¥million*
Property, plant and equipment		
- Capital expenditure contracted for but not yet incurred	**43**	9

30 COMMITMENTS *(continued)*

(b) Operating lease commitments

(i) As a lessee

As at 30 June 2017 and 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises and pachinko and pachislot halls as follows:

	2017	2016
	¥million	*¥million*
No later than one year	**1,081**	722
Later than one year and no later than five years	**17**	17
Over five years	**38**	43
	1,136	782

(ii) As a lessor

As at 30 June 2017 and 2016, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	2017	2016
	¥million	*¥million*
No later than one year	**65**	65

31 RELATED PARTY TRANSACTIONS

For the purposes of the consolidated financial statements, 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.

The directors are of the view that the following individuals and companies were related parties that had transactions or balances with the Group during the years ended 30 June 2017 and 2016:

Name of related parties	**Relationship with the Company/Group**
Katsuya Yamamoto	Executive Director of the Company, and the Chairman
Maki Yamamoto	Close family member of the Chairman
Kai Yamamoto	Close family member of the Chairman
Kinya Yamamoto	Close family member of the Chairman
Kakuya Yamamoto	Close family member of the Chairman
Katsumitsu Yamamoto	Close family member of the Chairman and key management personnel
Hisae Yamamoto	Close family member of the Chairman
Satoshi Maeda	Key management personnel
Ichikura Co., Ltd.	Entity controlled by the Chairman

Other than those transactions and balances disclosed elsewhere in the consolidated financial statements, the following transactions were carried out with related parties during the years ended 30 June 2017 and 2016:

31 RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the years ended 30 June 2017 and 2016 and all of them are discontinued transactions:

	2017	2016
	¥million	*¥million*
Sale of a motor vehicle to:		
– Maki Yamamoto	**—**	1
Interest income received from:		
– Katsuya Yamamoto	**—**	14
Rental income received from:		
– Katsumitsu Yamamoto	**1**	1

All of the above transactions with related parties were conducted in the ordinary course of the business of the Group based on the terms mutually agreed between the relevant parties.

(b) Amount due to a related party

	2017	2016
	¥million	*¥million*
Amount due to a related party:		
– Satoshi Maeda	**—**	1

Amount due to a related party as at 30 June 2016 was unsecured, non-interest bearing and repayable on demand.

(c) 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:

	2017	2016
	¥million	*¥million*
Salaries and other short-term employee benefits	**212**	190

32 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF OUR COMPANY

(a) Statement of financial position of the Company

	Note	2017 ¥million	2016 ¥million
Assets			
Non-current asset			
Investments in subsidiaries		**11,968**	11,968
Current asset			
Prepayments and other receivables		**2**	—
Cash and cash equivalents		**2,077**	76
Total assets		**14,047**	12,044
Liabilities			
Total liabilities		**—**	—
Net assets		**14,047**	12,044
Equity			
Share capital		**20,423**	11,968
Reserves	(b)	**(6,376)**	76
Total equity		**14,047**	12,044

The statement of financial position of the Company was approved by the Company's Board of Directors on 20 September 2017 and was signed on its behalf.

Katsuya Yamamoto
Director

Yutaka Kagawa
Director

32 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

(b) Reserve movement of the Company

	Note	Retained earnings ¥million	Capital reserve ¥million	Total ¥million
At 1 July 2015		—	—	—
Profit for the year		4,816	—	4,816
Dividend paid	12	(4,740)	—	(4,740)
At 30 June 2016		76	—	76
At 1 July 2016		**76**	**—**	**76**
Loss for the year		**(45)**	**—**	**(45)**
Bonus issue		**—**	**(6,407)**	**(6,407)**
At 30 June 2017		**31**	**(6,407)**	**(6,376)**

33 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HONG KONG LISTING RULES)

The remuneration of every director and the chief executive is set out below:

For the year ended 30 June 2017

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertakings						
Name	Fees ¥million	Salary ¥million	Discretionary bonuses ¥million	Other benefits ¥million	Employer's contribution to pension scheme ¥million	Equity-settled share-based compensation ¥million	Total ¥million
Executive directors:							
Katsuya Yamamoto (Chairman and Chief executive)	102	—	—	—	—	—	102
Fumihide Hamada (Note (i))	—	8	—	—	—	—	8
Yutaka Kagawa (Note (i))	—	9	—	—	—	—	9
Toshiro Oe (Note (i))	—	7	—	—	—	—	7
Independent non-executive directors:							
Mitsuru Ishi (Note (ii))	—	—	—	—	—	—	—
Yuji Matsuzaki (Note (ii))	—	—	—	—	—	—	—
Takamasa Kawasaki (Note (ii))	1	—	—	—	—	—	1
	103	24	—	—	—	—	127

33 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HONG KONG LISTING RULES) *(continued)*

For the year ended 30 June 2016

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertakings						
Name	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Equity-settled share-based compensation	Total
	¥million	*¥million*	*¥million*	*¥million*	*¥million*	*¥million*	*¥million*
Executive directors:							
Katsuya Yamamoto							
(Chairman and Chief executive)	110	—	—	—	—	—	110
Fumihide Hamada	—	8	—	—	—	—	8
Yutaka Kagawa	—	8	—	—	—	—	8
Toshiro Oe	—	9	—	—	—	—	9
Independent non-executive directors:							
Mitsuru Ishi	—	—	—	—	—	—	—
Yuji Matsuzaki	—	—	—	—	—	—	—
Takamasa Kawasaki	—	—	—	—	—	—	—
	110	25	—	—	—	—	135

Notes:

(i) Mr. Fumihide Hamada, Mr. Yutaka Kagawa and Mr. Toshiro Oe were re-designated as executive directors effective from 27 April 2016. They are also employees of the Group and the Group paid employees emoluments to them in their capacity as employees.

(ii) Mr. Mitsuru Ishi, Mr. Yuji Matsuzaki and Mr. Takamasa Kawasaki were appointed as independent non-executive directors effective from 10 April 2017.

(iii) The remuneration shown above included remuneration received from the Group by the directors in their capacity as employees of the subsidiaries during the year ended 30 June 2017 (2016: Nil).

(iv) No remunerations were paid or receivable in respect of accepting office as directors during the year ended 30 June 2017 (2016: Nil).

(v) No directors waived any emoluments during the year ended 30 June 2017 (2016: Nil).

33 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HONG KONG LISTING RULES) *(continued)*

(a) Directors' retirement benefits

The retirement benefits receivable by Mr. Katsuya Yamamoto and Mr. Katsumitsu Yamamoto as at 30 June 2017 by a defined benefit pension plan operated by the Group in respect of their services as directors of the Company and its subsidiaries is approximately ¥772 million (2016: ¥979 million) and approximately ¥72 million (2016: ¥75 million) respectively. No other retirement benefits were paid to or receivable by Mr. Katsuya Yamamoto and Mr. Katsumitsu Yamamoto in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2016: same).

(b) Directors' termination benefits

During the year ended 30 June 2017, there was no board resolution to early termination of the directors' appointment in office (2016: Nil).

(c) Consideration provided to third parties for making available of directors' services

No consideration was provided to third parties for making available of directors' services during the year ended 30 June 2017 (2016: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 30 June 2017, there was no arrangement in relation to loans, quasi-loans and other dealings between the Group and the directors (2016: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: Nil).

34 SUBSEQUENT EVENTS

On 6 July 2017, an indirectly wholly-owned subsidiary of the Company entered into an acquisition agreement with Orix Corporation to purchase all the beneficiary rights associated with a parcel of land with a six-storey building erected on the land in Nagasaki for a consideration of ¥1,477,360,000, including tax.

35 SUBSIDIARIES

The following is a list of the principal subsidiaries as at 30 June 2017 and 2016:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital and debt securities	Proportion of ordinary shares directly held by the Company	
				2017	2016
Directly held:					
K's Holdings Co., Ltd	Japan	Investment holding company in Japan	¥8 million	**100%**	100%
Indirectly held:					
K's Property Co., Ltd	Japan	Real estate investment in Japan	¥10 million	**100%**	100%
Okura Co., Ltd	Japan	Pachinko and Pachislot hall operation in Japan	¥50 million	**100%**	100%
Okura Nishinihon Co., Ltd	Japan	Pachinko and Pachislot hall operation in Japan	¥10 million	**100%**	100%
Okura Kyushu Co., Ltd	Japan	Pachinko and Pachislot hall operation in Japan	¥10 million	**100%**	100%
Aratoru Co., Ltd	Japan	Business consulting in Japan	¥5 million	**100%**	100%
Adward Co., Ltd	Japan	Printing services in Japan	¥5 million	**100%**	100%

Financial Summary

The following table summarises the results of our Group for each of the four years ended 30 June 2014, 2015, 2016 and 2017.

The summary of the results of the Group of each of the three years ended 30 June 2014, 2015 and 2016 have been extracted from the Prospectus. No financial statements of the Group for the year ended 30 June 2013 have been published.

	As at 30 June			
	2017	2016	2015	2014
	¥million	*¥million*	*¥million*	*¥million*
Gross pay-ins	**37,740**	42,988	51,001	57,827
Gross pay-outs	**(28,967)**	(33,311)	(40,209)	(45,324)
Revenue from pachinko and pachislot business	**8,773**	9,677	10,792	12,503
Other revenue	**465**	421	453	487
Revenue	**9,238**	10,098	11,245	12,990
Hall operating expenses	**(8,278)**	(8,129)	(9,486)	(11,477)
Administrative and other operating expenses	**(1,371)**	(1,405)	(1,385)	(923)
Profit before income tax	**437**	1,028	1,563	1,691
Profit attributable to the shareholders of the Company	**269**	604	562	1,020
Current assets	**5,001**	2,740	7,845	7,454
Current liabilities	**2,357**	2,423	3,642	3,554
Net current assets	**2,644**	317	4,203	3,900
Total assets	**21,637**	16,854	22,957	22,562
Total assets less current liabilities	**19,280**	14,431	19,315	19,008

Particulars of Investment Properties

Location	Existing use	Tenure	Attributable interest of our Group
K's Town, 818-4 and other tracts, Aza-Iwasaki, Motomurago, Togitsucho, Nishisonogi-gun, Nagasaki-ken, Japan ケイズタウン 長崎県西彼杵郡 時津町元村郷字 岩崎818番4外	Retail	Freehold	100%
Former Dino, 863-6 and other tracts, Aza-Tsugiishi, Motomurago, Togitsucho, Nishisonogi-gun, Nagasaki-ken, Japan 旧ディノ 長崎県西彼杵郡 時津町元村郷字 継石863番6外	Retail and parking	Freehold	100%
Tonoo 100-Yen Parking, 84-1 and other tracts, Tonoocho, Sasebo-shi, Nagasaki-ken, Japan とのお100円パーキング 長崎県佐世保市 戸尾町84番1外	Parking	Freehold	100%

Particulars of Investment Properties

Location	Existing use	Tenure	Attributable interest of our Group
Direx (Mikatsuki), 2371 and other tracts, Aza-Otera, Chokanda, Mikatsukicho, Ogi-shi, Saga-ken, Japan ダイレックス （三日月）佐賀県小 城市三日月町長神 田字大寺2371外	Retail	Partly freehold and partly leasehold	100%
Apple Park Sumiyoshi, 1525, Sumiyoshimachi, Nagasaki-shi, Nagasaki-ken, Japan アップルパーク 住吉 長崎県長崎市 住吉町1525番	Parking	Freehold	100%