

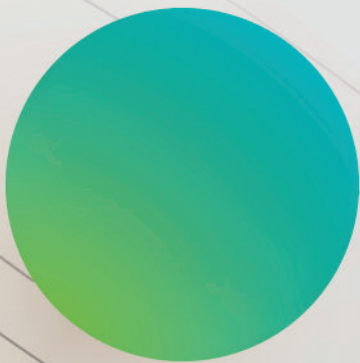
OKURA HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

Stock Code: 1655

INTERIM REPORT

2017/2018



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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 Otofujii
Mr. Masayuki Sakata
Mr. Fumihiko Tanaka
Mr. Shuntaro Honda
Mr. Masaki Oka (resigned in January 2018)

AUTHORISED REPRESENTATIVES

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

HEADQUARTERS 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, 8 Queen's Road Central
Hong Kong

COMPLIANCE ADVISER

Oceanwide Capital Limited
25/F, Two Chinachem Central
26 Des Voeux Road
Hong Kong

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

1655

COMPANY'S WEBSITE

www.okura-holdings.com

Management Discussion and Analysis

INDUSTRY AND BUSINESS REVIEW

Okura Holdings Limited (the “Company”, together with its subsidiaries (the “Group”)) is a pachinko hall operator in Japan, operating mainly pachinko and pachislot machines. As at 31 December 2017, we operated 19 pachinko halls under the trading names “Big Apple.”, “K’s Plaza”, “Big Apple. YOUPARK” and “Monaco”.

With the continuous competition from other forms of entertainment in Japan, such as horse racing, web-based gaming and online social gaming in line with other major players in the market, our Group’s revenue slightly decreased from ¥4,540 million for the six months ended 31 December 2016 to ¥4,514 million for the six months ended 31 December 2017. Such decrease in revenue is in line with the trend in the pachinko industry mentioned in the independent market research report relating to the latest pachinko industry movement issued by Yano Research Institute in February 2018 (the “Yano Report”), a private market research and consulting firm independent of our Company. For details of Yano Research Institute, please refer to “Industry Overview” of the prospectus of our Company dated 28 April 2017 (the “Prospectus”).

To cope with our business strategy to increase our market share, on 23 December 2016, our Group had commenced operation of a new pachinko hall, Big Apple. Shunan, in Yamaguchi, Chugoku region. As stated in the Yano Report, despite the difficult market environment, bigger market players expanded their market shares through acquisitions of other pachinko halls.

As disclosed in the Prospectus, in February 2017, our Group also acquired a property at a prime location in Nagasaki to establish a new flagship pachinko hall. It commenced operations under the name of Big Apple. Dejima in September 2017. Equipped with 666 pachinko and pachislot machines (184 high playing cost pachinko machines, 160 low playing cost pachinko machines, and 322 high playing cost pachislot machines) and parking spaces, the Nagasaki hall is one of the largest pachinko halls in the centre of Nagasaki, where our headquarters is located.

On 6 July 2017, an indirectly wholly-owned subsidiary of our Company entered into an acquisition agreement with Orix Corporation (“Orix”) to purchase all the beneficiary rights associated with a parcel of land with a six-storey building erected on the land in Nagasaki (the “Ohato Property”) for a consideration of ¥1,477,360,000, including tax, for our operation of one of our pachinko halls and car parking lots, while we had been leasing such building for our operation of such pachinko halls and car parking lots prior to completion of the acquisition. Completion of this acquisition took place on 9 August 2017. For further details of the acquisition of the Ohato Property, please refer to the Company’s announcement dated 6 July 2017 (the “Acquisition Announcement”).

Management Discussion and Analysis

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.

On 1 February 2018, the National Public Safety of Japan issued the “Regulations to Amend Partially Regulations on the Entertainment and Amusement Trades Rationalising Act and Regulations on Certifying Machines and Conducting Type Test on Machines” (the “2018 Regulations”) which further limits the pay-out ability of both pachinko and pachislot machines. 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 going forward. 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. The Yano Report expects such negative impact on the financial performance of pachinko operators will last for three consecutive years between February 2018 and January 2021.

Pachinko hall operators in Japan had, over the past 10 years, installed a higher proportion of low playing costs machines given the general popularity of such machines among customers. In light of the 2018 Regulations, 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 installed a higher proportion of high playing costs machines in our new hall, Big Apple. Dejima in Nagasaki to enhance customer traffic in the long run. We aim to maintain our high market share in the market by adjusting the ratio of high playing cost machines and low playing cost machines from time to time depending on the market conditions.

Furthermore, in light of the continued market contraction, our management has, in line with our multi-strategy approvals 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 with 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 our business strategies in terms of regional spread to ensure our Group can capture market opportunities in the most effective and profitable manner.

Management Discussion and Analysis

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, the implementation of the 2018 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 operating less than 15 halls (the “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 operating 15 to 19 halls and large-sized pachinko hall operators operating 20 halls or more 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 of our shares (the “Shares”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 15 May 2017 (the “Listing Date”), 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 of our Company (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.

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 six months ended 31 December 2017, revenue from pachinko and pachislot business remained the majority source of income for our Company, accounting for 94.7% of our total revenue (for the six months ended 31 December 2016: 94.9%). Our total revenue decreased by 0.6% from ¥4,540 million for the six months ended 31 December 2016 to ¥4,514 million for the six months ended 31 December 2017. This decrease was mainly a result of the decrease in 0.8% in revenue generated from our overall pachinko and pachislot business, from ¥4,309 million for the six months ended 31 December 2016 to ¥4,275 million for the six months ended 31 December 2017. The decrease in revenue from pachinko and pachislot business was primarily due to the following factors: (i) the temporarily closing of three pachinko halls for one month for renovation, (ii) the machines of lower gaming element that were newly introduced after October 2017 were not that popular among customers, and (iii) as a result of new regulations, the ratio of machines which have higher profitability has been lowered.

We derived income from vending machines installed at our halls provided by vending machine operators under service agreements. Drinks and food are sold in the vending machines and we share a certain portion of income generated by such sale in the vending machines. Our vending machine income increased by 1.4% from ¥70 million for the six months ended 31 December 2016 to ¥71 million for the six months ended 31 December 2017, mainly due to the increase in customer traffic from the commencement of operation of the two new pachinko halls, namely Big Apple. Shunan and Big Apple. Dejima in December 2016 and September 2017, respectively.

Management Discussion and Analysis

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 by 4.3% from ¥161 million for the six months ended 31 December 2016 to ¥168 million for the six months ended 31 December 2017, due to the increase in rental income from the leasing of certain areas of our Group's property as car parks, convenience store and internet café.

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 an increase of ¥385 million, or 2.1%, from ¥18,608 million for the six months ended 31 December 2016 to ¥18,993 million for the six months ended 31 December 2017, which was mainly due to the commencement of operation of new pachinko halls, namely Big Apple. Shunan and Big Apple. Dejima in December 2016 and September 2017, respectively.

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 an increase by 2.9% of ¥419 million from ¥14,299 million for the six months ended 31 December 2016 to ¥14,718 million for the six months ended 31 December 2017 as a result of the commencement of operation of the new halls.

Revenue margin

The level of revenue margin is dependent on the combination of the pay-out ratio of the pachinko and pachislot machines, the G-prize mark-up imposed and the mix of pachinko and pachislot machines with different jackpot probability in our halls, and as a result of the resultant changes in customer behavior (i.e. rounds of play and machine utilisation). 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 decreased slightly from 23.2% for the six months ended 31 December 2016 to 22.5% for the six months ended 31 December 2017 due to the increase in the pay-out ratio of some machines to attract higher customer traffic.

Other income

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

Management Discussion and Analysis

Other income increased by 21% from ¥352 million for the six months ended 31 December 2016 to ¥426 million for the six months ended 31 December 2017, mainly due to the increase in income from scrap sales of used pachinko machines.

Other gains, net

Our other gains, net amounted to ¥440 million for the six months ended 31 December 2017, which represented an increase of ¥350 million, or 388.9%, from ¥90 million for the six months ended 31 December 2016. The increase in other gains, net for the six months ended 31 December 2017 was mainly due to the gains on disposal of assets held under finance lease of ¥531 million since our Group cancelled the lease of the Ohato Property with Orix and acquired the Ohato Property from Orix in August 2017 as aforementioned, which was partially offset by the losses on disposal of property, plant and equipment and intangible assets, net of ¥(124) million.

Hall operating expenses

Hall operating expenses increased by ¥458 million, or 10.4%, from ¥4,423 million for the six months ended 31 December 2016 to ¥4,881 million for the six months ended 31 December 2017. This was primarily due to the increase in operating expenses for the six months ended 31 December 2017, such as the costs of opening of Big Apple. Dejima in September 2017, the increase in expenses of pachinko and pachilot machines in particular as a result of the purchase of machines for Big Apple. Dejima which commenced operations in September 2017, the renovation cost of three pachinko halls and the off-setting effect of the reversal of impairment loss of property, plant and equipment which amounted to ¥169 million.

Administrative and other operating expenses

Administrative and other operating expenses decreased by ¥458 million, or 65.0%, from ¥705 million for the six months ended 31 December 2016 to ¥247 million for the six months ended 31 December 2017. The decrease was primarily due to the reversal of provision for long term benefit obligations for the Yamamoto Family which amounted to ¥302 million for the six months ended 31 December 2017 as a result of plan amendment in December 2017, and the absence of listing expenses for the six months ended 31 December 2017, which listing expenses amounted to ¥166 million for the six months ended 31 December 2016.

Profit before income tax

The Group recorded profit before income tax of ¥180 million for the six months ended 31 December 2017, as compared with loss before income tax of ¥(257) million for the six months ended 31 December 2016. The record of profit before income tax for the six months ended 31 December 2017 was mainly attributable to the (i) gains on disposal of assets held under finance lease of ¥531 million, (ii) the decrease in the administrative and other operating expenses as for reasons set out above, and (iii) the reversal of impairment loss of property, plant and equipment that amounted to ¥169 million.

Management Discussion and Analysis

Profit for the period attributable to shareholders of the Company

The Group recorded profit for the period attributable to shareholders of the Company of ¥109 million for the six months ended 31 December 2017, as compared with a loss for the period attributable to shareholders of the Company of ¥(157) million for the six months ended 31 December 2016. The record of profit for the six months ended 31 December 2017 was mainly due to (i) gains on disposal of assets held under finance lease of ¥531 million, (ii) the decrease in the administrative and other operating expenses as for reasons set out above, and (iii) the reversal of impairment loss of property, plant and equipment that amounted to ¥169 million.

ANALYSIS OF FINANCIAL POSITION

LIQUIDITY AND FINANCIAL RESOURCES

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

Investment policy

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

- investments in low liquidity products being avoided;
- investments should be yield-earning in nature and the primary objectives of investment activities is to diversify our investment and control their risk;
- investments should be undertaken only in situations where we have surplus cash not required for short or medium term of use; and
- investments should be undertaken only to the extent that adequate liquid capital is maintained.

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

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

Management Discussion and Analysis

Capital structure

As at 31 December 2017, our Company had total borrowings of ¥6,236 million (30 June 2017: ¥5,220 million), of which 99.0% represented bank borrowings and 1.0% represented bonds.

Cash and cash equivalents

As at 31 December 2017, our Company had cash and cash equivalents of ¥3,006 million (30 June 2017: ¥3,272 million).

Borrowings

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

	As at 31 December 2017 (unaudited)		As at 30 June 2017 (audited)	
	¥ million	%	¥ million	%
Within 1 year	975	15.6%	827	15.8%
Between 1 year and 2 years	877	14.1%	781	15.0%
Between 2 years and 5 years	2,302	36.9%	1,984	38.0%
Over 5 years	2,082	33.4%	1,628	31.2%
	6,236	100.0%	5,220	100.0%

As illustrated above, 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 opening of Big Apple. Dejima hall in Nagasaki, which are mostly long term loans.

Bonds

The value of outstanding bonds issued by our Group as at 31 December 2017 amounted to ¥60 million (30 June 2017: ¥90 million). The bond was issued in March 2011 and July 2013. No new debentures were issued during the six months ended 31 December 2017.

Pledged assets

As at 31 December 2017, our Group pledged assets, including property, plant and equipment, investment properties, and securities, in the sum of ¥8,324 million (30 June 2017: ¥6,868 million) to secure certain general banking facilities of our Group. The increase in pledged assets was primarily attributable to the increase in secured bank borrowing for the acquisition of the Ohato Property.

Management Discussion and Analysis

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 76.6% as at 31 December 2017 (30 June 2017: 81.8%). The decrease of 5.2% was mainly attributable to the derecognition of finance lease obligation related to the Ohato Property.

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 six months ended 31 December 2017, 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 31 December 2017, our Directors considers 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 six months ended 31 December 2017, 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 a lessor	
	As at 31 December 2017 ¥ million	As at 30 June 2017 ¥ million	As at 31 December 2017 ¥ million	As at 30 June 2017 ¥ million
No later than 1 year	932	1,081	65	65
Later than one year and no later than five years	17	17	—	—
Over five years	36	38	—	—

As at 31 December 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 ¥2 million (30 June 2017: ¥43 million).

Management Discussion and Analysis

Capital expenditures

Our capital expenditures mainly consisted of expenditures on acquisitions of property, plant and equipment for our operations. Our Group incurred capital expenditures of approximately ¥2,260 million for the six months ended 31 December 2017 (six months ended 31 December 2016: ¥554 million), majority of which came from freehold land, buildings, leasehold improvements and equipment and tools for our pachinko halls. The increased capital expenditure was mainly incurred for acquisition of the Ohato property completed in August 2017.

Contingent liabilities

As at 31 December 2017, our Group did not have any material contingent liabilities or guarantees.

SIGNIFICANT INVESTMENTS

As at 31 December 2017, our Group held significant investments primarily in investment properties of ¥2,321 million, which represented buildings and carparks situated in Japan and rented out under operating lease, and financial assets of ¥215 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 six months ended 31 December 2017.

In relation to our financial assets, our Group recorded (i) a loss of ¥4 million for the changes from financial assets at fair value through profit or loss, and (ii) a gain of ¥1 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 six months ended 31 December 2017. Although changes in market conditions will continue to result in fair value gains or losses from financial assets, our Directors are of the view that the investment in financial assets will help to increase the average yield earned from the excess funds from our business overall. To the best of their knowledge and as at the date of this report, our Directors do not foresee any default or any impairment to be made to any financial assets held by our Group.

Save as disclosed in this report, our Group did not conduct any significant investments during the six months ended 31 December 2017.

MATERIAL ACQUISITIONS AND/OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

As disclosed in the Acquisition Announcement, an indirectly wholly-owned subsidiary of our Company entered into an acquisition agreement with Orix pursuant to which our Company acquired all the beneficiary rights associated with the land and the building erected on the land situated at Lot 14-41, Motofunamachi, Nagasaki City, Japan, where our K's Plaza Ohato hall is situated at, for a consideration of ¥1,477,360,000. The transfer of ownership was completed on 9 August 2017. For details of the transaction, please refer to the Acquisition Announcement.

Management Discussion and Analysis

Save as disclosed in this report, during the six months ended 31 December 2017, our Group did not conduct any material acquisitions or disposals of subsidiaries, associates and joint ventures.

HUMAN RESOURCES

Employees and remuneration policies

As at 31 December 2017, our Group had 555 employees, almost all of whom were based in Japan, and of whom 497 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 services. Upon appointment of every three years, as required by the Public Safety Commission in Japan, 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 our Directors. Our total staff costs for the six months ended 31 December 2017 amounted to ¥509 million (six months ended 31 December 2016: ¥854 million), which accounted for approximately 10.0% (six months ended 31 December 2016: 16.7%) of the total operating expenses, including the remuneration of our Directors.

Our Company's policy concerning the remuneration of our Directors and employees is that the amount of remuneration is determined on the basis of the relevant Director's or employee's experience, responsibility, performance and the time devoted to our business.

Apart from basic remuneration, share options may be granted to individual Directors and employees under the share option scheme (the "Share Option Scheme") adopted by our Company on 10 April 2017, by reference to their performance.

The share option scheme

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

The purpose of the Share Option Scheme is to provide the 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.

Management Discussion and Analysis

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 (the "Share Offer"), 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 million. The following table sets forth the intended utilisation of such net proceeds as disclosed in the Prospectus and the Company's allotment results announcement dated 12 May 2017 (the "Allotment Results 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
	<u>74.0</u>	<u>100.0</u>

For details, please refer to the section headed "Future Plans and Use of Proceeds" in the Prospectus and Allotment Results Announcement. As at 31 December 2017, the net proceeds from the Share Offer had been and will be utilised in accordance with the related disclosure in the Prospectus and the Allotment Results Announcement. In particular, from the Listing Date up to 31 December 2017, approximately HK\$10.36 million of the net proceeds had been applied to renovate, procure and enhance the facilities for four pachinko halls, namely Big Apple, Ofuna, K's Plaza Ohato, Big Apple, Shunan and K's Plaza Ohashi.

EVENTS AFTER THE REPORTING PERIOD

As of the date of this report, our Company was considering the possibility of disposing the property where one of our pachinko halls, namely Big Apple Nagasaki, is situated at, to an independent third party and therefore such pachinko hall ceased operation on 28 February 2018. No legally binding agreement in relation to such disposal has been entered into with any parties as at the date of this report. If the disposal materializes, our Company will comply with the relevant requirements under the Listing Rules as and when appropriate. Save as the aforesaid, there is no significant events after the reporting period and up to the date of this report.

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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 31 December 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 31 December 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 31 December 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.

Other Information

CORPORATE GOVERNANCE

Our Directors considered that the Company has applied the principles of the Corporate Governance Code (the “CG Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and complied with the code provisions, where applicable, during the six months ended 31 December 2017 as set out in the CG Code, except for the following deviation:

Code provision A.2.1

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. For 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, our Directors (including our independent non-executive Directors) consider that it is suitable for Mr. Katsuya Yamamoto to hold both of the positions of chief executive officer and the chairman of the Board, and the present arrangements are beneficial to and in the interests of our Company and our shareholders as a whole.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the required standards for securities transactions by our Directors. Specific enquiries have been made to all our Directors and all Directors have confirmed that they have complied with the required standards, where applicable, set out in the Model Code throughout the six months ended 31 December 2017.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENT

Our Company established an audit committee in compliance with Rule 3.21 of the Listing Rules on 10 April 2017. The audit committee of the Company (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 Audit Committee has reviewed the unaudited condensed consolidated interim financial information and the interim results for the six months ended 31 December 2017 and discussed the financial related matters with the management. The unaudited condensed consolidated interim financial information of our Group for the six months ended 31 December 2017 has been reviewed by our Company’s auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

Other Information

In addition, the risk management committee of the Company (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 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. 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 Otofujii, Mr. Masayuki Sakata, Mr. Fumihiko Tanaka, Mr. Shuntaro Honda, and Mr. Masaki Oka⁽²⁾, and is chaired by our executive Director, Mr. Fumihide Hamada.

Notes:

- (1) Mr. Shota Miyano was appointed as a member of the Risk Management Committee in July 2017.
- (2) Mr. Masaki Oka resigned as a member of the Risk Management Committee in January 2018.

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. The primary corporate contact person at our Company is Mr. Yutaka Kagawa, Head of Corporate Planning Division.

INTERIM DIVIDEND

The Board does not recommend declaring any dividend for the six months ended 31 December 2017.

Report on Review of Interim Financial Information

TO THE BOARD OF DIRECTORS OF OKURA HOLDINGS LIMITED

(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 20 to 48, which comprises the interim condensed consolidated statement of financial position of Okura Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2017 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof, and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" and International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" and International Accounting Standard 34 "Interim Financial Reporting".

Report on Review of Interim Financial Information

OTHER MATTER

The comparative information for the interim condensed consolidated statement of financial position is based on the audited financial statements as at 30 June 2017. The comparative information for the interim condensed consolidated statements of comprehensive income, changes in equity and cash flows, and related explanatory notes, for the period ended 31 December 2016 has not been audited or reviewed.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 26 February 2018

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2017

		(Unaudited)	
		Six months ended	
		31 December	
	Note	2017 ¥million	2016 ¥million
Revenue	6	4,514	4,540
Other income	8	426	352
Other gains, net	8	440	90
Hall operating expenses	9	(4,881)	(4,423)
Administrative and other operating expenses	9	(247)	(705)
Operating profit/(loss)		252	(146)
Finance income		10	2
Finance costs		(82)	(113)
Finance costs, net	10	(72)	(111)
Profit/(loss) before income tax		180	(257)
Income tax (expense)/credit	11	(71)	100
Profit/(loss) for the period attributable to shareholders of the Company		109	(157)
Earnings/(loss) per share attributable to shareholders of the Company for the period (expressed in ¥ per share)			
Basic	12	0.218	(0.419)
Diluted	12	0.218	(0.419)

The notes on pages 28 to 48 are an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2017

	(Unaudited) Six months ended 31 December	
Note	2017 ¥million	2016 ¥million
Profit/(loss) for the period	109	(157)
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Change in fair value of equity investments at fair value through other comprehensive income	<u>1</u>	<u>7</u>
Total comprehensive income/(loss) for the period attributable to shareholders of the Company	<u>110</u>	<u>(150)</u>

The notes on pages 28 to 48 are an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Financial Position

As at 31 December 2017

	Note	(Unaudited) 31 December 2017 ¥million	(Audited) 30 June 2017 ¥million
Assets			
Non-current assets			
Property, plant and equipment	14	11,294	11,320
Investment properties	14	2,321	2,345
Intangible assets	14	796	805
Prepayments, deposits and other receivables		1,093	1,377
Financial assets at fair value through other comprehensive income		44	43
Financial assets at fair value through profit or loss		—	49
Deferred income tax assets		675	697
		16,223	16,636
Current assets			
Inventories		91	193
Prepayments, deposits and other receivables		1,194	1,131
Financial assets at fair value through profit or loss		171	177
Income tax recoverable		4	128
Short-term bank deposits		100	100
Cash and cash equivalents		3,006	3,272
		4,566	5,001
Assets classified as held for sale	7	428	—
		4,994	5,001
Total assets		21,217	21,637
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	15	20,349	20,349
Reserves	15	(10,011)	(10,121)
Total equity		10,338	10,228

The notes on pages 28 to 48 are an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Financial Position

As at 31 December 2017

		(Unaudited) 31 December 2017 ¥million	(Audited) 30 June 2017 ¥million
	<i>Note</i>		
Liabilities			
Non-current liabilities			
Borrowings	18	5,261	4,393
Obligations under finance leases	19	1,384	2,913
Accruals, provisions and other payables		427	444
Employee benefit obligations	17	575	878
Deferred income tax liabilities		418	424
		8,065	9,052
Current liabilities			
Borrowings	18	975	827
Trade payables	16	31	23
Accruals, provisions and other payables		1,451	1,232
Obligations under finance leases	19	299	230
Current income tax liabilities		58	45
		2,814	2,357
Total liabilities		10,879	11,409
Total equity and liabilities		21,217	21,637

The condensed consolidated interim financial information on pages 28 to 48 were approved by the Company's Board of Directors on 26 February and were signed on its behalf.

Katsuya Yamamoto
Director

Yukata Kagawa
Director

The notes on pages 28 to 48 are an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2017

	Attributable to shareholders of the Company (Unaudited)					
	Share capital (Note 15) ¥million	Capital reserve (Note 15(a)) ¥million	Legal reserve (Note 15(b)) ¥million	Investment revaluation reserve (Note 15(c)) ¥million	Retained earnings ¥million	Total ¥million
Balance at 1 July 2016	11,968	(6,430)	40	11	2,241	7,830
Loss for the period	—	—	—	—	(157)	(157)
Other comprehensive loss						
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	—	—	—	7	—	7
Total comprehensive income/(loss)	—	—	—	7	(157)	(150)
Balance at 31 December 2016	<u>11,968</u>	<u>(6,430)</u>	<u>40</u>	<u>18</u>	<u>2,084</u>	<u>7,680</u>

The notes on pages 28 to 48 are an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2017

	Attributable to shareholders of the Company (Unaudited)					
	Share capital (Note 15) ¥million	Capital reserve (Note 15(a)) ¥million	Legal reserve (Note 15(b)) ¥million	Investment revaluation reserve (Note 15(c)) ¥million	Retained earnings ¥million	Total ¥million
Balance at 1 July 2017	20,349	(12,837)	40	16	2,660	10,228
Profit for the period	—	—	—	—	109	109
Other comprehensive income						
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	—	—	—	1	—	1
Total comprehensive income	—	—	—	1	109	110
Balance at 31 December 2017	20,349	(12,837)	40	17	2,769	10,338

The notes on pages 28 to 48 are an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2017

		(Unaudited)	
		Six months ended	
		31 December	
	Note	2017 ¥million	2016 ¥million
Cash flows from operating activities			
Cash generated from operations		1,001	521
Income tax refunded		83	350
Interest received		10	2
Interest paid		(82)	(113)
		<u>1,012</u>	<u>760</u>
Cash flows from investing activities			
Proceeds from disposal of financial assets at fair value through profit or loss		—	3
Proceeds from disposal of financial assets at fair value through other comprehensive income		—	58
Purchase of property, plant and equipment	14	(2,259)	(553)
Purchase of investment properties	14	—	(1)
Purchase of intangible assets	14	(1)	—
Proceeds from disposal of property, plant and equipment and intangible assets		4	—
		<u>(2,256)</u>	<u>(493)</u>

The notes on pages 28 to 48 are an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2017

	(Unaudited)	
	Six months ended	
	31 December	
Note	2017	2016
	¥million	¥million
Cash flows from financing activities		
Proceeds from borrowings	1,400	100
Repayment of borrowings	(384)	(685)
Payment of listing expenses (equity portion)	—	(31)
Repayment of obligations under finance leases	(38)	(93)
	978	(709)
Net decrease in cash and cash equivalents	(266)	(442)
Cash and cash equivalents at beginning of the period	3,272	1,354
	3,006	912
Cash and cash equivalents at end of the period	3,006	912

The notes on pages 28 to 48 are an integral part of this interim condensed consolidated financial information.

Notes to the Condensed Consolidated Interim Financial Information

1 GENERAL INFORMATION

Okura Holdings Limited (the “Company”) was established as a limited company in Hong Kong under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) on 16 June 2015. The address of the Company’s registered office is Level 11, Admiralty Centre Tower II, 18 Harcourt Road, Admiralty, Hong Kong.

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

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

The condensed consolidated interim financial information are presented in millions of Japanese Yen (“¥”), unless otherwise stated.

This condensed consolidated interim financial information was approved for issue by the board of directors (the “Board”) of the Company on 26 February 2018.

This condensed consolidated interim financial information has not been audited.

The defined terms used in this condensed consolidated interim financial information have the same meaning as those set out in the Group’s annual report 2017 published on 20 September 2017 (the “Annual Report 2017”), unless otherwise stated.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 31 December 2017 has been prepared in accordance with International Accounting Standard (“IAS”) 34, ‘Interim Financial Reporting’ issued by the International Accounting Standards Board (“IASB”) and Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim Financial Reporting’ issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Hong Kong Financial Reporting Standards (“HKFRS”) is substantially consistent with International Financial Reporting Standards (“IFRS”) and the accounting policy selections that the Group has made in preparing the condensed consolidated interim financial information are such that the Group is able to comply with both IFRS and HKFRS. Reference to IFRS, IAS and Interpretations developed by the IFRS Interpretations Committee (“IFRIC”) in the condensed consolidated interim financial information should be read as referring to the equivalent HKFRS, HKAS and Hong Kong (IFRIC) Interpretation (“HK(IFRIC)-Int”) as the case may be. Accordingly, there are no differences of accounting practice between IFRS and HKFRS affecting the condensed consolidated interim financial information.

The condensed consolidated interim financial information do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2017, which have been prepared in accordance with IFRS and HKFRS. Income tax expenses in the interim periods are accrued using the tax rate that would be applicable to expected total annualised profit or loss.

Notes to the Condensed Consolidated Interim Financial Information

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2017, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to IFRSs effective for the financial year ending 30 June 2018.

(a) The following amendments to standards are mandatory for the first time for the financial year beginning 1 July 2017:

IAS 7 (Amendment)	Disclosure initiative
IAS 12 (Amendment)	Recognition of deferred tax assets for unrealised losses
IFRS 12 (Amendment)	Disclosure of interest in other entities

The Group has adopted these amendments to existing standards and the adoption of these amendments to existing standards did not have significant impacts on the Group's results and financial position.

There are no other new standards or amendments to standards that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

(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 irrevocable 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.

Notes to the Condensed Consolidated Interim Financial Information

3 ACCOUNTING POLICIES *(continued)*

(b) New standards early adopted by the Group *(continued)*

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 six months ended 31 December 2017.

(c) Impact of standards issued but not yet applied by the Group

(i) IFRS 15 Revenue from contracts with customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The Group will adopt the new standard from 1 July 2018.

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. At this stage, the Group does not intend to adopt the standard before its effective date.

Notes to the Condensed Consolidated Interim Financial Information

3 ACCOUNTING POLICIES *(continued)*

(c) Impact of standards issued but not yet applied by the Group *(continued)*

(ii) IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the condensed consolidated statement of financial position, as 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.

The accounting for lessors will not significantly change.

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 ¥985 million (Note 20). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

(ii) IFRS 16 Leases *(continued)*

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 standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

Notes to the Condensed Consolidated Interim Financial Information

4 ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2017, with the exception of changes in estimates that are required in determining the provision for income taxes.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

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

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Annual Report 2017.

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

5.2 Liquidity risk

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

Notes to the Condensed Consolidated Interim Financial Information

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

5.3 Fair value estimation

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

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

	Level 1 ¥million	Level 2 ¥million	Level 3 ¥million	Total ¥million
As at 31 December 2017				
Assets				
Financial assets at fair value through profit or loss				
– Debt securities	—	171	—	171
Financial assets at fair value through other comprehensive income				
– Listed securities	40	—	—	40
– Unlisted securities	—	—	4	4
	40	171	4	215

Notes to the Condensed Consolidated Interim Financial Information

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

5.3 Fair value estimation *(continued)*

	Level 1 ¥million	Level 2 ¥million	Level 3 ¥million	Total ¥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
	<u>39</u>	<u>225</u>	<u>5</u>	<u>269</u>

There were no transfers between levels 1, 2 and 3 during the six months ended 31 December 2017 and during the year ended 30 June 2017.

5.4 Fair value measurements using significant unobservable inputs (Level 3)

	Financial assets at fair value through other comprehensive income ¥million	Financial assets at fair value through profit or loss ¥million	Total ¥million
Six months ended 31 December 2017			
Balance at 1 July 2017 (Audited)	4	1	5
Fair value loss on valuation (Unaudited)	—	(1)	(1)
Balance at 31 December 2017 (Unaudited)	<u>4</u>	<u>—</u>	<u>4</u>
Six months ended 31 December 2016			
Balance at 1 July 2016 (Audited)	5	4	9
Fair value loss on valuation (Unaudited)	(1)	(3)	(4)
Balance at 31 December 2016 (Unaudited)	<u>4</u>	<u>1</u>	<u>5</u>

Notes to the Condensed Consolidated Interim Financial Information

6 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	(Unaudited) Six months ended 31 December	
	2017 ¥million	2016 ¥million
Revenue		
Gross pay-ins	18,993	18,608
Less: gross pay-outs	(14,718)	(14,299)
	<hr/>	<hr/>
Revenue from pachinko and pachislot hall business	4,275	4,309
Vending machine income	71	70
Property rental	168	161
	<hr/>	<hr/>
	4,514	4,540
	<hr/> <hr/>	<hr/> <hr/>

(b) Segment information

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

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

Segment assets consist primarily of property, plant and equipment, investment properties, intangible assets, 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.

Notes to the Condensed Consolidated Interim Financial Information

6 REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Segment information *(continued)*

The segment information provided to the executive directors for the six months ended 31 December 2017 and 2016 are as follows:

	Six months ended 31 December 2017 (Unaudited)		
	Pachinko and pachislot hall operation ¥million	Property rental ¥million	Total ¥million
Segment revenue from external customers	4,346	168	4,514
Segment results	104	76	180
Profit before income tax			180
Income tax expense			(71)
Profit for the period			109
Other segment items			
Depreciation and amortisation	(354)	(24)	(378)
Finance income	10	—	10
Finance costs	(59)	(23)	(82)
Gain on disposal of assets held under finance lease	531	—	531
Reversal of impairment loss of property, plant and equipment	169	—	169
Capital expenditures	(2,260)	—	(2,260)

Notes to the Condensed Consolidated Interim Financial Information

6 REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Segment information *(continued)*

	Six months ended 31 December 2016 (Unaudited)		
	Pachinko and pachislot hall operation ¥million	Property rental ¥million	Total ¥million
Segment revenue from external customers	4,379	161	4,540
Segment results	(325)	68	(257)
Loss before income tax			(257)
Income tax credit			100
Loss for the period			<u>(157)</u>
Other segment items			
Depreciation and amortisation	(329)	(25)	(354)
Finance income	2	—	2
Finance costs	(89)	(24)	(113)
Capital expenditures	(553)	(1)	(554)

Notes to the Condensed Consolidated Interim Financial Information

6 REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Segment information *(continued)*

The segment assets as at 31 December 2017 and 30 June 2017 are as follows:

	Pachinko and pachislot hall operation ¥million	Property rental ¥million	Total ¥million
As at 31 December 2017 (Unaudited)			
Segment assets	14,865	2,459	17,324
Unallocated assets			3,003
Financial assets at fair value through profit or loss			171
Financial assets at fair value through other comprehensive income			44
Deferred income tax assets			675
Total assets			<u>21,217</u>
As at 30 June 2017 (Audited)			
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			<u>21,637</u>

There was no single external customer contributed more than 10% revenue to the Group's revenue for the six months ended 31 December 2017 and 2016.

The Group is domiciled in Japan and majority of the non-current assets of the Group as at 31 December 2017 and 30 June 2017 are located in Japan.

Notes to the Condensed Consolidated Interim Financial Information

7 ASSETS CLASSIFIED AS HELD FOR SALE

The assets classified as assets held for sale are related to land and building of a pachinko and pachislot hall in Japan which is part of the pachinko and pachislot hall operation segment. On 26 December 2017, the Group signed the letter of intent with an independent third party in relation to the disposal and the disposal transaction is expected to be completed before 31 March 2018.

The land and building was remeasured at ¥428 million, at the lower of carrying amount and fair value less cost to sell as at 31 December 2017. An impairment loss on the property, plant and equipment of ¥169 million previously recognised has been reversed during the six months ended 31 December 2017.

8 OTHER INCOME AND OTHER GAINS, NET

	(Unaudited) Six months ended 31 December	
	2017 ¥million	2016 ¥million
Other income		
Income from scrap sales of used pachinko machines	380	333
Rental income from staff quarters	1	1
Income from expired IC card	5	5
Others	40	13
	426	352
Other gains, net		
Exchange gains, net	28	15
Losses on disposal of property, plant and equipment and intangible assets, net	(124)	(32)
(Losses)/gains on fair value change on financial assets at fair value through profit or loss	(4)	94
Gains on disposal of assets held under finance lease	531	—
Recovery from insurance companies	9	13
	440	90

Notes to the Condensed Consolidated Interim Financial Information

9 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	(Unaudited)	
	Six months ended	
	31 December	
	2017	2016
	¥million	¥million
Pachinko and pachislot machines expenses (Note)	2,526	1,964
Auditor's remuneration	15	—
Employee benefits expenses	509	854
Operating lease rental expense in respect of land and buildings	597	573
Depreciation and amortisation	378	354
Reversal of impairment loss of property, plant and equipment	(169)	—
Listing expenses	—	166
	<u> </u>	<u> </u>

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

10 FINANCE COSTS, NET

	(Unaudited)	
	Six months ended	
	31 December	
	2017	2016
	¥million	¥million
Finance income		
Interest income	4	—
Interest from debt securities	6	2
	<u> </u>	<u> </u>
	10	2
	<u> </u>	<u> </u>
Finance costs		
Interest expenses on obligations under finance leases	(38)	(93)
Bank borrowings interest expenses	(41)	(17)
Bond interest expenses	(3)	(3)
	<u> </u>	<u> </u>
	(82)	(113)
	<u> </u>	<u> </u>
Finance costs, net	(72)	(111)
	<u> </u>	<u> </u>

Notes to the Condensed Consolidated Interim Financial Information

11 INCOME TAX EXPENSE

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

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 31 December 2017 and 2016.

	(Unaudited)	
	Six months ended	
	31 December	
	2017	2016
	¥million	¥million
Current income tax		
– Japan corporate income tax	55	11
Deferred income tax	16	(111)
	71	(100)

12 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share for the six months ended 31 December 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 period.

	(Unaudited)	
	Six months ended	
	31 December	
	2017	2016
Profit/(loss) attributable to shareholders of the Company (¥million)	109	(157)
Weighted average number of ordinary shares in issue (million) (Note)	500	375
Basic and diluted earnings/(loss) per share (¥)	0.218	(0.419)

Note:

The weighted average number of ordinary shares in issue during the six months ended 31 December 2017 and 2016 used to calculate the basic earnings per share includes 8,000,000 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 six months ended 31 December 2016 and 125,000,000 ordinary shares offered to the public issued on 15 May 2017.

No diluted earnings/(loss) per share is presented as there was no potential dilutive share during the six months ended 31 December 2017 and 2016. Diluted earnings/(loss) per share is equal to the basic earnings/(loss) per share.

Notes to the Condensed Consolidated Interim Financial Information

13 DIVIDENDS

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2017 (six months ended December 2016: Nil).

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

During the six months ended 31 December 2017, the Group incurred capital expenditures of approximately ¥2,259 million (six months ended 31 December 2016: ¥553 million) and ¥1 million (six months ended 31 December 2016: Nil) for property, plant and equipment and intangible assets, respectively, and there was no capital expenditures incurred for investment properties (six months ended 31 December 2016: ¥1 million).

During the six months ended 31 December 2017, the net book amounts of disposed property, plant and equipment amount to approximately ¥1,681 million (six months ended 31 December 2016: ¥33 million), of which approximately ¥1,553 million (six months ended 31 December 2016: Nil) was related to property, plant and equipment held under finance lease.

During the six months ended 31 December 2017, there was no disposal of investment properties and intangible asset (six months ended 31 December 2016: Nil).

15 SHARE CAPITAL AND RESERVE

	Number of shares million	Share capital ¥million
Opening balance 1 July 2016	8	11,968
Bonus issue (Note)	367	6,407
Issue of new shares (Note)	125	1,974
As at 1 July and 31 December 2017	<u>500</u>	<u>20,349</u>

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 the 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.

Notes to the Condensed Consolidated Interim Financial Information

15 SHARE CAPITAL AND RESERVE *(continued)*

(a) Capital reserve

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

(b) Legal reserve

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

(c) Investment revaluation reserve

Investment revaluation reserve represents the cumulative net change in the fair value of financial assets through other comprehensive income held as at 31 December 2017 and 30 June 2017.

16 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice date as at 31 December 2017 and 30 June 2017 were as follows:

	(Unaudited) 31 December 2017 ¥million	(Audited) 30 June 2017 ¥million
Less than 30 days	31	23

The carrying amounts of trade payables approximate their fair values as at 31 December 2017 and 30 June 2017 and are denominated in Japanese Yen.

Notes to the Condensed Consolidated Interim Financial Information

17 EMPLOYEE BENEFIT OBLIGATIONS

	(Unaudited) 31 December 2017 ¥million	(Audited) 30 June 2017 ¥million
Long term benefit obligations for Yamamoto Family (Note)	542	844
Retirement benefit obligations for employees	33	34
	575	878

Note:

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

As at 31 December 2017, long term benefit obligations for Yamamoto Family represents the provision on the lump-sum payment made to two (30 June 2017: 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 which were approved by the Board of Directors, using projected unit credit method. The defined benefit retirement plans of the Group are measured at present value. The valuation was carried out by projected unit credit method.

18 BORROWINGS

	(Unaudited) 31 December 2017 ¥million	(Audited) 30 June 2017 ¥million
Non-current portion		
Bank loans	5,261	4,363
Bonds	—	30
	5,261	4,393
Current portion		
Bank loans	915	767
Bonds	60	60
	975	827
Total borrowings	6,236	5,220

Notes to the Condensed Consolidated Interim Financial Information

19 OBLIGATIONS UNDER FINANCE LEASES

	(Unaudited) 31 December 2017 ¥million	(Audited) 30 June 2017 ¥million
Gross finance lease liabilities - minimum lease payments		
No later than 1 year	354	404
Later than 1 year and no later than 2 years	356	408
Later than 2 years and no later than 5 years	488	1,185
Later than 5 years	1,112	2,488
	2,310	4,485
Future finance charges on finance leases	(627)	(1,342)
Present values of finance lease liabilities	1,683	3,143

The present value of finance lease liabilities is as follows:

	(Unaudited) 31 December 2017 ¥million	(Audited) 30 June 2017 ¥million
No later than 1 year	299	230
Later than 1 year and no later than 2 years	307	247
Later than 2 years and no later than 5 years	364	780
Later than 5 years	713	1,886
Total finance lease liabilities	1,683	3,143
Less: Amount included in current liabilities	(299)	(230)
Non-current portion	1,384	2,913

Assets arranged under finance leases represent buildings for pachinko and pachislot halls and investment properties. The average lease term is 6 years (30 June 2017: 13 years). No arrangements have been entered into for contingent rental payments during the reporting periods ended on 31 December 2017 and 30 June 2017.

Notes to the Condensed Consolidated Interim Financial Information

20 COMMITMENTS

(a) Capital commitments

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

	(Unaudited) 31 December 2017 ¥million	(Audited) 30 June 2017 ¥million
Property, plant and equipment		
– Capital expenditure contracted for but not yet incurred	2	43

(b) Operating lease commitments

(i) As a lessee

As at 31 December 2017 and 30 June 2017, 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:

	(Unaudited) 31 December 2017 ¥million	(Audited) 30 June 2017 ¥million
No later than one year	932	1,081
Later than one year and no later than five years	17	17
Over five years	36	38
	985	1,136

Notes to the Condensed Consolidated Interim Financial Information

20 COMMITMENTS *(continued)*

(b) Operating lease commitments *(continued)*

(ii) As a lessor

As at 31 December 2017 and 30 June 2017, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

No later than one year

(Unaudited)	(Audited)
31 December	30 June
2017	2017
¥million	¥million
65	65

21 RELATED PARTY TRANSACTIONS

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

Notes to the Condensed Consolidated Interim Financial Information

21 RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the six months ended 31 December 2017 and 2016:

	(Unaudited) Six months ended 31 December	
	2017	2016
	¥million	¥million
Rental income received from:		
– Katsumitsu Yamamoto	<u>1</u>	<u>1</u>

The above transaction with related parties was conducted in the ordinary course of the business of the Group based on the terms mutually agreed between the relevant parties.

(b) Key management compensation

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

	(Unaudited) Six months ended 31 December	
	2017	2016
	¥million	¥million
Salaries and other short-term employee benefits	<u>109</u>	<u>106</u>