OKURA HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

Stock Code: 1655

2021

ANNUAL REPORT

This report is printed on environmentally friendly paper

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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. Kazuyuki YOSHIDA

COMPANY SECRETARY

Mr. MAN Yun Wah *ACG, ACS, MCG*

AUDIT COMMITTEE

Mr. Kazuyuki YOSHIDA (Chairman)
Mr. Mitsuru ISHII
Mr. Yuji MATSUZAKI

REMUNERATION COMMITTEE

Mr. Kazuyuki YOSHIDA (Chairman)
Mr. Mitsuru ISHII
Mr. Yuji MATSUZAKI
Mr. Katsuya YAMAMOTO
Mr. Yutaka KAGAWA

NOMINATION COMMITTEE

Mr. Katsuya YAMAMOTO (Chairman)
Mr. Kazuyuki YOSHIDA
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 (resigned on 25 November 2020)
Mr. Seiji KITAJIMA (appointed on 26 November 2020)
Mr. Shota MIYANO
Mr. Seiji OTOFUJI
Mr. Masayuki SAKATA
Mr. Shuntaro HONDA

AUTHORISED REPRESENTATIVES

Mr. Yutaka KAGAWA
Mr. MAN Yun Wah *ACG, 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

Mizuho Bank, Ltd., Nagasaki Branch
3–28 Hamamachi
Nagasaki City, Nagasaki Prefecture
Japan 850–0853

Juhachi-Sinwa Bank, Sumiyoshi-Chuo Branch
2–22, Sumiyoshimachi
Nagasaki City, Nagasaki Prefecture
Japan 852–8154

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, 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

Taylor Wessing
21/F, No. 8 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.

"1st Series Bond"	the first series of the Bonds
"2021 AGM"	the 2021 annual general meeting of the Company to be held on Friday, 19 November 2021
"2nd Series Bond"	the second series of the Bonds
"6M2021"	the six months ended 31 December 2020
"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 former indirectly wholly-owned subsidiary of the Company which merged with Aratoru on 1 January 2019
"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 former indirectly wholly-owned subsidiary of the Company which merged with Okura Nishinihon on 1 January 2019
"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 an indirectly wholly-owned subsidiary of the Company
"Articles"	the articles of association of the Company as amended from time to time
"Audit Committee"	the audit committee of the Company
"BA Dazaifu"	Big Apple. Dazaifu hall located at 2–1–1, Ozano, Dazaifu-shi, Fukuoka Prefecture, Japan
"BA Motosumiyoshi"	Big Apple. YOUPARK Motosumiyoshi hall located at 2–2–34 Kizuki, Nakahara-ku, Kawasaki-shi, Kanagawa Prefecture, Japan
"BA Sumiyoshi"	Big Apple. Sumiyoshi hall located at 6–4, Sumiyoshimachi, Nagasaki-shi, Nagasaki Prefecture, Japan
"Board"	the board of Directors
"Bond Issuer"	Sinwa Co., Ltd.* (株式会社しんわ), a company incorporated under the laws of Japan and an independent third party of the Company
"Bonds"	two series of bonds issued by the Bond Issuer in an aggregate amount of ¥1,000 million
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules, as amended from time to time

Definitions

"CGUs"	cash generating units
"Companies Ordinance"	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company"	Okura Holdings Limited
"Controlling Shareholder"	Mr. Katsuya YAMAMOTO, being the controlling shareholder of the Company
"CSR"	corporate social responsibility
"Deed"	the deed of non-competition entered into between the Controlling Shareholder and the Company on 10 April 2017
"Director(s)"	the director(s) of the 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 the Company
"Everglory Capital"	Everglory Capital Co., Ltd.* (株式会社エバーグローリー•キャピタル), an independent third party of the Company
"FY2020"	the financial year ended 30 June 2020
"FY2021" or "Year"	the financial year ended 30 June 2021
"Group"	the Company and our subsidiaries (or the 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 the Company became the holding company of our present subsidiaries, the present subsidiaries of the 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 former directly wholly-owned subsidiary of the Company which merged with Okura Japan on 1 January 2019
"K's Property"	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 an indirectly wholly-owned subsidiary of the 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 an indirectly wholly-owned subsidiary of the Company, which merged with K's Property on 1 November 2015
"KS Mikatsuki"	K's Plaza Mikatsuki hall located at 1123 Chokanda Mikatsukicho Ogi-shi, Saga Prefecture, Japan

Definitions

"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 as amended, supplemented or otherwise modified from time to time
"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
"Monaco"	Monaco Sumiyoshi Honten hall located at 1–5, Sumiyoshimachi, Nagasaki-shi, Nagasaki Prefecture, Japan
"Mr. Takeda"	Mr. Yoshio Takeda* (武田宜士), an independent third party of the Company
"Nagasaki Centre"	the Company's employment support centre for persons with neurodevelopmental disorders in Nagasaki City, Japan
"Nomination Committee"	the nomination committee of the 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 an indirectly wholly-owned subsidiary of the 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 former indirectly wholly-owned subsidiary of the Company which merged with Okura Japan on 1 January 2018
"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 an indirectly wholly-owned subsidiary of the Company
"Palazzo"	Palazzo Co., Ltd.
"Palazzo Tokyo Plaza Group"	Palazzo, together with its subsidiaries
"Prospectus"	the prospectus of the Company dated 28 April 2017
"Remuneration Committee"	the remuneration committee of the Company
"Report"	the annual report for the Year
"Risk Management Committee"	the risk management committee of the Company
"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 the Company

Definitions

"Shareholder(s)"	the holder(s) of the Shares
"Share Option Scheme"	the share option scheme adopted by the Company on 10 April 2017
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"Takeda Kousan"	Takeda Kousan Ltd* (有限会社武田興産), a company incorporated under the laws of Japan and an independent third party of the Company
"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
"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 translations 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

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

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

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

As all of the Group's pachinko halls have gradually resumed operations since June 2020, the number of pachinko and pachislot players at the Group's pachinko halls have steadily improved in FY2021. During FY2021, the Group observed a partial recovery of customer traffic at some of its pachinko halls, particularly those located in the Kyushu region. Notwithstanding the recovery of customer traffic at the pachinko halls, the Group had closed down two pachinko halls, namely KS Mikatsukui and BA Motosumiyoshi on 10 May 2021. After FY2021, the Group had further closed down another three pachinko halls, namely BA Dazaifu, BA Sumiyoshi and Monaco on 31 August 2021.

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

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

COPING WITH OBSTACLES AND UNCERTAINTIES FROM REGULATORY MEASURES

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

As a result of the above, our management has been striving to source the most attractive machines available in the market to provide a favourable mix of machines in the Group's pachinko halls to increase customer traffic. However, our Directors believe that the effect of such measures on customer traffic to pachinko halls remains to be seen amid the continuing COVID-19 pandemic.

CONTINUING TO DIVERSIFY THE GROUP'S REVENUE STREAM

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

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

On 26 July 2018, the Company entered into two agreements with the Bond Issuer pursuant to which the Company subscribed for the Bonds. On 25 January 2019, 24 January 2020 and 25 January 2021, the Company, the Bond Issuer and Everglory Capital entered into amendment agreements to, among others, extend the maturity/redemption date of the 2nd Series Bond, increase its interest rate and include Everglory Capital as a guarantor to guarantee the obligations of the Bond Issuer of its obligations under the 2nd Series Bond. On 30 July 2021, the Company, the Bond Issuer and Everglory Capital entered into an amendment agreement to, among others, extend the maturity/redemption date of the 1st Series Bond, increase its interest rate for the extended period, and include Everglory Capital as a guarantor to guarantee the obligations of the Bond Issuer of its obligations under the 1st Series Bond. Such amendments enable the Group to extend its investment and generate more income from the Bonds, which constitutes a stable revenue stream for the Group. For details, please refer to the announcements of the Company dated 26 July 2018, 25 January 2019, 24 January 2020, 25 January 2021 and 30 July 2021.

MARKET THREATS AND PROSPECTS

Although 2020 and the first half of 2021 has been a challenging year for Japan's pachinko industry overall, the Group's operational and financial performance for FY2021 has managed to recover slightly as a result of our management's efforts in prioritising our resources in the recovery of customer traffic, ensuring continuous compliance with the Japanese government's measures to prevent and control the spread of COVID-19, and voluntarily implementing safety measures to ensure the health and safety of customers at its pachinko halls. Our management will continue to adopt the above measures in order to encourage customer traffic and speed up the recovery of the Group's operations, while exploring new opportunities to diversify into other business segments to expand the Group's sources of revenue.

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 the Group will strive to deliver better performance and generate attractive returns to our Shareholders.

On behalf of the Board
Katsuya YAMAMOTO
Chairman

Hong Kong, 27 September 2021

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

Our total revenue is comprised of revenue from (i) pachinko and pachislot hall business, being gross pay-ins less gross pay-outs, (ii) vending machine income, (iii) property rental, and (iv) other operations relating to horse sitting services and employment support services. During the Year, revenue from our pachinko and pachislot hall business remained the majority source of income for the Company, accounting for approximately 90.4% of our total revenue (FY2020: approximately 93.5%). Our total revenue decreased by approximately ¥1,628 million, or approximately 23.1%, from approximately ¥7,051 million for FY2020 to approximately ¥5,423 million for FY2021. This decrease was mainly a result of the decrease by approximately 25.6% in revenue generated from our overall pachinko and pachislot business, from approximately ¥6,593 million for FY2020 to approximately ¥4,905 million for FY2021, primarily due to the overall decline in customer traffic at our pachinko and pachislot halls due to the outbreak of COVID-19, the closure of the two pachinko halls on 10 May 2021, and the 2018 Regulations as explained above.

We derived income from vending machines installed at our halls provided by vending machine operators under service agreements. The vending machines sell drinks and food and we share a certain portion of income generated by such vending machines. Our vending machine income decreased by approximately 19.1%, from approximately ¥115 million for FY2020 to approximately ¥93 million for the Year, primarily due to the overall decline in customer traffic and the closure of pachinko halls as explained above.

We derived rental income from renting out (i) premises to G-prize wholesalers, (ii) car parks, (iii) commercial facilities, and (iv) residential units. Property rental income increased by approximately 22.3%, from approximately ¥287 million for FY2020 to approximately ¥351 million for the Year, mainly due to an increase in rental income derived from the newly acquired properties located in Nagasaki City, Japan in March 2020 and April 2021.

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

Gross pay-ins

Our gross pay-ins represent the gross amount received from customers for the rental of pachinko balls and pachislot tokens. Gross pay-ins are primarily affected by the level of customer spending at our pachinko and pachislot halls. Our accounting policy recognises gross pay-ins net of consumption tax. The consumption tax rate in Japan was 10% during FY2021.

Our gross pay-ins recorded a decrease of approximately ¥5,437 million, or approximately 18.3%, from approximately ¥29,669 million for FY2020 to approximately ¥24,232 million for FY2021, which was mainly due to the reasons mentioned in the paragraph headed "Revenue" above.

Management Discussion and Analysis

Gross pay-outs

Our gross pay-outs represent the aggregate cost of G-prizes and general prizes exchanged by our customers, taking into consideration the G-prize mark-up and the value of any unutilised balls and tokens during the relevant period. Gross pay-outs recorded a decrease of approximately ¥3,749 million, or approximately 16.2%, from approximately ¥23,076 million in FY2020 to approximately ¥19,327 million in FY2021 as a result of the drop in gross pay-ins for the reasons mentioned above.

Revenue margin

Revenue margin for our pachinko and pachislot business represented our revenue from pachinko and pachislot hall business divided by gross pay-ins. The level of revenue margin is dependent on the combination of the payout ratio of the pachinko and pachislot machines, the G-prize mark-up imposed and the mix of pachinko and pachislot machines with different jackpot probability in our halls, and as a result of the resultant changes in customer behavior (i.e., rounds of play and machine utilisation). Our revenue margin worsened slightly from approximately 22.2% in FY2020 to approximately 20.2% in FY2021 as we strategically increased the pay-out ratio of machines at certain pachinko halls in order to attract customer traffic.

Other income

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

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

Other net gains/losses

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

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

Hall operating expenses and administrative and other operating expenses

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

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

Impairment loss for cash-generating units

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

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

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

Management Discussion and Analysis

Value-in-use approach

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

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

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

(ii) discount rate is 12.5%; and

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

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

Fair value less cost of disposal approach

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

Value of inputs and key assumptions

By using the cost approach, the management and the independent professional valuer considered the expected useful life of the CGUs, the incidental expenses for land and buildings and construction costs of similar buildings.

No subsequent changes to the valuation methods adopted

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

Loss before income tax

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

Loss for the year attributable to shareholders of the Company

Loss for the year attributable to the Shareholders amounted to approximately ¥577 million for FY2021, as compared with the loss for the year attributable to the Shareholders of approximately ¥6,362 million for FY2020. This was mainly due to the reasons mentioned in the paragraph headed "Loss before income tax" above.

ANALYSIS OF FINANCIAL POSITION

LIQUIDITY AND FINANCIAL RESOURCES

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

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

Investment policy

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

— investments in low liquidity products being avoided;

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

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

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

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

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

Management Discussion and Analysis

Funding and treasury policy

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

Cash and cash equivalents

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

Capital structure

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

Borrowings

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

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

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

Bonds

The Group issued its bond on 13 March 2019 in the principal amount of ¥260 million. The value of the outstanding bond issued by the Group as at 30 June 2021 amounted to approximately ¥97 million (30 June 2020: approximately ¥160 million). No new bond was issued during FY2021. For details, please refer to note 28 to the consolidated financial statements in this report.

Pledged assets

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

Gearing ratio

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

Interest rate and foreign exchange exposure

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

We operate in Japan and our business transactions are principally denominated in Japanese Yen. However, we are exposed to foreign exchange risks associated with United States Dollars for expenses we incur in such currency. To manage such foreign exchange risks, we had entered into foreign exchange transactions to purchase United States Dollars using Japanese Yen since the year ended 30 June 2019 and such arrangements were terminated in December 2020. As at 30 June 2021, there was no foreign exchange transaction in effect. Our finance division monitors our foreign exchange fluctuation exposure closely. In light of the continued fluctuation of Japanese Yen against United States Dollars in recent years, we will continue to look for opportunities to manage our exposures in United States Dollars by maintaining significant amount of our cash and bank balances in Japanese Yen.

Contractual and capital commitments

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

	As a lessor As at 30 June	
	2021 ¥ million	2020 ¥ million
No later than 1 year	**52**	62

As at 30 June 2021, the Group did not have capital commitments which were contracted but not yet incurred in respect of purchase of property, plant and equipment (30 June 2020: approximately ¥1 million).

Capital expenditures

Our capital expenditures mainly consisted of expenditures on acquisitions of property, plant and equipment for our operations. The Group incurred capital expenditures of approximately ¥568 million for FY2021 (FY2020: approximately ¥1,007 million), a majority of which came from leasehold improvements and equipment and tools for our pachinko halls, and improvements for our rental properties. The decrease in capital expenditures was due to the Group's cost-saving measures in light of the COVID-19 pandemic. These capital expenditures were financed by the Group's internal funds and borrowings.

Contingent liabilities

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

SIGNIFICANT INVESTMENTS

As at 30 June 2021, the Group held investments primarily in investment properties of approximately ¥3,216 million, which represented land and premises situated in Japan and rented out under operating leases, and financial assets of approximately ¥1,402 million, which represented bonds including the bonds issued by the Bond Issuer, trust funds, and listed and unlisted securities. As at 30 June 2021, the Group did not hold any significant investments (including any investment in an investee company) with a value of 5% or more of the Group's total assets as at 30 June 2021.

Investment properties

In relation to our investment properties, impairment loss will be recognised by the Group where the valuation results indicate that the carrying amount of the investment properties exceed its recoverable amount. The fair value of the investment properties at 30 June 2021 is ¥3,561 million (2020: ¥3,134 million). Impairment loss of approximately ¥44 million was recognised on the Group's investment properties during the Year (FY2020: impairment loss of approximately ¥141 million). The Group's investment properties comprise of properties for office, residential and parking purposes which are rented out under operating leases and held by the Company for long-term rental yields. All the Group's investment properties are stated at fair value less cost of disposal based on valuations performed by an independent professional qualified valuer engaged by the Group. The valuation was determined using the income approach or the sales comparison approach. The fair values of all investment properties are within level 3 of the fair value hierarchy.

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

The Group's finance team reviews the valuations performed by the independent valuer for financial reporting purposes and reports directly to the executive Directors. Discussions of valuation processes and results have been held between the team and the valuer during the Year.

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

Financial assets

In relation to our financial assets, the Group recorded (i) a gain of approximately ¥16 million for the fair value changes on financial assets at fair value through profit or loss in FY2021 as opposed to a loss of approximately ¥161 million in FY2020 which is primarily attributable to the rise in value of investment securities owned by the Company, (ii) a gain of approximately ¥56 million for the disposal of financial assets at fair value through profit or loss, and (iii) a loss of approximately ¥7 million for the changes in fair values of financial assets at fair value through other comprehensive income due to fluctuations in the share price of the investment shares, and there has been no default or any impairment made to any debt securities held by the Group, during the Year. Although changes in market conditions will continue to result in fair value gains or losses from financial assets, our Directors are of the view that the investment in financial assets will help to increase the average yield earned from the excess funds from our business overall. To the best of their knowledge and as at the date of this Report, our Directors did not foresee any default or any impairment to be made to any financial assets held by the Group.

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

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

HUMAN RESOURCES

Employees and remuneration policies

As at 30 June 2021, the Group had 454 employees (30 June 2020: 521 employees), almost all of whom were based in Japan, and of whom 405 were stationed at our pachinko halls. For newly recruited employees, we prepared a series of training sessions which mainly focuses on pachinko hall operations and customer service. Upon appointment of every three years, as required by the Public Safety Commission, each hall manager is required to attend the training course conducted by the Public Safety Commission.

The staff costs include all salaries and benefits payable to our employees and staff, including our Directors. The total staff costs for FY2021 amounted to approximately ¥1,309 million (FY2020: approximately ¥1,395 million), which accounted for approximately 19.8% (FY2020: approximately 10%) of the total operating expenses of the Group, including the remuneration of our Directors.

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

Apart from basic remuneration, share options may be granted to individual Directors and employees under the Share Option Scheme, by reference to their performance.

The Share Option Scheme

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

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and providing benefits to eligible participants and for such other purposes as the Board approves from time to time.

Since the adoption of the Share Option Scheme, and up to the date of this Report, no option was granted, exercised, cancelled or lapsed under the Share Option Scheme.

ISSUE OF SHARES AND USE OF PROCEEDS

The total proceeds from the issue of new shares by the Group in its listing (after deducting the underwriting fees and related listing expenses) amounted to approximately HK$74.0 million. The net proceeds from the listing have been fully utilised in accordance with the purposes set out in the Prospectus by 30 June 2020.

During FY2021, the Company had not issued any of the Company's securities for cash (including securities convertible into equity securities).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MATERIAL ACQUISITION OF PROPERTIES

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for those disclosed in this report, the Group had 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 61, is the chief executive officer of the 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 the Group, and formulating business strategies and policies for our business management and operations.

Mr. Yamamoto is the son of late Mr. Katsumitsu YAMAMOTO, our founder. Mr. Yamamoto founded the 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 2019, Mr. Yamamoto was also a representative director of each of Okura Japan, K's Property and Okura Nishinihon. He was a representative director of Okura Kyushu prior to its merger with Okura Japan on 1 January 2018 and a representative director of K's Holdings and Aisen prior to their merger with Okura Japan in January 2019.

Mr. Yamamoto has spent over 36 years operating and managing the pachinko hall business of the 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 2021 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 72, was appointed as an executive Director on 27 April 2016. Mr. Hamada has been the head of administration of Okura Japan since January 2019 and is primarily responsible for overseeing the management and operations of the Group. He was previously a general manager of Okura Japan from August 2015 to January 2019. He first joined the 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 the 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 43, was appointed as an executive Director on 27 April 2016. Mr. Kagawa has been the head of corporate planning department of Okura Japan since January 2019, 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 December 2018, prior to its merger with Okura Japan in January 2019. 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 the 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 62, was appointed as an executive Director on 27 April 2016. Mr. Oe has been the head of accounting and finance of Okura Japan since January 2019 and is primarily responsible for overseeing the accounting and financial management of the Group. He was previously the group manager of finance and accounting group of Okura Japan from May 2016 to January 2019. Mr. Oe first joined the 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 the 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.

Independent Non-executive Directors

Mr. Mitsuru ISHII

Mr. Ishii, aged 67, 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.

Biographies of the Directors and Senior Management

Mr. Yuji MATSUZAKI

Mr. Matsuzaki, aged 55, 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. Kazuyuki YOSHIDA

Mr. Yoshida, aged 41, was appointed as an independent non-executive Director on 19 October 2018.

Mr. Yoshida is the chief executive officer of Yoshida Certified Public Accountant and Tax Accountant Office* (formerly known as Kazuyuki Yoshida Certified Public Accountant Office*), which he founded in April 2017. He has been an auditor at Omuta City Hospital*, which is an Incorporated Administrative Agency of the Japanese local government, since April 2018. Between August 2014 and March 2017, Mr. Yoshida was employed by Hinode Ltd.*, where he was principally involved in business planning, management and accounting. Prior to that, he was employed as accountant by Josui Tax Accountant Corporation* from May 2013 to June 2014, and by Kodama Certified Public Accountant/Tax Accountant Office* from January 2012 to April 2013. From April 2006 to September 2009, Mr. Yoshida was employed by Kyoei Environment Development Co. Ltd.*, at which his last position was chief of the general affairs department.

Mr. Yoshida graduated from The University of Tokyo in Japan with a master's degree in chemistry in March 2005 and from Kyushu University in Japan with a bachelor's degree in chemistry in March 2003. He has been registered as a member of the Japanese Institution of Certified Public Accountants since February 2017 and a member of the Japanese Federation of Certified Public Tax Accountants' Associations since July 2017.

Senior Management

Mr. Satoshi MAEDA

Mr. Maeda, aged 41, has been the head of marketing of Okura Japan since January 2019 and is primarily responsible for managing the marketing functions of the Group.

He was previously the marketing supervisor from April 2011 to January 2019 and was a general manager of Kanto marketing department of the 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 the 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 2019, Mr. Maeda was a representative director of Aratoru. He was a representative director of Adward prior to its merger with Aratoru.

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

COMPANY SECRETARY

Mr. MAN Yun Wah

Mr. Man, aged 38, was appointed as the company secretary on 27 April 2016. He is a director of In.Corp Corporate Services (HK) Limited (formerly known as RHT Corporate Advisory (HK) Limited).

Mr. Man has been an associate member of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) and an associate member of The Hong Kong Chartered Governance Institute (formerly known as 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 10 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

The Group is principally engaged in the business of operating pachinko halls in Japan, and opened our first pachinko hall in Nagasaki in 1968, where the Group has been headquartered since then.

We currently operate 12 pachinko halls in the Kyushu, Kanto, Kansai and Chugoku regions in Japan. The activities of our subsidiaries are set out in note 36 to the consolidated financial statements of this Report.

BUSINESS REVIEW

General

Further discussion and analysis of the Group's principal activities, including a business review for the Year and an indication of the likely future developments of the Group's business, can be found in the Chairman's Statement and the Management Discussion and Analysis of this Report and both form 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 the 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 pachinko hall operator with a long operating history, the Group is sufficiently experienced to respond and accommodate quickly to any changes in the dealings between the Company and any of our G-prize wholesalers and G-prize buyers. The Group is also constantly looking for new opportunities.
We may be adversely affected by any breach of the independence requirements under the Three Party System.	• We have a set of tight internal policies and procedures governed by our risk management 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 risk management department will conduct comprehensive background checks which focus on their independence and anti-social forces.

Description of principal risks	Risk responses
We face continuous market contraction and intense competition in the pachinko industry in Japan.	• We analyse our customers' preferences to acquire machines which generate the most customer interest. We are committed to providing refreshing and spacious environments to our customers and have, where necessary, renovated our existing pachinko halls from time to time. We will also continue to improve the quality of our customer services by providing training to our staff, which we believe is an important factor in retaining customer loyalty. We constantly monitor market changes to capture acquisition opportunities. We also strive to enhance operation efficiency, by streamlining our corporate and operational structures when appropriate.
We may be adversely affected by the further outbreak of COVID-19 in Japan.	• We will continue to monitor the spread of COVID-19 in Japan. At our pachinko halls, we have implemented various safety measures such as providing hand sanitiser and requiring our customers to wear surgical face masks.

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 was 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 in the Group as a result of violation of environmental laws, rules and regulations. Further information in relation to the 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 the 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, the Group had no record of material non-compliance or violation incidents under the Amusement Business Law and prefectural local regulations. The Company had also obtained all material licences, approvals and permits from the relevant regulatory authorities for all of its pachinko halls during the Year.

During the Year, the 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 the Company.

Relationships with employees, customers and suppliers

Relationship with suppliers

The Group's major suppliers consist of machines suppliers, G-prize wholesalers and general prize wholesalers. Along with our long operating history, the Group has established close relationships with a number of machine suppliers, which enable the 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 with national coverage (as compared with our previous G-prize wholesalers which only had regional coverage) to supply G-prize to the 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 41.8% of our total purchases and our five largest suppliers combined accounted for approximately 77.8% of our total purchases.

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

Relationship with customers

The Group's main revenue comes from our pachinko and pachislot hall operation business and vending machines. As a pachinko hall operator, the 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 the 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 our Directors and directors of the Company's subsidiaries, or their respective associates, had any interest in the customers of the Group.

Relationship with employees

The 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. The Group offers competitive wages, bonuses and focused training and promotions to full time employees. As at 30 June 2021, the Group had 454 employees, almost all of whom were based in Japan, and of whom 405 were stationed at the Group's pachinko halls.

For newly recruited employees, the Group has prepared a series of training which mainly focuses on pachinko hall operations and customer service. Upon appointment 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 20 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 the Group for the Year are set out in the consolidated statement of comprehensive income of this Report.

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

As far as the Company is aware, as at 30 June 2021, there has been no arrangement under which any Shareholder has waived, or agreed to waive, any dividends proposed to be distributed for the Year.

Dividend Policy

The Company has adopted a dividend policy (the "**Dividend Policy**") that aims to provide the guidelines for the Board to determine whether dividends are to be declared and paid to the Shareholders and the level of dividend to be paid. In recommending or declaring dividends, the Company shall maintain adequate and sufficient cash reserves for meeting its working capital requirements and future growth as well as its Shareholder value. The Board has the full discretion to declare and distribute dividends to the Shareholders, and any final dividend for a financial year will be subject to Shareholders' approval. In proposing any dividend payout, the Board shall take into account, among other things, the Group's financial results, cash flow situation, business conditions and strategies, expected future operations and earnings, capital requirements and expenditure plans, interests of shareholders, any restrictions on payment of dividends and any other factors the Board may consider relevant. Any payment of the dividend by the Company is also subject to any restrictions under the laws of Hong Kong, the Articles and any other applicable laws and regulations.

The Company will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and the Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five 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 24 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 34 to the consolidated financial statements of this Report. The Company did not have any distributable reserves or profits available for distribution as at 30 June 2021.

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 the 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 15 to the consolidated financial statements and the section headed "Particulars of Investment Properties" of this Report.

CHARITABLE DONATIONS

During the Year, charitable donations made by the Group amounted to ¥41,000.

EQUITY-LINKED AGREEMENTS

During the Year, the 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 the Company to offer new shares on a pro-rata basis to our existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of our Directors and as the date of this Report, the Company has maintained the minimum public float of 25% as required under the Listing Rules during the Year.

DIRECTORS OF THE COMPANY

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

Mr. Katsuya YAMAMOTO (山本勝也)	Executive Director, chairman of the Board and chief executive officer
Mr. Fumihide HAMADA (濵田文秀)	Executive Director
Mr. Yutaka KAGAWA (香川裕)	Executive Director
Mr. Toshiro OE (大江敏郎)	Executive Director
Mr. Mitsuru ISHII (石井満)	Independent non-executive Director
Mr. Yuji MATSUZAKI (松崎裕治)	Independent non-executive Director
Mr. Kazuyuki YOSHIDA (吉田和之)	Independent non-executive Director

The biographical details of our Directors and senior management are set out in the section headed "Biographies of the Directors and Senior Management" of this Report. Changes in Directors' information, if any, are set out in the paragraph headed "Update on the Directors' information under Rule 13.51B(1) of the Listing Rules" in this Report. There is no other change in our Directors' biographical details which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules during the Year and up to the date of this Report.

According to the Articles and the CG Code, Mr. Katsuya YAMAMOTO and Mr. Kazuyuki YOSHIDA will retire at the 2021 AGM and, being eligible, offered themselves for re-election. The 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 the Company considers that all of the independent non-executive Directors are independent.

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

Name of subsidiaries	Name of directors	Title
Okura Japan	Mr. Katsuya YAMAMOTO	Representative director
Aratoru	Mr. Satoshi MAEDA	Representative director
K's Property	Mr. Katsuya YAMAMOTO	Representative director
Okura Nishinihon	Mr. Katsuya YAMAMOTO	Representative director

DIRECTORS' SERVICE CONTRACTS

None of our Directors who are proposed for re-election at the 2021 AGM has a service contract with the Company which is not determinable by the 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 the Company or any of our subsidiaries was a party and in which a Director or any entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

UPDATE ON THE DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the Company is not aware of any changes in Directors' information since the date of the interim report of the Company for 6M2021.

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

As at 30 June 2021, the interests and short positions of our Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required: (i) to be notified to the 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 the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in the Shares:

Name	Capacity/ nature of interest	Number of Shares	Approximate percentage of shareholding in the total issued share capital of the Company
Mr. Katsuya YAMAMOTO(Note)	Beneficial interest	375,000,000	75%

Note:

Mr. Katsuya YAMAMOTO is an executive Director, the chief executive officer of the Company and the chairman of the Board.

Save as disclosed above, as at 30 June 2021, none of our Directors or the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which had been notified to the 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 recorded in the Register pursuant to section 352 of the SFO or as otherwise notified to the 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 THE COMPANY

As at 30 June 2021, our Directors were not aware of any persons or entities (other than a Director or the chief executive of the 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

Mr. Katsuya YAMAMOTO, an executive Director and controlling Shareholder, acquired the entire interests in Palazzo on 1 April 2021. Based on the information provided by Mr. Katsuya YAMAMOTO, Palazzo Tokyo Plaza Group is principally engaged in the business of operating 25 pachinko halls in geographical locations mainly in the Kanagawa prefecture (excluding Kamakura-shi and Kawasaki-shi), Tokyo (excluding Chiyoda-ku), Saitama prefecture, Chiba prefecture, Osaka prefecture and Hiroshima prefecture in Japan. Mr. Katsuya YAMAMOTO has been appointed as a director of Palazzo and its certain subsidiaries, and Mr. Yutaka KAGAWA, an executive Director, has been appointed as a director of Palazzo and one of its subsidiaries, since 1 April 2021. The Group is also principally engaged in the business of operating pachinko halls in Kamakura-shi of Kanagawa prefecture, Chiyoda-ku of Tokyo, Nagasaki prefecture, Hyogo prefecture and Yamaguchi prefecture in Japan which are in geographical locations segregated from those of Palazzo Tokyo Plaza Group's operations.

The Directors consider that, having taken into account factors including the following, the Company is capable of carrying on its business independently of, and at arm's length from Palazzo Tokyo Plaza Group's business:

(i) the Company has established corporate governance procedures to ensure the business opportunities and performance of the Group are independently assessed and reviewed from time to time;

(ii) all the Directors are fully aware of their fiduciary duties and confidentiality obligations to the Group, and have acted and will continue to act in the best interest of the Company and its Shareholders as a whole by abstaining from voting on any matter where there is or may be a conflict of interest in accordance with the Company's memorandum and articles of association;

(iii) all the major and important corporate actions and business decisions of the Company are and will be fully deliberated by the Board. The Board also includes three independent non-executive Directors whose views carry significant weight in the Board's decisions. Therefore, the Board makes decisions independently from the board of directors of Palazzo and neither Mr. Katusya YAMAMOTO nor Mr. Yutaka KAGAWA can personally control the Board; and

(iv) the Audit Committee, which consists of three independent non-executive Directors, meets regularly to assist the Board in reviewing the financial performance, internal control and compliance systems of the Group.

Save as disclosed above, as at the date of this Report, none of the Directors and their respective close associates (as defined in the Listing Rules) had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

Save as disclosed in this Report, no significant events occurred from the end of the reporting period up to the date of this Report.

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 the Company shall be indemnified out of the assets of the 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/her as a Director, former Director, responsible person, officer or auditor of the Company. Such provisions have been in force since the Listing Date. The Company has arranged for appropriate insurance cover for directors' liabilities in respect of legal actions that may be brought against our Directors and the directors of our subsidiaries.

MANAGEMENT CONTRACTS

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

SHARE OPTION SCHEME

As disclosed in the Prospectus, the Company conditionally approved and adopted a Share Option Scheme on 10 April 2017 by passing a written resolution of the then Shareholders. 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 during the Year.

Purpose

The purpose of the Share Option Scheme is to enable the Company to grant options to Eligible Participants (as defined below) as incentives or rewards for their contribution or potential contribution to the 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 the 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 the Company and/or any of our subsidiaries (the "**Eligible Participant**").

Maximum Number of Shares

The maximum number of Shares which may be issued in respect of which options under the Share Option Scheme and any other share option schemes of the Company may be granted is 50,000,000 Shares, which represented 10% of the issued 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 the 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 the 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 the Company in any 12-month period must not exceed 1% of the issued share capital of the 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 the Company of HK$1.00 by way of consideration for the grant thereof, is received by the 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

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

Our 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 our Directors is determined on the basis of the relevant Director's experience, responsibility, performance and the time devoted to the Group's business.

To further provide incentives and awards to our employees in appreciation of their contribution or potential contribution of the Group, we have adopted a Share Option Scheme to enable the 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 entered into any arrangements to waive or has agreed to waive any emoluments during the Year.

EMPLOYEE BENEFITS

The Group operates a defined contribution scheme for a family member of Mr. Yamamoto's family. During the Year, the Group had no forfeited contributions (by the Group on behalf of such family member who may leave the scheme prior to vesting fully in such contributions) in the defined contribution scheme which may be used by the Group to reduce the existing level of contributions. There were also no forfeited contributions available as at 30 June 2021 to be utilised for such use. For further information on the defined contribution scheme operated by the Group for the family member of Mr. Yamamoto's family, please refer to note 27 to the consolidated financial statements in this Report.

The Group operates a defined benefit plan which is a 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 defined benefit obligation is calculated by IIC Partners Co. Ltd., an independent qualified professional valuer that provides actuarial valuation service, using the projected unit credit method. The calculation of the defined benefit obligations under the relevant actuarial report is certified by a fellow of the Institute of Actuaries of Japan. The principal actuarial assumptions adopted in the valuation were, among others, a discount rate at 0.55%, a reduction rate of 16.9%, yield curve calculated based on corporate bonds rated AA or higher as of 30 June 2021 and standard mortality rates under defined benefit corporate pension plan (the 22nd Life Table for male and female). The defined benefit obligation is approximately ¥38 million as at 30 June 2021. Given that the amount of the defined benefit obligation is insignificant, the Company considers that its cash and cash equivalents is sufficient to cover the payment obligations under the defined benefit plan. As such, the Company did not allocate any funding for the defined benefit plan during the Year and there does not exist any material surplus or deficiency on the level of funding in the defined benefit plan. For further information on the defined benefit plan operated by the Group, please refer to note 27 to the consolidated financial statements in this Report.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

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

CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

No Controlling Shareholder had a material interest, either directly or indirectly, in any contract of significance (whether for the provision of services to the Company or any of its subsidiaries or not) to the business of the Group to which the Company or any of our subsidiaries was a party during the Year.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDER

On 10 April 2017, in order to avoid potential conflict of interests with the Company, Mr. Katsuya YAMAMOTO, our Controlling Shareholder, entered into the Deed in favour of the Group, pursuant to which he has unconditionally and irrevocably agreed, undertaken to and covenanted with the Company (for himself and for the benefit of each other member of the Group), among others, not to compete with the business of the Group. Details of the Deed are 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 his compliance with the undertakings in the Deed during the Year.

Upon receiving the aforementioned 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 Year.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the related party transactions undertaken in the ordinary course of business by the Group during the Year are set out in note 33 to the consolidated financial statements of this Report. The related party transactions during the Year set out in note 33 to the consolidated financial statements constitute "connected transactions" (as defined under Chapter 14A of the Listing Rules) which are fully exempted from the reporting, announcement and independent shareholders approval requirements under Chapter 14A of the Listing Rules.

During the Year, the Company confirms that the Group did not conduct 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.

The Company further confirms that, in relation to its connected transactions, it has complied with the relevant requirements in accordance with Chapter 14A of the Listing Rules during the Year.

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 the Company will be proposed at the 2021 AGM.

There has been no change of auditors in the past three years.

TAX RELIEF

The 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, 27 September 2021

Corporate Governance Report

Good corporate governance has always served as a vital foundation for the development of the Company. The Company is dedicated to fulfilling its responsibilities towards our Shareholders and protecting the interests of different stakeholders through sound governance practices. The 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 the Shareholders. The Board is responsible for performing the corporate governance duties and reviewing and monitoring the corporate governance of the Company with reference to the CG Code.

During the Year, the Company fully complied with the CG Code set out in Appendix 14 to the Listing Rules, with the exception for Code Provision A.2.1, which requires that the roles of chairman and chief executive 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 the Group, Mr. Katsuya YAMAMOTO holds both of such positions. Mr. Katsuya YAMAMOTO has been primarily responsible for overseeing the Group's general management and business development of and for formulating business strategies and policies for our business management and operations since the Group was founded in 1984. Taking into account the continuation of management and the implementation of our business strategies, our Directors (including our independent non-executive Directors) consider that it is suitable for Mr. Katsuya YAMAMOTO to hold both the positions of chief executive officer and the chairman of the Board, and that the present arrangements regarding these positions are beneficial and in the interests of the Company and our Shareholders as a whole.

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

MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the required standard for securities transactions by our Directors. Having made specific enquiries to all our Directors, the Company has confirmed that all our Directors confirmed that they 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 the Company, setting fundamental business strategies and policies for the management and operation of our business, as well as monitoring the implementation of such strategies and policies. The Company's day-to-day operations and management responsibilities are delegated by the Board to the management of the Company, who are responsible for implementing the strategies and directions as determined by the Board.

Corporate Governance Report

Composition

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

Executive Directors

Mr. Katsuya YAMAMOTO (Chairman of the Board and chief executive officer)
Mr. Fumihide HAMADA
Mr. Yutaka KAGAWA
Mr. Toshiro OE

Independent Non-executive Directors

Mr. Mitsuru ISHII
Mr. Yuji MATSUZAKI
Mr. Kazuyuki YOSHIDA

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

Responsibilities of Executive Directors

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

Responsibilities of Independent Non-executive Directors

The independent non-executive Directors participate in the Board meetings to independently comment on the Company's strategies, policies, performance and progress in achieving the Company's 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 the Company to safeguard the Shareholders' interest and the overall interest of the Group.

Throughout the Year, the Company had 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 our 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 the Company on 10 April 2017 and the Company issued letters of appointment to each of the independent non-executive Directors, other than Mr. Kazuyuki YOSHIDA, on the same day. The Company issued a letter of appointment to Mr. Kazuyuki YOSHIDA on 19 October 2018. The Company subsequently renewed the term of such service contracts and letters of appointments with each executive Director and independent non-executive Director (as the case may be) for three years commencing from 15 May 2020.

The principal particulars of these service contracts and letters of appointment are (i) for a term of three years commencing from 15 May 2020, 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

Our Directors and members of our 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 our Directors and members of our senior management based on their qualifications, positions and seniority. The Group will provide retirement benefits for certain family members of Mr. Katsuya YAMAMOTO in recognition of their long-term contribution to the 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 the 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. Katsuya YAMAMOTO, the relevant amount will be reflected under the disclosure pertaining to "Benefits and interests of directors" in the notes to the 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 35 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 our Directors for the Year were approximately ¥55 million.

The policy concerning the remunerations of our 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.

Corporate Governance Report

Details of the remuneration of our 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 our 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

	Number of Directors and Senior Management
Below ¥10,000,000	6
¥10,000,001 to ¥20,000,000	0
¥20,000,001 to ¥30,000,000	0
¥30,000,001 to ¥100,000,000	2
¥100,000,001 to ¥110,000,000	0

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

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 any services rendered by him in connection with the promotion or formation of the Company.

Continuous Development of Directors and Senior Management

Our Directors, namely Mr. Katsuya YAMAMOTO, Mr. Fumihide HAMADA, Mr. Yutaka KAGAWA, Mr. Toshiro OE, Mr. Mitsuru ISHII, Mr. Yuji MATSUZAKI and Mr. Kazuyuki YOSHIDA, and our 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 in compliance with A.6.5 of the CG Code. 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 our Directors before the meeting. Notice is deemed to have been served on a Director if it is given to such Director in writing or orally or sent at him at 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 the Company and to enable them to make informed decisions. Each member of the Board has separate and independent access to our senior management where necessary. The minutes of Board meetings and Board committee meetings are kept by the company secretary and are open to inspection by any Director.

The minutes of Board meetings and Board committee meetings record full details of the matters considered and decisions reached at the meetings, 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. One general meeting and four Board meetings were held during the Year. The attendance of our individual Directors at the aforesaid general meeting and Board meetings is set out in the following table:

Board meeting

Name of Directors	General meeting attended/eligible to attend	Board meetings attended/eligible to attend
Mr. Katsuya YAMAMOTO	1/1	5/5
Mr. Fumihide HAMADA	1/1	5/5
Mr. Yutaka KAGAWA	1/1	5/5
Mr. Toshiro OE	1/1	5/5
Mr. Mitsuru ISHII	0/1	5/5
Mr. Yuji MATSUZAKI	0/1	5/5
Mr. Kazuyuki YOSHIDA	1/1	5/5

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 for effective and efficient corporate governance. These Committees are established and operated in accordance with the specific written terms of reference, respectively, which could be found on the websites of the Company and the Stock Exchange.

Audit Committee

The Company established an Audit Committee in compliance with Rule 3.21 of the Listing Rules on 10 April 2017. During the Year, the Audit Committee comprised Mr. Kazuyuki YOSHIDA, Mr. Mitsuru ISHII and Mr. Yuji MATSUZAKI, and was chaired by Mr. Kazuyuki YOSHIDA. 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 the Company's consolidated financial statements, reports and accounts.

Corporate Governance Report

During the Year, two Audit Committee meetings were held whereat the Audit Committee reviewed (i) the audited consolidated financial results of the Company for FY2020 and (ii) the unaudited consolidated financial results of the Company for 6M2021. The attendance of individual members is set out in the following table.

Name of committee members	Meetings attended/eligible to attend
Mr. Kazuyuki YOSHIDA	2/2
Mr. Mitsuru ISHII	2/2
Mr. Yuji MATSUZAKI	2/2

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. During the Year, the Risk Management Committee comprised 12 members, namely Mr. Fumihide HAMADA, Mr. Yutaka KAGAWA, Mr. Toshiro OE, Mr. Satoshi MAEDA, Mr. Koji NAKAO, Mr. Hayato TOBISAWA, Mr. Junichi HITOMI (resigned on 25 November 2020), Mr. Seiji KITAJIMA (appointed on 26 November 2020), Mr. Shota MIYANO, Mr. Seiji OTOFUJI, Mr. Masayuki SAKATA and Mr. Shuntaro HONDA, and was chaired by our executive Director, Mr. Fumihide HAMADA. During the Year, twelve Risk Management Committee meetings were held whereat the Risk Management Committee (i) reviewed the risk management and internal control systems of the Group, and (ii) reviewed the effectiveness of the internal audit function of the Group. The attendance of individual members is set out in the following table:

Name of committee members	Position in the Company	Meetings attended/eligible to attend
Mr. Fumihide HAMADA	Executive director	12/12
Mr. Yutaka KAGAWA	Executive director	8/12
Mr. Toshiro OE	Executive director	11/12
Mr. Satoshi MAEDA	Marketing supervisor	4/12
Mr. Koji NAKAO	Risk control department manager	12/12
Mr. Hayato TOBISAWA	General marketing manager	9/12
Mr. Junichi HITOMI (resigned on 25 November 2020)	Head of marketing department	4/5
Mr. Seiji KITAJIMA (appointed on 26 November 2020)	Head of marketing department	7/7
Mr. Shota MIYANO	Head of marketing department	12/12
Mr. Seiji OTOFUJI	General affairs and human resources department manager	12/12
Mr. Masayuki SAKATA	Procurement department manager	12/12
Mr. Shuntaro HONDA	Internal audit consultant	12/12

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

Remuneration Committee

The Company established the Remuneration Committee in compliance with Rule 3.25 of the Listing Rules on 10 April 2017. During the Year, the Remuneration Committee comprised Mr. Kazuyuki YOSHIDA, Mr. Mitsuru ISHII, Mr. Yuji MATSUZAKI, Mr. Katsuya YAMAMOTO and Mr. Yutaka KAGAWA, and was chaired by Mr. Kazuyuki YOSHIDA. The primary duties of the Remuneration Committee are, among others, to make recommendations to the Board:

(i) on the 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 the Company.

During the Year, three Remuneration Committee meetings were held whereat the Remuneration Committee reviewed and recommended to the Board for consideration (i) the adjustment in the remuneration package of the Directors and members of the senior management, and (ii) the further adjustment in director's fees payable by each of the Company's subsidiaries to Mr. Katsuya YAMAMOTO for the twelve months from 1 July 2021 to 30 June 2022. The attendance of individual members is set out in the following table.

Name of committee members	Meetings attended/eligible to attend
Mr. Kazuyuki YOSHIDA	3/3
Mr. Mitsuru ISHII	3/3
Mr. Yuji MATSUZAKI	3/3
Mr. Katsuya YAMAMOTO	3/3
Mr. Yutaka KAGAWA	3/3

Nomination Committee

The Company established the Nomination Committee in compliance with the CG Code on 10 April 2017. During the Year, the Nomination Committee comprised Mr. Katsuya YAMAMOTO, Mr. Kazuyuki YOSHIDA, Mr. Mitsuru ISHII, Mr. Yuji MATSUZAKI and Mr. Yutaka KAGAWA, and was 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 our Directors and members of our senior management in order to complement the Company's corporate strategy; and

(ii) to identify suitable individuals who are qualified to become directors and the senior management of the Company.

Corporate Governance Report

During the Year, one Nomination Committee meeting was held whereat the Nomination Committee (i) assessed the independence of the independent non-executive Directors; (ii) recommended to the Board for consideration the re-appointment of the retiring Director at the annual general meeting held on 20 November 2020; (iii) reviewed the structure, size and composition of the Board; and (iv) reviewed the Board diversity policy. The attendance of individual members is set out in the following table.

Name of committee members	Meetings attended/eligible to attend
Mr. Katsuya YAMAMOTO	1/1
Mr. Mitsuru ISHII	1/1
Mr. Yuji MATSUZAKI	1/1
Mr. Yutaka KAGAWA	1/1
Mr. Kazuyuki YOSHIDA	1/1

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 protect independent Shareholders.

Nomination Policy

The Board has adopted a nomination policy (the "**Nomination Policy**") which aims to:

— set out the criteria and process in the nomination and appointment of Directors;

— ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company; and

— ensure the Board's continuity and appropriate leadership at Board level.

Criteria

The Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorships:

— character, reputation and integrity;

— qualifications, experience and accomplishments, including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

— willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments;

— requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidates would be considered independent by reference to the independence guidelines set out in the Listing Rules;

— board diversity policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board;

— any other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of Directors and succession planning; and

— such other perspectives appropriate to the Company's business.

Nomination Procedures

(A) Appointment of New Director

(i) The Nomination Committee shall, upon receipt of the proposal on appointment of the new Director, consider the biographical information (or relevant details) of such candidate and evaluate such candidate based on the criteria as set out in above paragraph "Criteria" to determine whether such candidate is qualified for directorship.

(ii) The Nomination Committee may request candidates to provide additional information and documents, if considered necessary.

(iii) If the process yields one or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company (including but not limited to ensuring that the Board has a balance of skills, experience and diversity of perspectives) and reference check of each candidate (where applicable).

(iv) The Nomination Committee shall then recommend appointment of the appropriate candidate for directorship and the candidate shall provide his/her written consent (i) to be appointed as a Director, and (ii) to the public disclosure of his/her personal data on any documents or the relevant websites for the purpose of or in relation to his/her standing for election as a Director.

(v) For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee shall evaluate such candidate based on the above paragraph "Criteria" to determine whether such candidate is qualified for directorship and where appropriate, the Nomination Committee and/or the Board shall make recommendation to the Shareholders in respect of the proposed election of Director at the general meeting.

(vi) The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

(B) Re-election of Director at General Meeting

(i) Retiring Directors are eligible for nomination by the Board to stand for re-election at a general meeting of the Company.

(ii) The Nomination Committee shall review the retiring Director's overall contribution and service to the Company, including his/her attendance of Board meetings and, where applicable, general meetings, and his/her level of participation and performance on the Board.

(iii) The Nomination Committee shall also review and determine whether the retiring Director continues to meet the criteria as set out in above paragraph.

(iv) The Nomination Committee and/or the Board shall then make recommendation to the Shareholders in respect of the proposed re-election of the Director at the general meeting.

(v) The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for re-election at any general meeting.

Regular Review

The Nomination Committee will conduct regular review on (i) the effectiveness of the Nomination Policy to ensure that it remains relevant to the Company's needs and reflects both current regulatory requirements and good corporate governance practice, and (ii) the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs.

Board Diversity Policy

With a view to achieve a sustainable and balanced development, the 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 has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, compliance with the Model Code and written employee guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

EXTERNAL AUDITOR'S REMUNERATION

PricewaterhouseCoopers has been appointed as the external auditor of the Company. The appointment and removal of the external auditor is recommended by the 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 the Group amounted to ¥52 million. The fees charged by PricewaterhouseCoopers in respect of the non-auditing services for the Year were approximately ¥15 million. The remuneration paid to PricewaterhouseCoopers and its affiliated firm for services rendered for the Year is listed as follows:

	2021 **¥ million**
Types of services	
Audit services	**52**
Non-audit services(Note)	**15**
Total	**67**

Note:

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

ACCOUNTABILITY AND AUDIT

Our 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 the Group, the results of operations and cash flow during the Year. In preparing the consolidated financial statements for the Year, our 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 the 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

Our Board is responsible for overseeing the overall management of compliance risks, including the review and approval of anti-money laundering measures, as well as the remediation of any issues that arise. Our 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.

The Company is also well equipped with internal audit functions which exercise 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 the Company's compliance framework and effectiveness of its anti-money laundering measures, and (iii) the reporting of any findings to the 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 such findings to the Board on a regular basis to highlight any deficiencies in the anti-money laundering measures and internal control systems. 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.

Our Directors are of the view that we have taken all reasonable steps to establish adequate internal control and risk management procedures (the "**Internal Control Systems**") to address various potential operational, financial and legal risks identified in relation to our 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 has also set forth the relevant reporting hierarchy of risks identified in our operations. The Board is responsible for overseeing the overall Internal Control Systems in order to safeguard the Group's assets and the 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, the Board has reviewed, through the Risk Management Committee, the Group's risk management and internal control system as well as the adequacy of resources, qualifications and experience, training programmes and budget of the 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 had an adverse impact on the effectiveness and adequacy of the risk management and internal control system during the Year.

INSIDE INFORMATION

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

The 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 our Directors and officers and all relevant employees so that they can identify and carry out suitable measures to ensure that inside information of the Group is to be disseminated to the public in an equal and timely manner.

INVESTOR RELATIONS AND SHAREHOLDER RIGHTS

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

General meetings of the Company provide the best opportunity for an 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 the Group. Under the Articles, a Shareholder entitled to attend and vote at a meeting of the 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 the Company or at a class meeting attend and that such proxy does not need to be a Shareholder of the Company.

Code Provision E.1.3 of the CG Code stipulates that listed 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. The 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 the 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 article 68 of the Articles, our 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.

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 the 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 the 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 the Company pursuant to Sections 566 and 615 of the Companies Ordinance must be deposited at the 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 the Company and our Contact Details

Shareholders may, at any time, direct questions or request for publicly available information and provide comments and suggestions to our Directors or management of the Company. Such questions, requests and comments can be addressed to the 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 Year, there was no change to the Articles. The Articles are available on the websites of the Company (http://www.okura-holdings.com) and the Stock Exchange.

COMPANY SECRETARY AND PRIMARY CONTACT OF THE COMPANY

Directors have access to the services of the company secretary to ensure that the Board procedures are followed. The company secretary of the Company is Mr. MAN Yun Wah. He is a director of In.Corp Corporate Services (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 the Company is Mr. Yutaka KAGAWA, head of Corporate Planning Department.

Environmental, Social and Governance Report

ABOUT THIS REPORT

This ESG Report contains disclosures made by the Group with reference to the ESG Reporting Guide set out in Appendix 27 of the Listing Rules. As a general principle, this report focuses on the pachinko business operated by the Group in Japan.

ESG STATEMENT FROM THE BOARD

The Board has been responsible for our CSR strategy, which includes identifying and evaluating CSR risks, implementing appropriate and effective risk management strategies and establishing internal control systems where necessary.

In light of the recent social situation where the ESG initiatives are recognised as important factors for the sustainable business growth of companies, the Board decided to strengthen the Group's ESG initiatives and at a Board meeting held on 20 November 2020, it approved the adoption of the "ESG Declaration" which sets forth the Group's basic policy on addressing ESG issues. The Board also established an ESG committee that reports to the Board material ESG issues of the Group.

In addition, the Board confirmed the ESG Committee's roles and responsibilities in addressing ESG matters including but not limited to taking leadership and providing oversight of ESG issues, identifying material ESG issues which relate to the Group's business, adopting ESG management approach and developing strategies, and reviewing the process made against ESG goals and targets.

The Board has carried out a series of processes based on the ESG Declaration which includes, among others, setting ESG goals and targets and reviewing the progress made against them during the financial year.

REPORTING PRINCIPLES

The Group applies the following reporting principles in the preparation of this report:

(i) Materiality

The Group has conducted a stakeholder engagement on an ongoing basis to identify ESG-related issues. Based on the results obtained with this engagement, the Group has held discussions among our management and employees of different departments to assess the materiality of these issues in consideration of the Group's business and all relevant stakeholders, as well as to propose suggestions and action plans to improve decision-making and accountability from a social and environmental perspective. In this ESG Report, we include details of ESG-related issues that were identified during such discussions and which we considered material.

(ii) Quantitative

The Group provides quantitative information on the Group's ESG performance. The calculation methods used are described in the relevant sections.

(iii) Balance

The report provides an unbiased picture of the Group's ESG and avoids selections, omissions, or presentation formats that may mislead the readers.

(iv) Consistency

The Group applies a consistent methodology to aggregate ESG factors to ensure the meaningful comparison over time. Unless otherwise stated, there were no changes to the calculation method or the scope of aggregation in the preparation of the report for FY2021 while some social KPIs have been additionally disclosed due to the revision of the ESG Reporting Guide set out in Appendix 27 of the Listing Rules.

REPORTING BOUNDARY

As a general principle, this report focuses on the pachinko business operated by the Group in Japan.

A. ENVIRONMENT

Our View on the Environment

The Group recognises that preserving the global environment is one of our missions.

In order to continuously reduce our burden on the global environment and promote environmental protection, we have been implementing the following initiatives.

1. Reduction of Greenhouse Gas Emissions

The emission of greenhouse gases such as carbon dioxide is considered to be the main cause of global warming. At present, the emissions generated by the Group mainly consist of greenhouse gases such as carbon dioxide emitted from the consumption of electricity. Carbon dioxide emissions are categorised as indirect greenhouse gas emissions (Scope 2). The greenhouse gas emissions at our halls for the Year and FY2020 are set out below:

	FY2021	FY2020
Carbon dioxide emissions (t-Co2)[1]	**6,440.8**	7,937.1
Intensity (t-Co2/per pachinko and pachislot machine)	**0.70**	0.86
Average number of machines in fiscal year[2]	**9,155**	9,215

Note:

1 In the calculation of carbon dioxide emissions, the emission factors for each electric power company published by the Ministry of the Environment, Government of Japan are used. (http://www.env.go.jp/press/files/jp/115373.pdf)

2 (Number of machines at the beginning of the year + number of machines by the end of the year)/2

Our power consumption of electricity for the Year and FY2020 are set out below:

	FY2021	FY2020
Power consumption (1,000Kwh)	**16,610.6**	16,811.7
Intensity (1,000Kwh/per pachinko and pachislot machine)	**1.81**	1.829
Average number of machines in fiscal year	**9,155**	9,215

In order to decrease our electricity consumption to reduce greenhouse gas emissions, the Group has implemented the following power reduction measures:

(1) Installation of Energy-saving Air Conditioners

The Group has been gradually replacing its existing air conditioners with new air conditioners of lower power consumption. As at 30 June 2021, we have installed these new air conditioners at six of our 15 pachinko halls in Japan. We intend to further install these air conditioners in our remaining halls.

(2) Installation of Light-Emitting Diode (LED) Lights

The Group has been gradually replacing the lighting in its halls with LED lighting that consumes less power. As at 30 June 2021, we have completed the installation of LED lighting in six of our 15 pachinko halls. We intend to replace the lighting at our remaining halls with LED lighting.

During the Year, our power consumption and associated greenhouse gas emissions decreased as compared to FY2020, as a result of the temporary closure of our business due to COVID-19 and the introduction of power reduction measures at our pachinko halls. Although the Group has not set specific ESG targets for power reduction, the Group is continuously making efforts to reduce power consumption and associated greenhouse gas emission, such as switching to power that derives from renewable energy.

2. Reduction of Waste

In order to provide better service to our customers, we often replace our existing pachinko and pachislot machines with new models in accordance with our customers' changing needs and preferences. In the course of replacing our machines, we remove obsolete machines from our pachinko halls and dispose of them in accordance with relevant laws and regulations.

In order to minimise the environmental impact of disposal, all pachinko and pachislot machines subject to disposal or replacement are temporarily stored in our warehouse and then sold to trade-in dealers or recyclers at appropriate times, in consideration of the market trend on second-hand pachinko and pachislot machines, and regulations relating to the replacement of pachinko and pachislot machines. After that, the pachinko and pachislot machines purchased by trade-in dealers are resold to other pachinko hall operators, while machines purchased by recyclers are dismantled for the reuse of parts. These recyclers are registered as designated recyclers by a pachinko industry related incorporated association. For this reason, we consider that our disposal of pachinko and pachislot machines is unlikely to fall into the discharge of waste.

To reduce waste, the Group has also taken the following measures:

- Promoting a paperless environment through the use of digital signatures, digitisation of various documents, circulating internal documents and notifications via e-mail, etc.
- Promoting the use of recycled paper in our operations

Since our main business is the operation of pachinko and pachislot halls, we only provide services to customers who visit our halls. Therefore, due to the nature of our business, we consider our impact on the environment by way of air emissions, discharges into water and land, the generation of hazardous and non-hazardous wastes, consumption of water and other raw materials and use of packaging materials, to be immaterial. In addition, we do not conduct business activities that will have a serious impact on the environment and natural resources, and we have not identified any significant climate change-related issues which have impacted or which may impact us.

During the Year, the Group was in compliance with the relevant environmental laws and regulations that have a significant impact in Japan and our Directors are not aware of any material breach or violation of such laws and regulations.

3. Response to Climate Change

The Group recognises the following issues that are already occurring or will likely occur in the future, in relation to climate change and the following actions have been taken for each of them:

Climate Change-related Issues	Actions
Damage to pachinko halls due to natural disasters such as floods and heavy rain accompanied by rising sea levels due to global warming or changes in climate change patterns	Reconsider the locations of each pachinko hall and reinforce existing buildings
Increase in relevant costs such as carbon tax (i.e. a tax levied on the carbon emissions)	Reduce our carbon dioxide and greenhouse gas emissions by implementing the power reduction measures as mentioned above

B. OUR PEOPLE

Our Views on Our People

The Group believes that our success is, to a large extent, attributable to the strategies and visions of our Directors, who are supported by our senior management and all other employees. Thus, the Group places a strong emphasis on the well-being of our staff. The Group is committed to respecting each individual employee's attributes and personality, providing them with a relaxed and fruitful environment where they can receive all-rounded training, and ensuring a safe and convenient workplace where each person is encouraged to reach their full potential.

1. Our Employment and Labour Practice

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

In addition, we are implementing measures to improve the working environment of our employees to promote the active participation of female employees. In particular, we support employees involved in childcare and housework in balancing between work and family life. As a result of our efforts, we were granted the "Eruboshi" certification by the Minister of Health, Labour and Welfare with the highest rating of three stars in July 2018. The Eruboshi certification is a recognition system under the *Act on Promotion of Women's Participation and Advancement in the Workplace (「女性活躍推進法」)*, which is given to excellent companies promoting women's participation and advancement in the workplace.

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

The following table shows the classification of our various employees in Japan by gender and employment type for the Year and FY2020. We consider that since most of our employees live in Japan, the breakdown of employees by geographical region in Japan would not be meaningful.

	FY2021		FY2020	
Employment type	**Number of male employees**	**Number of female employees**	Number of male employees	Number of female employees
Regular employees	**122**	**36**	129	39
Semi-regular employees and contract employees	**7**	**4**	7	4
Subtotal	**129**	**40**	136	43
Part-time Employees	**96**	**188**	121	221
Total	**225**	**228**	257	264

The following table shows the age distribution of the regular employee, semi-regular employees, and contract employees by gender for the Year and FY2020.

	FY2021		FY2020	
Age	**Number of male employees**	**Number of female employees**	Number of male employees	Number of female employees
Below 20 years old	**4**	**2**	3	1
20–29 years old	**22**	**9**	28	8
30–39 years old	**46**	**7**	49	10
40–49 years old	**43**	**12**	43	15
50–59 years old	**9**	**7**	8	6
60–69 years old	**5**	**3**	5	3
Total number of employees	**129**	**40**	136	43

Environmental, Social and Governance Report

The following table shows the retention rate of our employees for the Year and FY2020.

	FY2021	FY2020
	%	%
Retention rate (Employees)[1]	**89.0**	91.3

Note:

1 Retention rate = (Average number of employees at the end of every month during the period — Average numbers of resignees at the end of every month during the period)/Average numbers of employees at the end of every month during the period

We consider that the breakdown of retention rate of our employees based on gender, age group and geographical region in Japan is not meaningful because the number of employees under each category is small.

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

2. Our Labour Safety and Health

In order to provide a safe working environment and to protect our employees from any occupational hazards, the Group has taken the following measures:

- Provision of mental health care (mental stress check, consultations with supervisor) to our employees
- Provision of periodic health checks to our employees
- Introduction of "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

The results of these examinations from each hall are reported to the management, and feedback and reminders are provided in return for those who have not taken the above measures.

The number of lost days due to work injury during the Year is set out below:

	FY2021	FY2020
Lost days due to work injury	**91.2 days**	5.8 days
Frequency rate[1]	**12.13**	6.03
Severity rate[1]	**0.14**	0.01

Note:

1 The formula published by the Ministry of Health, Labour and Welfare, Japan is used to calculate the frequency rate and severity rate. (https://www.mhlw.go.jp/toukei/itiran/roudou/saigai/20/dl/2020yougo.pdf)

Frequency rate = (Number of deaths and injuries due to industrial accidents/Actual working hours) × 1,000,000

Severity rate = (Number of work days lost/Actual working hours) × 1,000

During the Year, slip-and-fall accidents occurred multiple times at the Group's pachinko hall. Nevertheless for the past three years including FY2021, there were no work-related fatalities. We will strive to maintain a safe working environment by encouraging employees to pay more attention to prevent the recurrence of such accidents.

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

3. *Talent Training*

The Group has been working to support the growth of our talents for better work performance and the enhancement of knowledge by providing in-house training and on-the-job training for newcomers. The training hours per full-time employee at the company and the main training curriculum for the Year and FY2020 are as follows:

	FY2021 Hour	FY2020 Hour
Training hours per full-time employee[1]	**3.0**	7.9
Gross training attendance rate[2]	**47.0%**	67.3%

Note:

1 Training hours per full-time employee = Total training attendance hours/Average number of full-time employees during the Year[3]

2 Gross training attendance rate = Total number of trainees during the relevant period/Average number of full-time employees during the Year

3 Average number of full-time employees during the Year = (Number of full-time employees at the beginning of the Year + Number of full-time employees at the end of the Year)/2

During the Year, training hours have decreased significantly compared to FY2020 as we have refrained from holding face-to-face trainings to prevent the spread of COVID-19 infections. We will continue to strive to increase the training hours by adopting various measures such as the development of safer and more effective infection prevention measures and utilisation of online technologies to enable the implementation of all necessary training.

We consider that the disclosures of the number of training hours completed per employee and the percentage of employees trained according to gender and employee category are not meaningful as there were few opportunities to provide training to our employees during the Year for the reasons mentioned above.

Main points of our training curriculum, including those not implemented in the Year, are as follows:

- Anti-money laundering risk management training
- Security on amusement machines, fraud and information technology training
- On-the-job training
- Other training for each level (business skills, business knowledge, career design, manners and others)

4. Labour Standards

During the Year, the Group was in compliance with the Labour Standard Law and laws pertinent to proper labour relations in Japan, and the Group did not employ or advocate the employment of children or of people who are forced to work. All workers were employed on a voluntary basis under agreed terms and were not forced or coerced into working for the Group. In order to ensure the Group's compliance with the relevant laws and regulations, the Group also checks and reviews the resumes of the applicants who are joining the Group.

During the Year, our Directors are not aware of any non-compliance or breach of the Labour Standard Law and laws pertinent to proper labour relations in Japan that had a significant impact on the Group.

C. HEALTHY BUSINESS PRACTICE AND PREVENTION OF DISHONESTY

1. Relationship with Business Partners[1]

The major suppliers of the Group are the suppliers of pachinko and pachislot machines and prize wholesalers in Japan. The Group purchases pachinko and pachislot machines from 38 machine manufacturers, and out of those, transactions with top 5 game machine manufacturers account for 48.8% of the consideration of the total transactions. For the purchase of prizes, the Group deals with 28 ongoing prize suppliers[1], and out of those, transactions with top 5 prize suppliers account for 98.8% of the total number of prize suppliers.

Note:

1 We classify business partners with transactions of JPY100,000 or more per year as continuous business partners.

With the Amusement Business Law and its ancillary prefectural local regulations in mind, when the Group engages or enters into business with new or existing business partners, we constantly perform comprehensive compliance checks on our business partners, and obtain a written confirmation from such business partners that they comply with the Amusement Business Law and are not engaged in or associated with any activities in breach of the anti-money laundering and anti-social force laws and regulations. Our compliance department will continue to monitor the status of these engagements after signing contracts with our business partners.

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

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

2. Product Responsibility

The Group takes our obligations to customers seriously and aims to continue to provide high-quality customer experiences. To ensure that our customers are able to enjoy our pachinko halls without being affected by the possible negative social impacts, the Group has taken the following measures:

- Mutual agreement with customers on gaming rules
- Prohibiting minors who are under 18 years of age to enter our pachinko halls in accordance with the Amusement Business Law (our pachinko hall staff members request customers to present identity documents and conduct patrols for age check)
- Installation of automated external defibrillator
- Measures against abandoning child inside the car (our pachinko hall staff patrols around vehicles every 2 hours, etc.)
- Evacuation guidance training and drill exercise to our employees

What we provide at our pachinko halls are services, not products. Therefore, we do not owe any liability for the recall of the products.

All complaints are appropriately recorded and filed for follow up and future references. Relevant staff are responsible for investigating such complaint, evaluating possible causes, providing detailed response to the customer and issuing corrective action if appropriate. To understand how we can enhance the customer experience, complaints are reviewed regularly and analysed for improvement.

During the Year and out of the 15 pachinko halls we operate in Japan, the Group received 58 complaints, which mainly relates to the customer's opinion on our staff and services. The Group has resolved all complaints it received during the Year with care and responsive measures.

Environmental, Social and Governance Report

The Group may handle personal information of customers who have signed up as members. Our Directors are of the view that personal information obtained in the course of our business were properly managed in accordance with the laws and regulations of the Personal Information Protection Law and relevant legislations.

For the prevention of indulgence in gambling which has become a social problem in recent years, we install posters to raise our customers' awareness in our pachinko halls, and place pachinko and pachislot advisers who assist customers by providing appropriate advices at each pachinko hall. To further promote customer awareness, the posters and stickers of non-profit organization named Recovery Support Network, which is establish to help people afflicted with gambling and their family members or friends with offering free telephone service, are displayed at a place that can be seen most easily from customers in our pachinko halls. In addition, we adopted self-assessment program which limits customers to play the game up to the maximum amount they set in advance in all of our halls.

Matters relating to advertising 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 regulates the collection, use, handling, and transfer of personal information by Japanese business operators. The Company strives to adhere to all these requirements under the relevant laws and regulations and has established written procedures to ensure compliance. Our Directors are not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling or privacy matters relating to services provided.

The Group has registered the trademarks "Big Apple." and "K's Plaza" in Japan for operating our pachinko halls under these trading names. By registering a trademark, under Japanese law, the Group can claim damages or suspend the use of the trademark from other companies that commit trademark infringement. The Group has no intellectual rights other than the said trademarks.

3. Anti-corruption and anti-money laundering

The Group has been taking the following measures to prevent corrupt incidents 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
- Prevention and/or detection measures against money laundering transactions are evaluated and verified by the Risk Management Committee
- Implementation of training on anti-corruption for all staff on an annual basis, which covers the relevant laws in order to help the staff recognise and mitigate associated risks

During the Year, our Directors were not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud or money laundering. There have been no legal cases regarding corrupt practices brought against the Company or its employees during the Year.

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

D. CONTRIBUTION TO THE SOCIETY

Our Group considers that creating a better society through our business is the most important social contribution. As well as providing services that satisfy our customers, creating and maintaining continuous employment and paying taxes, we believe that contributing to the development of local communities through various initiatives is our duty.

In light of the increase of natural disasters such as earthquakes and heavy rains in recent years, we have continued to store emergency supplies such as non-perishable foods, bottled water and blankets at all of our pachinko halls. These emergency supplies are to be provided to the local people as well as our customers and employees in the event of a future emergency such as natural disaster. We will continue to stockpile emergency supplies, while reviewing items and replacing them as necessary.

The Group intends to continue to explore new ways to promote contributions to the local community.

In addition, we are working on gaining understanding of and raising our employees' awareness of CSR through company-wide activities. As a part of this effort, we are participating in campaign to collect plastic bottle caps. The proceeds obtained from the sales of collected plastic bottle caps will be used to donate vaccines for the world's children through non-profit organizations. During the Year, we started to make a donation of foods to food bank. The food bank is a social welfare activity through which we can support the economically disadvantaged people.

Through these activities, we aim to raise awareness not only about resource recycling but also on various issues around the world.

Independent Auditor's Report

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 70 to 137, which comprise:

- the consolidated statement of financial position as at 30 June 2021;
- 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 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and International Financial Reporting Standards ("IFRSs") 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 ("HKSAs") 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 judgment, 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.

Independent Auditor's Report

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of property, plant and equipment and right-of-use assets
- Impairment assessment of goodwill

Key Audit Matter

Impairment assessment of property, plant and equipment and right-of-use assets

Refer to Note 4 (Critical accounting estimates, assumptions and judgements), Note 13 (Property, plant and equipment) and Note 14 (Leases) to the consolidated financial statements for the related disclosures.

As at 30 June 2021, the Group had property, plant and equipment ("PP&E") of ¥7,622 million and right-of-use assets ("ROU") of ¥4,104 million.

The performance of the Group was impacted by keen competition and the outbreak of Coronavirus Disease 2019 ("COVID-19"). The Group defines each individual pachinko and pachislot hall, each individual investment property, the horse sitting operation and the employment support operation as a cash-generating unit ("CGU").

Management reviews for impairment whenever events or changes in circumstances indicate the carrying amount of a CGU may not be recoverable. In the view that 15 CGUs had resulted in loss in the current year or had performed below management's expectation, management considered there were impairment indicators for these CGUs.

Management performed impairment assessment to assess the recoverable amounts of these CGUs, which were determined as the value-in-use or fair value less cost of disposal, whichever was higher.

The value-in-use calculations were applied to all CGUs under impairment review. Management prepared the value-in-use calculations based on future cash flow forecasts of the CGUs adopted under the multiple probability-weighted scenarios approach. The calculations of value-in-use are also dependent on certain key assumptions including revenue growth rate and discount rate.

Fair value less cost of disposal calculations were applied to CGUs with significant self-owned properties. Management performed the fair value less cost of disposal calculations based on management's estimation or valuations carried out by an independent third party valuer (the "valuer") and the calculations were determined by the cost approach. The valuation of fair value less cost of disposal is dependent upon the replacement cost and depreciation rate.

Based on management's assessment, provision for impairment loss of ¥526 million was recorded for PP&E and ROU during the year ended 30 June 2021.

We focused on this area due to the significant judgements and estimates involved in the determination of the recoverable amount.

How our audit addressed the Key Audit Matter

With regard to the impairment assessments of PP&E and ROU of the Group:

We evaluated the appropriateness of management's definition of CGUs.

We assessed the reasonableness of management's assessments on identifying impairment indicators. We challenged management's criteria for identification of impairment indicators by comparing to the historical performance and operational development of the CGUs.

We evaluated the appropriateness of management's grouping of these PP&E and ROU with the relevant CGUs.

We evaluated management's value-in-use calculations by:

- Challenging management's assumption of revenue growth rates adopted under the multiple probability-weighted scenarios approach by comparing the rates to industry trends, the Group's historical performance and operational developments;
- Assessing the mathematical accuracy of management's value-in-use calculations;
- Challenging management's assumptions of the probability assigned to each scenario under the probability-weighted scenarios approach by considering relevant factors such as the Group's business development and length and severity of the impact of COVID-19 with reference to the business and industry circumstances;
- Involving our internal valuation experts, on a sampling basis, to review the valuation methodology and discount rate applied by management, and benchmarking the discount rate applied to other comparable companies in the same industry;
- Challenging management's assumptions of the discount rate by comparing to the cost of capital and cost of debt of comparable organisations in the industry; and
- Comparing the current year actual results with the prior year forecasts to consider the reasonableness of management's forecasts.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
	We reviewed and assessed management's methodologies and key assumptions in fair value less cost of disposal calculations on PP&E of the relevant CGUs by: • Evaluating the valuer's competence, capabilities and objectivity; • Reviewing the external valuation reports; • Attending meetings with the management and valuer to discuss the valuations and key assumptions used; and • Reviewing the fair value less cost of disposal calculations to assess the mathematical accuracy and appropriateness of methodologies used. Based on the procedures performed, we found the judgements and estimates made by management in relation to the value-in-use and fair value less cost of disposal calculations were supportable by available evidence.
Impairment assessment of goodwill Refer to Note 4 (Critical accounting estimates, assumptions and judgements) and Note 16 (Intangible assets) to the consolidated financial statements for the related disclosures. As at 30 June 2021, the Group had goodwill of ¥740 million before provision for impairment arising from the acquisition of a subsidiary in previous years which was 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. Management prepared the value-in-use calculation based on future cash flow forecast of the CGUs adopted under multiple probability-weighted scenarios approach. The calculation of value-in-use is also dependent on certain key assumptions including revenue growth rate and discount rate. Based on management's assessment, provision for impairment loss of ¥382 million was recorded for goodwill during the year ended 30 June 2021. We focused on this area due to the significant judgements and estimates involved in the determination of the value-in-use, including revenue growth rate and discount rate.	We evaluated management's value-in-use calculations by: • Challenging management's assumption of revenue growth rates adopted under the multiple probability-weighted scenarios approach by comparing the rates to industry trends, the Group's historical performance and operational developments; • Assessing the mathematical accuracy of management's value-in-use calculation; • Challenging management's assumptions of the probability assigned to each scenario under the probability-weighted scenarios approach by considering relevant factors such as the Group's business development and length and severity of the impact of COVID-19 with reference to the business and industry circumstances; • Involving our internal valuation expert to review the valuation methodology and discount rate applied by management, and benchmarking the discount rate applied to other comparable companies in the same industry; • Challenging management's assumptions of discount rate by comparing to the cost of capital and cost of debt of comparable organisations in the industry; and • Comparing the current year actual result with the prior year forecast to consider the reasonableness of management's forecast. Based on the procedures performed, we found the judgements and estimates made by management in relation to the value-in-use calculation 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 HKFRSs issued by the HKICPA and IFRSs 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 HKSAs 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 HKSAs, we exercise professional judgment 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, actions taken to eliminate threats or safeguards applied.

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, 27 September 2021

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2021

	Note	2021 ¥million	2020 ¥million
Revenue	5	**5,423**	7,051
Other income	6	**309**	564
Other gains/(losses), net	6	**786**	(278)
Hall operating expenses	7	**(5,767)**	(13,076)
Administrative and other operating expenses	7	**(832)**	(849)
Operating loss		**(81)**	(6,588)
Finance income		**76**	93
Finance costs		**(268)**	(272)
Finance costs, net	9	**(192)**	(179)
Loss before income tax		**(273)**	(6,767)
Income tax (expense)/credit	10	**(304)**	405
Loss for the year attributable to shareholders of the Company		**(577)**	(6,362)
Loss per share attributable to shareholders of the Company for the year (expressed in ¥ per share)			
Basic and diluted	11	**(1.15)**	(12.72)
Loss for the year		**(577)**	(6,362)
Other comprehensive loss			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of employee benefit obligations		**3**	—
Change in fair value of equity investments at fair value through other comprehensive income		**(7)**	1
Deferred income tax arising from fair value change		**2**	(1)
		(2)	—
Total comprehensive loss for the year attributable to shareholders of the Company		**(579)**	(6,362)

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

Consolidated Statement of Financial Position

As at 30 June 2021

	Note	2021 ¥million	2020 ¥million
Assets			
Non-current assets			
Property, plant and equipment	13	**7,622**	7,855
Right-of-use of assets	14	**4,104**	5,266
Investment properties	15	**3,216**	2,847
Intangible assets	16	**359**	751
Prepayments and deposits	22	**1,059**	1,077
Financial assets held at amortised cost	19	**—**	500
Financial assets at fair value through other comprehensive income	18(b)	**24**	33
Financial assets at fair value through profit or loss	18(a)	**22**	46
Deferred income tax assets	29	**328**	610
		16,734	18,985
Current assets			
Inventories	20	**79**	13
Trade receivables	21	**19**	18
Prepayments, deposits and other receivables	22	**419**	499
Financial assets held at amortised cost	19	**1,000**	500
Financial assets at fair value through profit or loss	18(a)	**356**	486
Short-term bank deposits	23	**100**	100
Cash and cash equivalents	23	**2,617**	1,545
		4,590	3,161
Total assets		**21,324**	22,146
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	24	**20,349**	20,349
Reserves	24	**(16,872)**	(16,293)
Total equity		**3,477**	4,056
Liabilities			
Non-current liabilities			
Borrowings	28	**4,703**	3,731
Lease liabilities	14	**9,264**	10,887
Accruals, provisions and other payables	26	**358**	366
Employee benefit obligations	27	**130**	100
Deferred income tax liabilities	29	**82**	100
		14,537	15,184

Consolidated Statement of Financial Position

As at 30 June 2021

	Note	2021 ¥million	2020 ¥million
Current liabilities			
Borrowings	28	**792**	758
Financial liabilities at fair value through profit or loss	18(c)	**8**	—
Lease liabilities	14	**848**	881
Trade payables	25	**12**	12
Accruals, provisions and other payables	26	**1,591**	1,197
Amount due to directors	33(a)	**3**	26
Current income tax liabilities		**56**	32
		3,310	2,906
Total liabilities		**17,847**	18,090
Total equity and liabilities		**21,324**	22,146

The consolidated financial statements on pages 70 to 137 were approved by the Company's Board of Directors on 27 September 2021 and were signed on its behalf.

Katsuya Yamamoto
Director

Yutaka Kagawa
Director

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

	Share capital (Note 24) ¥million	Capital reserve (Note 24(a)) ¥million	Legal reserve (Note 24(b)) ¥million	Investment revaluation reserve (Note 24(c)) ¥million	Retained earnings/ (accumulated losses) ¥million	Total ¥million
Balance at 1 July 2019	20,349	(12,837)	40	10	3,855	11,417
Effect on adoption of IFRS16	—	—	—	—	(999)	(999)
Restated total equity at 1 July 2019	20,349	(12,837)	40	10	2,856	10,418
Loss for the year	—	—	—	—	(6,362)	(6,362)
Total comprehensive loss and transactions with shareholders in their capacity as shareholders	—	—	—	—	(6,362)	(6,362)
Balance at 30 June 2020	20,349	(12,837)	40	10	(3,506)	4,056

	Share capital (Note 24) ¥million	**Capital Reserve (Note 24(a)) ¥million**	**Legal reserve (Note 24(b)) ¥million**	**Investment revaluation reserve (Note 24(c)) ¥million**	**Retained earnings/ (accumulated losses) ¥million**	**Total ¥million**
Balance at 1 July 2020	**20,349**	**(12,837)**	**40**	**10**	**(3,506)**	**4,056**
Loss for the year	**—**	**—**	**—**	**—**	**(577)**	**(577)**
Other comprehensive loss						
Remeasurement of long term benefit obligation	**—**	**—**	**—**	**—**	**3**	**3**
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	**—**	**—**	**—**	**(5)**	**—**	**(5)**
Total comprehensive loss and transactions with shareholders in their capacity as shareholders	**—**	**—**	**—**	**(5)**	**(574)**	**(579)**
Balance at 30 June 2021	**20,349**	**(12,837)**	**40**	**5**	**(4,080)**	**3,477**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Note	**2021 ¥million**	2020 ¥million
Cash flows from operating activities			
Cash generated from operations	30	**1,549**	1,582
Income tax paid		**(14)**	(220)
Interest received		**76**	93
Interest paid		**(72)**	(59)
Net cash generated from operating activities		**1,539**	1,396
Cash flows from investing activities			
Proceeds from disposal of financial assets at fair value through profit or loss		**1,420**	499
Proceeds from disposal of financial assets at fair value through other comprehensive income		**1**	—
Purchase of financial assets at fair value through profit or loss		**(1,194)**	(608)
Purchase of property, plant and equipment		**(36)**	(128)
Purchase of investment properties		**(489)**	(760)
Proceeds from disposal of investment properties	30	**4**	—
Purchase of intangible assets		**—**	(9)
Net cash used in investing activities		**(294)**	(1,006)
Cash flows from financing activities			
Proceeds from borrowings		**1,770**	739
Repayment of borrowings		**(764)**	(782)
Interest elements of lease payments		**(196)**	(213)
Principal elements of lease payments		**(962)**	(1,158)
Net cash generated from/(used in) financing activities		**(152)**	(1,414)
Net increase/(decrease) in cash and cash equivalents		**1,093**	(1,024)
Cash and cash equivalents at beginning of the year		**1,545**	2,565
Effects of exchange rate changes on cash and cash equivalents		**(21)**	4
Cash and cash equivalents at end of the year		**2,617**	1,545

The above consolidated statement of statement of cash flows should be read in conjunction with the accompanying notes.

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 comprising the Group (together, the "Group") are principally engaged in pachinko and pachislot hall operations (the "Business") in Japan.

The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in millions of Japanese Yen ("¥"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

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

The preparation of consolidated financial statements in conformity with IFRS and HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. 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) Compliance with IFRS and HKFRS and Hong Kong Companies Ordinance

The consolidated financial statements have been prepared in accordance with IFRS and HKFRS and the requirements of the Hong Kong Companies Ordinance Cap. 622.

(b) Historical cost convention

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(c) Amended standards and revised conceptual framework adopted by the Group

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IAS 39, IFRS 7 and IFRS 9	Interest Rate Benchmark Reform — Phase 1
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 16	Covid-19-Related Rent Concessions
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The board of the Company has appointed a strategic steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that makes strategic decisions.

2.4 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 profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the profit or loss on a net basis within "Other gains/(losses), net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (continued)

(b) Transactions and balances (continued)

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as financial assets at fair value through other comprehensive income are recognised in other comprehensive income.

2.5 Property, plant and equipment

Land and buildings comprise mainly pachinko and pachislot halls and offices. All property, plant and equipment are 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.

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.

Except for freehold land which is not subject to depreciation, depreciation of other property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

— Buildings	2 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
— Competition horses	4 to 8 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 gains/(losses), net" in the consolidated statement of comprehensive income.

2.6 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Investment properties (continued)

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.

2.7 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 16. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(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 5 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.

(d) Franchise rights

Franchise rights 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 of 5 years.

2.8 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal for the impairment at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

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

(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.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (continued)

(c) Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other gains/(losses), net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Other gains/(losses), net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "Other gains/(losses), net" and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within "Other gains/(losses), net" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in "Other gains/(losses), net" in the statement of profit or loss as applicable. Impairment losses and reversal of impairment losses on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (continued)

(d) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 21 for further details.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Company currently has 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. Arrangements entered by the Company that do not meet the criteria for offsetting are still allowed for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

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 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore all classified as current.

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 2.9(d) for further information about the Group's accounting for financial assets and 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.

2.13 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their 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 profit or loss in the period in which they are incurred.

2.17 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) 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 the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Current and deferred income tax (continued)

(ii) Deferred income tax

Deferred income tax is provided in full, 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. Deferred income tax is also 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, 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.

2.18 Employee benefits

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Employee benefits (continued)

(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.

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) Bonus plans

The Group recognises a liability and an expense for bonuses, 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

Revenue from contracts with customers is recognised by reference to each distinct performance obligation promised in the contract with customer when or as the Group transfers controls of the goods or services promised in a contract and the customer obtains control of the goods or services.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If any of the above conditions are not met, the Group recognises revenue at the point in time at which the performance obligation is satisfied.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Revenue recognition (continued)

Specific criteria for each of the Group's activities are described as below.

(i) Revenue from pachinko and pachislot business represents the gross pay-ins, net of the gross payouts to customers. Gross pay-ins represents the amount received from customers for rental of pachinko balls and pachislot tokens. Gross pay-outs represents the aggregate cost 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 may sell their G-prizes to an independent G-prize buyer for cash outside of the pachinko hall. Revenue is recognised at the end of each player's visit to a machine.

A contract liability is recognised when the Group has received upfront fees from the customers. The Group records these as unutilised balls and tokens in the liabilities section of the consolidated statement of financial position. Such contract liability is recognised as revenue when they are utilised by customers. Income from expired prepaid integrated circuit ("IC") and membership cards are recognised as other income upon expiry of the usage period.

(ii) Vending machine income is recognised when the control of the good has transferred to the customer under the terms and conditions as stipulated in the agreement.

(iii) Horse management income is recognised on a straight-line basis over the accounting periods covered by the terms and conditions as stipulated in the management agreement.

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

(v) Employment supporting services income is recognised over-time when the services is rendered and the Group's performance provides all of the benefits received and consumed simultaneously by the customers.

(vi) Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the statement of consolidated statement of comprehensive income as part of "finance income". Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Revenue recognition (continued)

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

(viii) Dividends are received from financial assets measured at fair value through profit or loss and at fair value through other comprehensive income. Dividends are recognised as other income in the consolidated statement of comprehensive income when the right to receive payment is established.

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

2.21 Government grant

Grants from the government are recognised at their fair value where the grant is received by the Group, and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets

2.22 Leases

Lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

(a) As lessee

Leases are recognised as a right-of-use and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease component based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interest in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Leases (continued)

(a) As lessee (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any incentives receivable,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentive received, any initial direct cost and restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Leases (continued)

(b) As lessor

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

2.23 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 ¥. 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 2021, if USD had weakened/strengthened by 5% against ¥ with all other variables held constant, post-tax loss for the year would have been approximately ¥18 million (2020: ¥12 million) higher/lower, 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 cash flow 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 2021, if interest rates were increased or decreased by 5 basis points and all other variables were held constant, the Group's post-tax loss would increase or decrease by approximately ¥2 million (2020: approximately ¥3 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 2021, if interest rates were increased or decreased by 5 basis points and all other variables were held constant, the Group's post-tax loss would increase or decrease by approximately ¥8 million (2020: approximately ¥7 million) as a result of increase or decrease in net interest expense.

(iii) Price risk

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

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.

	2021 ¥million	2020 ¥million
Impact on other components of equity		
Financial assets at fair value through other comprehensive income		
Share prices:		
— increase by 5%	**1**	2
— decrease by 5%	**(1)**	(2)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk

Credit risk arises mainly from cash deposited at banks, trade receivables, deposits and other receivables, financial assets at amortised cost, 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, 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 financial institutions with high credit ratings assigned by international credit rating agencies.

Approximately 90% (2020: 94%) of the Group's revenue is received in cash. The Group's credit risk mainly arises from vending machine income, rental income and 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 asset.

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.

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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's 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.

	Within 1 year ¥million	Between 1 and 2 years ¥million	Between 2 and 5 years ¥million	Over 5 years ¥million	Total ¥million	Carrying amount ¥million
As at 30 June 2021						
Non-derivatives						
Trade payables	**12**	**—**	**—**	**—**	**12**	**12**
Other payables	**579**	**2**	**4**	**54**	**639**	**639**
Borrowings	**856**	**792**	**2,113**	**2,087**	**5,848**	**5,495**
Amount due to a director	**3**	**—**	**—**	**—**	**3**	**3**
Lease liabilities	**848**	**1,046**	**2,847**	**8,324**	**13,065**	**10,112**
	2,298	**1,840**	**4,964**	**10,465**	**19,567**	**16,261**
Derivatives						
Net settled (financial liabilities at fair value through profit or loss — put option)	—	8	—	—	8	8
	—	8	—	—	8	8
As at 30 June 2020						
Non-derivatives						
Trade payables	12	—	—	—	12	12
Other payables	439	14	—	56	509	509
Borrowings	813	804	1,602	1,561	4,780	4,489
Amount due to a director	26	—	—	—	26	26
Lease liabilities	881	1,039	2,978	8,895	13,793	11,768
	2,171	1,857	4,580	10,512	19,120	16,804

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 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.

	2021 **¥million**	2020 ¥million
Borrowings (Note 28)	**5,495**	4,489
Lease liabilities (Note 14)	**10,112**	11,768
Less: cash and cash equivalents (Note 23)	**(2,617)**	(1,545)
Net debt	**12,990**	14,712
Total equity	**3,477**	4,056
Total capital	**16,467**	18,768
Gearing ratio	**78.9%**	78.4%

The slight increase in the gearing ratio as at 30 June 2021 resulted from the increase in borrowings and decrease in reserve due to impairment loss recognised during the year.

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 ¥million	Level 2 ¥million	Level 3 ¥million	Total ¥million
As at 30 June 2021				
Assets				
Financial assets at fair value through profit or loss				
— Listed securities	**87**	**—**	**—**	**87**
— Debt securities	**—**	**291**	**—**	**291**
Financial assets at fair value through other comprehensive income				
— Listed securities	**22**	**—**	**—**	**22**
— Unlisted securities	**—**	**—**	**2**	**2**
	109	**291**	**2**	**402**
Liabilities				
Financial liabilities at fair value through profit or loss				
— Put option	**—**	**(8)**	**—**	**(8)**
As at 30 June 2020				
Assets				
Financial assets at fair value through profit or loss				
— Debt securities	—	531	1	532
Financial assets at fair value through other comprehensive income				
— Listed securities	30	—	—	30
— Unlisted securities	—	—	3	3
	30	531	4	565

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 2021 and 2020, 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 at 30 June 2021 and 2020, instruments included in level 2 comprise bonds, trust funds and foreign currency swap issued by financial institutions in Japan which were classified as financial assets at fair value through profit or loss or financial liabilities 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 2021 and 2020, 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 2021 and 2020:

	Financial assets at fair value through other comprehensive income ¥million	Financial assets at fair value through profit or loss ¥million	Total ¥million
Balance at 1 July 2019 and 1 July 2020	3	1	4
Fair value loss on valuation	(1)	(1)	(2)
Balance at 30 June 2021	2	—	2

There were no transfers between levels 1, 2 and 3 during the years ended 30 June 2021 and 2020.

3.4 Offsetting financial assets and financial liabilities

As at 30 June 2021 and 2020, there were no financial assets or financial liabilities which were subject to offsetting, enforceable master netting or similar agreements.

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions 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. 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) Impairment assessment of property, plant and equipment and right-of-use assets

The Group has substantial investments in property, plant and equipment and right-of-use assets. 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 rate 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 profit or loss.

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

(b) Impairment assessment of goodwill

The Group conducts reviews annually as to whether goodwill has suffered any impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amount of the CGU is determined based on value-in-use calculation or fair value less costs of disposal. Value-in-use calculation requires the use of management judgements and estimates in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Fair value less costs of disposal calculation requires available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. Changing the assumptions selected by management in assessing impairment, including the discount rate or the growth rate assumption in the cash flow projection, could materially affect the net present value used in the impairment assessment and as a result affect the Group's financial condition and results of operations.

Details of the key assumptions applied by management in assessing impairment of goodwill are stated in Note 16.

(c) 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.

5 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

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

(b) Segment information

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

The management has identified two reportable segments based on the types of services, namely (i) pachinko and pachislot hall operation and (ii) property rental. Other segments, which includes horse management and employment supporting services, do not meet the reportable segment threshold and thus they are not separately included in the reports provided to the chief operating decision maker. The results of these operations are included in "All other segments".

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

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

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

The segment information provided to the executive directors for the years ended 30 June 2021 and 2020 are as follows:

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

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

	Year ended 30 June 2020			
	Pachinko and pachislot hall operation ¥million	Property rental ¥million	All other segments ¥million	Total ¥million
Segment revenue from external customers	6,708	287	56	7,051
Segment results	(6,122)	3	(648)	(6,767)
Loss before income tax				(6,767)
Income tax credit				405
Loss for the year				(6,362)
Other segment items				
Provision for impairment loss of property, plant and equipment	(1,513)	—	—	(1,513)
Provision for impairment loss of right-of-use assets	(5,128)	—	—	(5,128)
Provision for impairment loss of investment properties	—	(141)	—	(141)
Depreciation and amortisation	(1,366)	(52)	(108)	(1,526)
Finance income	—	—	93	93
Finance costs	(222)	(48)	(2)	(272)
Capital expenditures	(224)	(763)	(20)	(1,007)

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

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

	Pachinko and pachislot hall operation ¥million	Property rental ¥million	All other segments ¥million	Total ¥million
As at 30 June 2020				
Segment assets	12,847	2,975	88	15,910
Unallocated assets				4,061
Financial assets held at amortised cost				1,000
Financial assets at fair value through profit or loss				532
Financial assets at fair value through other comprehensive income				33
Deferred income tax assets				610
Total assets				22,146

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

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

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

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

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

7 HALL OPERATING EXPENSES AND ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2021 ¥million	2020 ¥million
Pachinko and pachislot machines expenses (Note)	**1,654**	2,464
Auditor's remuneration		
— Audit services	**52**	47
— Non-audit services	**15**	17
Employee benefits expenses (Note 8)		
— Hall operating expenses	**1,018**	1,062
— Administrative and other operating expenses	**291**	333
Operating lease rental expense in respect of land and buildings	**27**	25
Depreciation and amortisation (Notes 13, 14, 15 and 16)	**1,015**	1,526
Advertising and promotion expenses	**171**	314
Equipment and consumables costs	**121**	132
(Reversal of provision for)/provision for impairment loss of property, plant and equipment (Note 13)	**(22)**	1,513
Provision for impairment loss of right-of-use assets (Note 14)	**532**	5,128
Provision for impairment loss of intangible assets (Note 16)	**382**	6
Provision for unrecoverable prepayments	**—**	4
Repairs and maintenance	**110**	99
Other taxes and duties	**128**	131
Outsourcing service expenses	**193**	206
Utilities expenses	**294**	321
G-prize procurement expenses to wholesalers	**198**	189
Legal and professional fees	**66**	83
Travel expenses	**24**	33
Insurance fee	**18**	14
Others	**312**	278
	6,599	13,925

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

8 EMPLOYEE BENEFITS EXPENSES

	2021 ¥million	2020 ¥million
Salaries, bonuses and allowances	**1,132**	1,258
Other employee benefits	**177**	137
	1,309	1,395

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2021 include two directors (2020: two directors) whose emolument is reflected in the analysis shown in Note 35. The emoluments payable to the remaining three (2020: three) individuals during the year are as follows:

	2021 ¥million	2020 ¥million
Salaries, bonuses, allowances and other benefits	**61**	72

The emoluments fell within the following bands:

	Number of individuals	
	2021	2020
Nil to HK$1,000,000 (equivalent to nil to approximately ¥13,740,000)	**1**	1
HK$1,000,001 to HK$1,500,000 (equivalent to approximately ¥13,740,001 to ¥20,610,000)	**1**	1
HK$2,500,001 to HK$3,000,000 (equivalent to approximately ¥34,350,001 to ¥41,220,000)	**1**	—
HK$3,000,001 to HK$3,500,000 (equivalent to approximately ¥41,220,001 to ¥48,090,000)	**—**	1
	3	3

No discretionary bonus, inducement for joining the Group or compensation for loss of office was paid or payable to any five highest paid individuals during the year (2020: Nil).

9 FINANCE COSTS, NET

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

10 INCOME TAX EXPENSE/(CREDIT)

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the years ended 30 June 2021 and 2020.

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

	2021 ¥million	2020 ¥million
Current income tax		
— Japan	**38**	107
Deferred income tax (Note 29)		
— Japan	**266**	(512)
	304	(405)

10 INCOME TAX EXPENSE/(CREDIT) (CONTINUED)

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

	2021 **¥million**	2020 ¥million
Loss before income tax	**(273)**	(6,767)
Tax calculated at applicable Japan corporate income tax rate	**(94)**	(2,318)
Expenses not deductible for tax purposes	**135**	3
Income not subject to tax purpose	**(16)**	(16)
Temporary differences for which no deferred tax assets were recognised	**170**	2,159
Utilisation of previously unrecognised deductible temporary differences	**(326)**	(6)
Recognition of previously unrecognised deductible temporary differences	**(52)**	(1)
Tax losses not recognised	**499**	16
Withholding tax on undistributed earnings of subsidiaries (Note a)	**(12)**	(337)
Tax losses recognised under consolidated tax payment	**—**	96
Others	**—**	(1)
Income tax expense/(credit)	**304**	(405)

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 34.3% (2020: 34.3%) for the year ended 30 June 2021. The effective tax rate was approximately −111.3% (2020: 5.9%) for the year.

Note a:

For the year ended 30 June 2021, deferred income tax liabilities arising from withholding income tax which result in a decrease in income tax of ¥12 million (2020: decrease in income tax of ¥337 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 credit of ¥82 million (2020: income tax credit of ¥93 million) was calculated at 5% of the distributable reserve of the Group's subsidiaries as at 30 June 2021 (2020: 5%).

11 LOSS PER SHARE

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

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

Note:

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

12 DIVIDENDS

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

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land ¥million	Buildings ¥million	Leasehold improvements ¥million	Equipment and tools ¥million	Motor vehicles ¥million	Competition horses ¥million	Total ¥million
At 1 July 2019							
Cost	5,694	4,979	3,186	3,325	36	213	17,433
Accumulated depreciation and provision for impairment	(56)	(2,002)	(2,282)	(2,686)	(29)	(2)	(7,057)
Net book amount	5,638	2,977	904	639	7	211	10,376
Year ended 30 June 2020							
Opening net book amount	5,638	2,977	904	639	7	211	10,376
Effect of adoption of IFRS 16	(2)	(89)	(235)	(339)	—	—	(665)
Additions	—	2	78	48	—	—	128
Written-off	—	—	(2)	(9)	—	—	(11)
Provision for impairment loss	(854)	(386)	(166)	(107)	—	—	(1,513)
Depreciation (Note 7)	—	(168)	(99)	(149)	(3)	(41)	(460)
Closing net book amount	4,782	2,336	480	83	4	170	7,855

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land ¥million	Buildings ¥million	Leasehold improvements ¥million	Equipment and tools ¥million	Motor vehicles ¥million	Competition horses ¥million	Total ¥million
At 30 June 2020							
Cost	5,692	4,892	3,027	3,025	36	213	16,885
Accumulated depreciation and provision for impairment	(910)	(2,556)	(2,547)	(2,942)	(32)	(43)	(9,030)
Net book amount	4,782	2,336	480	83	4	170	7,855
Year ended 30 June 2021							
Opening net book amount	4,782	2,336	480	83	4	170	7,855
Additions	—	—	15	21	—	—	36
Written-off	—	—	(1)	(1)	—	—	(2)
(Reversal of provision for)/ provision for impairment loss	76	—	(49)	(6)	—	—	21
Depreciation (Note 7)	—	(100)	(94)	(46)	(1)	(47)	(288)
Closing net book amount	4,858	2,236	351	51	3	123	7,622
At 30 June 2021							
Cost	5,692	4,982	3,039	3,043	36	213	17,005
Accumulated depreciation and provision for impairment	(834)	(2,746)	(2,688)	(2,992)	(33)	(90)	(9,383)
Net book amount	4,858	2,236	351	51	3	123	7,622

Depreciation of ¥236 million (2020: ¥407 million) have been charged in "Hall operating expenses" and ¥52 million (2020: ¥53 million) have been charged in "Administrative and other operating expenses" for the year ended 30 June 2021.

The net carrying amount of the Group's property, plant and equipment that were pledged for the banking facilities granted to the Group for the years ended 30 June 2021 and 2020 has been disclosed in Note 28.

During the year ended 30 June 2021, the net book amounts of disposed and written off property, plant and equipment amount to approximately ¥2 million (2020: ¥11 million).

The Group carried out reviews of the recoverable amount of each CGU, which is determined as each individual pachinko and pachislot hall, each individual investment property, the horse sitting operation and the employment support operation.

For the year ended 30 June 2021, in view of the increased uncertainty due to the intensified competitions and outbreak of COVID-19, the management regards CGU with loss for one year or performance below management's expectation (2020: loss for one year) has impairment indicator. As a result, 15 CGUs (2020: 10 CGUs) showed impairment indicator. The management has reviewed the recoverability of the relevant carrying amount of these loss-making CGUs.

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

The value-in-use calculations use pre-tax cash flow projections over the CGUs useful life, which based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The pre-tax cash flow forecasts of the CGUs adopted the multiple probability-weighted scenarios approach, whereas the key input is the assumed time length, ranging from half year to 2 years from 30 June 2021, for the revenue to resume to certain level, ranging from 70% to 90%, of the pre-pandemic level, which was determined based on the circumstance of each CGU. Annual revenue growth rate over the remaining useful life is 0% (2020: 0%) afterwards. The pre-tax discount rate used to determine the recoverable amounts is 12.5% (2020: 12.0%).

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

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

The key assumptions used for fair value less costs of disposal calculations for the years ended 30 June 2021 and 2020 are as follows:

	2021	2020
Land — unit price per square meter	**¥33,700–¥821,000**	¥33,800–¥696,000
Building — replacement cost per square meter	**¥75,494–¥283,000**	¥50,000–¥283,000

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

At each financial year end the finance team:

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

For the year ended 30 June 2021, as a result of the impairment review, reversal of provision for impairment loss of approximately ¥21 million (2020: provision for impairment loss of approximately ¥1,513 million) in relation to property, plant and equipment and provision for impairment loss of approximately ¥547 million (2020: ¥5,128 million) in relation to right-of-use assets have been recognised.

14 LEASES

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following balances relating to leases:

	2021 ¥million	2020 ¥million
Right-of-use assets		
Land	**423**	504
Buildings	**3,615**	4,606
Leasehold improvements	**20**	32
Equipment and tools	**46**	92
Computer software	**—**	32
	4,104	5,266
Lease liabilities		
Non-current	**9,264**	10,887
Current	**848**	881
	10,112	11,768

Additions and disposals to the right-of-use assets during the year ended 30 June 2021 were ¥43 million (2020: ¥110 million) and ¥6 million (2020: ¥3 million) respectively.

For the year ended 30 June 2021, as a result of the impairment review of the CGUs as disclosed in Note 13, provision for impairment loss of approximately ¥547 million (2020: ¥5,128 million) in relation to right-of-use assets has been recognised.

(b) Amounts recognised in the consolidated statement of comprehensive income

	Note	2021 ¥million	2020 ¥million
Depreciation charge of right-of-use assets:			
Land		**38**	82
Buildings		**530**	802
Leasehold improvements		**5**	21
Equipment and tools		**46**	89
Computer software		**32**	1
	7	**651**	995
Expense relating to short-term leases	7	**27**	25
Interest expense (included in finance cost)	9	**196**	213

The cash outflow for leases during the year ended 30 June 2021 was approximately ¥1,185 million (2020: ¥1,396 million).

14 LEASES (CONTINUED)

(c) Leasing activities and how these are accounted for

The Group leases various land, buildings and computer software. Rental contracts are typically made for fixed periods of 3 to 30 years but may have extension options as described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the rental deposits that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(d) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable by the Group.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

15 INVESTMENT PROPERTIES

	2021 ¥million	2020 ¥million
At cost		
At beginning of year	**2,847**	2,279
Additions	**489**	760
Disposal	**(4)**	—
Depreciation (Note 7)	**(72)**	(51)
Provision for impairment loss	**(44)**	(141)
At end of year	**3,216**	2,847
At end of year		
Cost	**4,600**	4,115
Accumulated depreciation	**(859)**	(787)
Accumulated provision for impairment	**(525)**	(481)
	3,216	2,847

The investment properties that have been pledged to secure general facilities granted to the Group are disclosed in Note 28. The Group had no unprovided contractual obligations for future repairs and maintenance as at 30 June 2021 and 2020.

15 INVESTMENT PROPERTIES (CONTINUED)

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:

	2021 **¥million**	2020 ¥million
Rental income	**340**	274
Direct operating expenses from the properties that generated rental income	**(117)**	(77)
	223	197

The Group's investment properties were valued as at 30 June 2021 and 2020 by an independent professionally qualified valuer. The valuation was determined using the income approach, which largely used observable and unobservable inputs, including monthly rental per square meter, capitalisation rate, discount rate and vacancy rate after expiry of current lease, or the direct comparison approach, which largely used sales comparables occurred in the property market. The fair values of all investment properties are within level 3 of the fair value hierarchy.

The key assumptions used for fair value less costs of disposal calculations for the years ended 30 June 2021 and 2020 are as follows:

	2021	2020
Income approach		
Monthly rental per square meter	**¥1,943–¥33,100**	¥1,927–¥24,420
Capitalisation rate	**5.0%–10.0%**	5.0%–10.0%
Discount rate	**5.8%–9.8%**	5.8%–9.8%
Vacancy rate after expiry of current lease terms	**0%–15.0%**	0%–25.0%
Direct comparison approach		
Unit price per square meter	**¥4,460–¥239,000**	¥4,460–¥239,000

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

At each financial year end the finance team:

- Verifies all major inputs to the independent valuation reports;
- Assess property valuations movements when compared to the prior year valuation reports; and
- 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 2021 is ¥3,561 million (2020: ¥3,134 million). Impairment loss of ¥44 million was recognised during the year (2020: ¥141 million).

Notes to the Consolidated Financial Statements

16 INTANGIBLE ASSETS

	Goodwill ¥million	Computer software ¥million	Club membership ¥million	Franchise rights ¥million	Total ¥million
At 1 July 2019					
Cost	740	112	5	—	857
Accumulated amortisation	—	(89)	—	—	(89)
Net book amount	740	23	5	—	768
Year ended 30 June 2020					
Opening net book amount	740	23	5	—	768
Additions	—	—	—	9	9
Impairment loss	—	(1)	(5)	—	(6)
Amortisation (Note 7)	—	(19)	—	(1)	(20)
Closing net book amount	740	3	—	8	751
At 30 June 2020					
Cost	740	112	5	9	866
Accumulated amortisation and provision for impairment	—	(109)	(5)	(1)	(115)
Net book amount	740	3	—	8	751
Year ended 30 June 2021					
Opening net book amount	**740**	**3**	**—**	**8**	**751**
Impairment loss	**(382)**	**—**	**—**	**(6)**	**(388)**
Amortisation (Note 7)	**—**	**(2)**	**—**	**(2)**	**(4)**
Closing net book amount	**358**	**1**	**—**	**—**	**359**
At 30 June 2021					
Cost	**740**	**112**	**5**	**9**	**866**
Accumulated amortisation and provision for impairment	**(382)**	**(111)**	**(5)**	**(9)**	**(507)**
Net book amount	**358**	**1**	**—**	**—**	**359**

16 INTANGIBLE ASSETS (CONTINUED)

Intangible assets represent computer software, club membership, franchise rights and goodwill arising from an acquisition of a subsidiary which was engaged in the pachinko business in previous years.

During the year ended 30 June 2021, no (2020: ¥16 million) amortisation expenses relating to computer software have been charged in "Hall operating expenses" and amortisation expenses relating to computer software and franchise rights of ¥2 million (2020: ¥3 million) and ¥2 million (2020: ¥1 million) respectively have been charged in "Administrative and other operating expenses".

Goodwill arising from the acquisition is allocated to the relevant CGU which is expected to benefit from the business combination, as defined as a pachinko and pachislot hall. Management reviews annually whether the carrying amount of the CGU is higher than the recoverable amount which results in impairment of goodwill. The recoverable amount of the CGU is determined based on value-in-use calculation.

The value-in-use calculation uses pre-tax cash flow projection based on financial budget approved by management covering a five-year period. Cash flow beyond the five-year period is extrapolated using the estimated growth rate stated below.

The pre-tax cash flow forecast of the CGU adopted the multiple probability-weighted scenarios approach, whereas the key input is the assumed time length for the revenue to resume to 80% of the pre-pandemic level, ranging from half year to 2 years from 30 June 2021. After such resumption, the annual revenue growth rate over the remaining useful life is 0% (2020: the annual revenue growth rate over the remaining useful life is 0%). The pre-tax discount rate used to determine the recoverable amounts is 12.5% (2020: 12%).

As a result of the impairment review, the recoverable amount of the CGU in which goodwill has been allocated is lower than its carrying amount as at 30 June 2021. As a result, impairment loss of ¥382 million was charged during the year ended 30 June 2021 (2020: Nil).

17 FINANCIAL INSTRUMENTS BY CATEGORY

	2021 **¥million**	2020 ¥million
Financial assets		
Financial assets at fair value		
Financial assets at fair value through profit or loss	**378**	532
Financial assets at fair value through other comprehensive income	**24**	33
	402	565
Financial assets at amortised cost		
Deposits and other receivables	**1,244**	1,352
Bonds	**1,000**	1,000
Short-term bank deposits	**100**	100
Cash and cash equivalents	**2,617**	1,545
	4,961	3,997
	5,363	4,562
Financial liabilities		
Financial liabilities at fair value		
Financial liabilities at fair value through profit or loss	**8**	—
	8	—
Financial liabilities at amortised cost		
Trade payables	**12**	12
Lease liabilities	**10,112**	11,768
Other payables	**639**	507
Amount due to directors	**3**	26
Borrowings	**5,495**	4,489
	16,261	16,802
	16,269	16,802

18 FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL ASSETS THROUGH OTHER COMPREHENSIVE INCOME

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

	2021 **¥million**	2020 ¥million
Unlisted securities		
— Debt securities	**378**	532
Less: non-current portion	**(22)**	(46)
Current portion	**356**	486

Changes in fair values of financial assets at fair value through profit or loss are recorded in "Other gains/(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

	2021 **¥million**	2020 ¥million
Financial assets		
Listed securities		
— Equity securities	**22**	30
Unlisted securities		
— Equity securities	**2**	3
	24	33

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 28).

18 FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL ASSETS THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) 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:

	2021 **¥million**	2020 ¥million
¥	**341**	422
USD	**61**	143
	402	565

(c) Financial liabilities at fair value through profit or loss

	2021 **¥million**	2020 ¥million
Put option	**(8)**	—

The carrying amounts of financial liabilities at fair value through profit or loss are dominated in ¥.

19 FINANCIAL ASSETS HELD AT AMORTISED COST

	2021 **¥million**	2020 ¥million
Bonds	**1,000**	1,000
Less: non-current portion	**—**	(500)
Current portion	**1,000**	500

The carrying amounts of financial assets held at amortised cost are denominated in Japanese Yen and approximate their fair values as at 30 June 2021 and 2020.

20 INVENTORIES

	2021 **¥million**	2020 ¥million
Uninstalled pachinko and pachislot machines	**79**	13

The cost of inventories recognised as expense and included in "Hall operating expenses" amounted to ¥1,654 million (2020: ¥2,464 million) for the year ended 30 June 2021.

21 TRADE RECEIVABLES

	2021 ¥million	2020 ¥million
Trade receivables	**19**	18

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

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

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

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

22 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021 ¥million	2020 ¥million
Non-current portion		
Rental and other deposits	**1,006**	1,050
Prepaid expenses	**53**	27
	1,059	1,077
Current portion		
Prepayment for prizes in operation for pachinko and pachislot halls	**125**	166
Prepaid expenses	**56**	49
Other receivables	**144**	241
Rental and other deposits	**94**	61
	419	517

The carrying amounts of prepayments, deposits and other receivables of the Group approximate their fair values as at 30 June 2021 and 2020 and are denominated in Japanese Yen.

23 CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS

	2021 **¥million**	2020 ¥million
Bank deposits with maturity more than three months	**100**	100
Cash on hand	**186**	219
Cash at banks	**2,431**	1,326
Cash and cash equivalents	**2,617**	1,545
Total cash and bank balances	**2,717**	1,645

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

	2021 **¥million**	2020 ¥million
¥	**2,169**	1,368
USD	**539**	268
Others	**9**	9
	2,717	1,645

24 SHARE CAPITAL AND RESERVE

	Number of shares million	**Share capital** ¥million
At 30 June 2020 and 30 June 2021	500	20,349

(a) Capital reserve

Capital reserve deficit of approximately ¥12,837 million represented (i) the difference between the carrying value net asset 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.

24 SHARE CAPITAL AND RESERVE (CONTINUED)

(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 2021 and 2020.

25 TRADE PAYABLES

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

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

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

26 ACCRUALS, PROVISIONS AND OTHER PAYABLES

	2021 **¥million**	2020 ¥million
Non-current portion		
Provision for reinstatement costs	**298**	296
Rental deposits	**60**	70
	358	366
Current portion		
Payable for pachinko and pachislot machines	**352**	207
Accrued expenses	**432**	411
Unutilised balls and tokens	**326**	230
Other tax payable	**345**	255
Others	**136**	94
	1,591	1,197

Note:

Revenue recognised during the year ended 30 June 2021 that was included in the unutilised balls and tokens at the beginning of the year amounted to ¥230 million (2020: ¥330 million). Unutilised balls and tokens have an expiry term of 5 years, but the Company expects to deliver the services to satisfy the remaining performance obligations of these contract liabilities during the next reporting period.

26 ACCRUALS, PROVISIONS AND OTHER PAYABLES (CONTINUED)

The carrying amounts of accruals, provisions and other payables approximate their fair values as at 30 June 2021 and 2020 are denominated in the following currencies:

	2021 **¥million**	2020 ¥million
¥	**1,894**	1,513
USD	**55**	50
	1,949	1,563

27 EMPLOYEE BENEFIT OBLIGATIONS

	2021 **¥million**	2020 ¥million
Long term benefit obligations for Yamamoto Family (Note)	**92**	64
Retirement benefit obligations for employees	**38**	36
	130	100

Note:

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

The long term benefit obligation for Yamamoto Family as at 30 June 2021 and 30 June 2020 represents the provision on the lump-sum payment made to one Yamamoto Family member as a recognition of his contribution to the Group. A particular amount of provision is made for him mainly according to his rank 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 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.

27 EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

(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:

	2021 ¥million	2020 ¥million
At beginning of year	**64**	81
Reversal of provision during the year	**—**	(49)
Remeasurement of long term benefit obligations	**28**	32
At end of year	**92**	64

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

	2021 ¥million	2020 ¥million
At beginning of year	**36**	35
Current service cost	**3**	3
Benefit paid	**(1)**	(2)
At end of year	**38**	36

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

	2021 ¥million	2020 ¥million
Current service cost	**3**	3

(d) The principal actuarial assumptions adopted as at 30 June 2021 and 2020 are as follows:

	2021	2020
Discount rate	**0.55%**	0.61%

Notes to the Consolidated Financial Statements

28 BORROWINGS

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

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

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

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

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

28 BORROWINGS (CONTINUED)

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

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

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

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

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

29 DEFERRED INCOME TAX

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

	2021 ¥million	2020 ¥million
At beginning of year	**510**	(55)
Effect of adoption of IFRS 16	**—**	53
Charged to other comprehensive income	**2**	—
Charged to profit or loss (Note 10)	**(266)**	512
At end of year	**246**	510

29 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets

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

	2021 ¥million	2020 ¥million
Property, plant and equipment	**412**	553
Lease liabilities	**1,351**	1,704
Pachinko and pachislot machines	**351**	392
Financial assets at fair value through profit or loss	**—**	50
Financial assets at fair value through other comprehensive income	**14**	12
Retirement benefit plans	**12**	12
Losses carried forward	**59**	227
Other provisions	**139**	112
Total deferred income tax assets	**2,338**	3,062
Set-off of deferred income tax liabilities pursuant to set-off provisions	**(2,010)**	(2,452)
Net deferred income tax assets	**328**	610

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:

Deferred income tax assets

	Property, plant and equipment ¥million	Lease liabilities ¥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 2019	478	—	378	—	13	12	250	119	1,250
Effect of adoption of IFRS 16	—	3,620	—	—	—	—	—	—	3,620
Charged to other comprehensive income	—	—	—	—	(1)	—	—	—	(1)
Credited/(charged) to profit or loss	75	(1,916)	14	50	—	—	(23)	(7)	(1,807)
Balances at 30 June 2020	553	1,704	392	50	12	12	227	112	3,062
Credited to other comprehensive income	—	—	—	—	2	—	—	—	2
(Charged)/credited to profit or loss	(141)	(353)	(41)	(50)	—	—	(168)	27	(726)
Balances at 30 June 2021	**412**	**1,351**	**351**	**—**	**14**	**12**	**59**	**139**	**2,338**

29 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax liabilities

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

	2021 ¥million	2020 ¥million
Property, plant and equipment	**(665)**	(736)
Right-of-use assets	**(1,329)**	(1,704)
Provision for reinstatement costs	**(3)**	(6)
Financial assets at fair value through profit or loss	**(3)**	—
Taxable temporary differences relating to investments in subsidiaries	**(82)**	(95)
Others	**(10)**	(11)
Total deferred income tax liabilities	**(2,092)**	(2,552)
Set-off of deferred income tax assets pursuant to set-off provisions	**2,010**	2,452
Net deferred income tax liabilities	**(82)**	(100)

	Property, plant and equipment ¥million	Right-of-use assets ¥million	Provision for reinstatement costs ¥million	Financial assets at fair value through profit or loss ¥million	Withholding tax on undistributed earnings of subsidiaries ¥million	Others ¥million	Total ¥million
Balances at 1 July 2019	(798)	—	(12)	(1)	(485)	(9)	(1,305)
Effect of adoption of IFRS 16	—	(3,620)	—	—	53	—	(3,567)
Credited/(charged) to profit or loss	62	1,916	6	1	337	(2)	2,320
Balances at 30 June 2020	(736)	(1,704)	(6)	—	(95)	(11)	(2,552)
Credited/(charged) to profit or loss	71	375	3	(3)	13	1	460
Balances at 30 June 2021	**(665)**	**(1,329)**	**(3)**	**(3)**	**(82)**	**(10)**	**(2,092)**

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.

29 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax liabilities (continued)

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 2021 and 2020 are as follows:

	2021 **¥million**	2020 ¥million
Deductible temporary differences	**7,871**	8,479
Losses carried forward	**2,408**	832
Total	**10,279**	9,311

The expiration of tax losses carried forward for which deferred income tax assets are not recognised is as follows:

	2021 **¥million**	2020 ¥million
1st year	**—**	—
2nd year	**—**	—
3rd year	**—**	—
4th year	**—**	—
5th year and thereafter	**2,408**	832
Total	**2,408**	832

30 CASH GENERATED FROM OPERATIONS

	2021 **¥million**	2020 ¥million
Loss before income tax	**(273)**	(6,767)
Adjustments for:		
Depreciation and amortisation	**1,015**	1,526
Losses on disposal of property, plant and equipment	**2**	—
Losses on write-off of property, plant and equipment	**—**	11
(Reversal of provision for)/provision for impairment loss of property, plant and equipment	**(21)**	1,513
Provision for impairment loss of right-of-use assets	**547**	5,128
Provision for impairment loss of investment properties	**44**	141
Provision for impairment loss of intangible assets	**388**	6
Provision for unrecoverable prepayments	**—**	4
Gains on release of lease liabilities	**(731)**	—
Provision/(reversal) for employee benefit obligation	**33**	(16)
(Gains)/losses on disposal of financial assets at fair value through profit or loss	**(56)**	(8)
(Gains)/losses on fair value change on financial assets at fair value through profit or loss	**(16)**	161
Losses on fair value changes on financial liabilities at fair value through profit or loss	**8**	—
Gains on disposal on financial liabilities at fair value through profit or loss	**—**	(4)
Finance income	**(76)**	(93)
Finance costs	**268**	272
Unrealised exchange losses/(gains)	**23**	(4)
Changes in working capital:		
Inventories	**(66)**	58
Prepayments, deposits and other receivables	**97**	(165)
Trade payables	**—**	(14)
Accruals, provisions and other payables	**386**	(167)
Amount due to directors	**(23)**	—
Cash generated from operations	**1,549**	1,582

30 CASH GENERATED FROM OPERATIONS (CONTINUED)

In the consolidated statement of cash flows, proceeds from disposal of investment property comprise:

	2021 **¥million**	2020 ¥million
Net book amount	**4**	—
Loss on disposals of investment property	**—**	—
Proceed from disposal of investment property	**4**	—

Net debt reconciliation:

This section sets out an analysis of net debt and the movement in net debt for the year ended 30 June 2021 and 2020 presented.

	2021 **¥million**	2020 ¥million
Cash and cash equivalents	**2,617**	1,545
Borrowings	**(5,495)**	(4,489)
Lease liabilities	**(10,112)**	(11,768)
Net debt	**(12,990)**	(14,712)
Cash and cash equivalents	**2,617**	1,545
Gross debt — fixed interest rates	**(12,686)**	(13,893)
Gross debt — variable interest rates	**(2,921)**	(2,364)
Net debt	**(12,990)**	(14,712)

30 CASH GENERATED FROM OPERATIONS (CONTINUED)

	Other assets	Liabilities from financing activities		
	Cash and cash Equivalents ¥million	Borrowings ¥million	Leases ¥million	Total ¥million
Net debt as at 30 June 2019	2,565	(4,532)	(12,819)	(14,786)
Cash flows				
Principal elements of lease payments	—	—	1,158	1,158
Interest elements of lease payment	—	—	213	213
Proceeds from borrowings	—	(739)	—	(739)
Repayment of borrowings	—	782	—	782
Net decrease in cash and cash equivalents	(1,024)	—	—	(1,024)
Non-cash movements				
Acquisition of leases	—	—	(110)	(110)
Disposal of leases	—	—	3	3
Accrued interest elements of lease payments	—	—	(213)	(213)
Foreign exchange adjustment	4	—	—	4
Net debt as at 30 June 2020 and 1 July 2021	**1,545**	**(4,489)**	**(11,768)**	**(14,712)**
Cash flows				
Principal elements of lease payments	—	—	962	962
Interest elements of lease payment	—	—	196	196
Proceeds from borrowings	—	(1,770)	—	(1,770)
Repayment of borrowings	—	764	—	764
Net increase in cash and cash equivalents	1,093	—	—	1,093
Non-cash movements				
Acquisition of leases	—	—	(43)	(43)
Disposal of leases	—	—	6	6
Gain on release of lease liabilities	—	—	731	731
Accrued interest elements of lease payments	—	—	(196)	(196)
Foreign exchange adjustment	(21)	—	—	(21)
Net debt as at 30 June 2021	**2,617**	**(5,495)**	**(10,112)**	**(12,990)**

Notes to the Consolidated Financial Statements

31 CONTINGENCIES

As at 30 June 2021 and 2020, the Group did not have any significant contingent liabilities.

32 COMMITMENTS

(a) Capital commitments

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

	2021 **¥million**	2020 ¥million
Property, plant and equipment		
— Capital expenditure contracted for but not yet incurred	**—**	1

(b) Operating lease commitments

(i) As a lessor

As at 30 June 2021 and 2020, the Group's future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	2021 **¥million**	2020 ¥million
No later than one year	**52**	62

33 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.

33 RELATED PARTY TRANSACTIONS (CONTINUED)

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 2021 and 2020:

Name of related parties	Relationship with the Company/Group
Katsuya Yamamoto	Executive Director, the Chairman and the Chief executive officer
Fumihide Hamada	Executive Director

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 2021 and 2020:

(a) Outstanding balances arising from transactions with related parties

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

	2021 **¥million**	2020 ¥million
Amount due to directors		
— Katsuya Yamamoto	**2**	26
— Fumihide Hamada	**1**	—
	3	26

(b) Key management compensation

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

	2021 **¥million**	2020 ¥million
Salaries and other short-term employee benefits	**90**	172

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	Note	**2021** **¥million**	2020 ¥million
Assets			
Non-current assets			
Financial assets held at amortised cost		**—**	500
Investments in subsidiaries		**10,259**	11,968
		10,259	12,468
Current assets			
Financial assets held at amortised cost		**1,000**	500
Prepayments and other receivables		**75**	52
Amount due from a subsidiary		**1,049**	1,009
Cash and cash equivalents		**212**	224
		2,336	1,785
Total assets		**12,595**	14,253
Liabilities			
Total liabilities		**—**	—
Net assets		**12,595**	14,253
Equity			
Share capital		**20,423**	20,423
Reserves	(b)	**(7,828)**	(6,170)
Total equity		**12,595**	14,253

The statement of financial position of the Company was approved by the Company's Board of Directors on 27 September 2021 and was signed on its behalf.

Katsuya Yamamoto *Director*	**Yutaka Kagawa** *Director*

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(b) Reserve movement of the Company

	Retained Earnings/ accumulated losses ¥million	Capital deficit ¥million	Total ¥million
At 1 July 2019	190	(6,407)	(6,217)
Profit for the year	47	—	47
At 30 June 2020	237	(6,407)	(6,170)
At 1 July 2020	**237**	**(6,407)**	**(6,170)**
Loss for the year	**(1,658)**	**—**	**(1,658)**
At 30 June 2021	**(1,421)**	**(6,407)**	**(7,828)**

35 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 2021

	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)*	**30**	**—**	**—**	**—**	**—**	**—**	**30**
Fumihide Hamada	**—**	**7**	**—**	**—**	**—**	**—**	**7**
Yutaka Kagawa	**—**	**10**	**—**	**—**	**—**	**—**	**10**
Toshiro Oe	**—**	**8**	**—**	**—**	**—**	**—**	**8**
Independent non-executive directors:							
Yuji Matsuzaki	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Kazuyuki Yoshida	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Mitsuru Ishi	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	30	**25**	**—**	**—**	**—**	**—**	**55**

35 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 2020

	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	—	8	—	—	—	—	8
Yutaka Kagawa	—	10	—	—	—	—	10
Toshiro Oe	—	9	—	—	—	—	9
Independent non-executive directors:							
Mitsuru Ishi	—	—	—	—	—	—	—
Kazuyuki Yoshida	—	—	—	—	—	—	—
Yuji Matsuzaki	—	—	—	—	—	—	—
	102	27	—	—	—	—	129

Notes:

(i) The remuneration shown above included remuneration received or receivables from the Group by the directors in their capacity as employees of the subsidiaries during the year ended 30 June 2021 (2020: Same).

(ii) No remunerations were paid or receivable in respect of accepting office as directors during the year ended 30 June 2021 (2020: Nil).

(iii) No directors waived any emoluments nor there was any arrangement under which a director waived or agreed to waive any emoluments during the year ended 30 June 2021 (2020: Nil).

(iv) No compensation was paid to, or received by, our Directors or past Directors for the loss of office as director of any other office in connection with the management of the affairs of any member of the Group during the year ended 30 June 2021 (2020: Nil).

(a) Directors' retirement benefits

The retirement benefits receivable by Mr. Katsuya Yamamoto during the year ended 30 June 2021 by a defined benefit pension plan operated by the Group in respect of his services as a director of the Company and its subsidiaries was ¥92 million (2020: ¥64 million).

(b) Directors' termination benefits

During the year ended 30 June 2021, there was no board resolution to early terminate of the directors' appointment in office (2020: Nil).

35 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)

(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 2021 (2020: 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 2021, there was no arrangement in relation to loans, quasi-loans and other dealings between the Group and the directors (2020: Nil).

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

No significant transactions, arrangements and contracts in relation to 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 (2020: Nil).

36 SUBSIDIARIES

The following is a list of the principal subsidiaries as at 30 June 2021 and 2020:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by the Company	
				2021	2020
Directly held:					
Okura Co., Ltd	Japan	Pachinko and Pachislot hall operation in Japan	¥50 million	**100%**	100%
Indirectly held:					
K's Property Co., Ltd	Japan	Real estate investment in Japan	¥10 million	**100%**	100%
Okura Nishinihon 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%

37 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 30 July 2021, the Company entered into an amendment agreement with a bond issuer to extend the maturity date of one series of a subscribed bond, which the Company subscribed during the year ended 30 June 2018 with face value of JPY500 million, from to 31 July 2021 to 31 July 2024, to increase the interest rate for the extended period from 3.0% per annum to 4.0% per annum and to include an independent third party as a guarantor of the amendment agreement to guarantee the repayment obligations of the bond issuer.

On 26 July 2021, the management decided to cease the operation of three pachinko and pachislot halls and one employment support centre (collectively, the "Closure"). The board of directors considers the Closure to have no material adverse impact on the business operation and financial position of the Group, and expects the streamlining of resources and operation by the Closure will help stabilise and improve the Group's financial performance in the long run.

Financial Summary

The following table summarises the results of the Group for each of the five years ended 30 June 2017, 2018, 2019, 2020 and 2021.

	As at 30 June				
	2021	2020	2019	2018	2017
	¥ million	¥ million	¥ million	¥ million	¥ million
Gross pay-ins	**24,232**	29,669	35,567	36,368	37,740
Gross pay-outs	**(19,327)**	(23,076)	(27,815)	(28,112)	(28,967)
Revenue from pachinko and pachislot business	**4,905**	6,593	7,752	8,256	8,773
Other revenue	**518**	458	405	463	465
Revenue	**5,423**	7,051	8,157	8,719	9,238
Hall operating expenses	**(5,767)**	(13,076)	(6,798)	(8,451)	(8,278)
Administrative and other operating expenses	**(832)**	(849)	(902)	(140)	(1,371)
Profit before income tax	**(273)**	(6,767)	989	857	437
Profit attributable to the shareholders of the Company	**(577)**	(6,362)	601	743	269
Current assets	**4,590**	3,161	4,459	4,737	5,001
Current liabilities	**3,310**	2,906	2,617	2,505	2,357
Net current assets	**1,280**	255	1,842	2,232	2,644
Total assets	**21,324**	22,146	19,717	19,991	21,637
Total assets less current liabilities	**18,014**	19,240	17,100	17,486	19,280

Particulars of Investment Properties

Location	Existing use	Tenure	Attributable interest of the Group
Takeda Building, 1517–1, 1517–2 and 1518–1, Sumiyoshimachi, Nagasaki City, Japan 武田ビル 長崎市住吉町 1517–1, 1517–2, 1518–1	Clinic, office, residence	Freehold	100%
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 パーキング 長崎県佐世保市 戸尾町84番1外	Parking	Freehold	100%
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 for a long term of 20 years	100%
Apple Park Sumiyoshi, 1525, Sumiyoshimachi, Nagasaki-shi, Nagasaki-ken, Japan アツプルパーク住吉 長崎県長崎市 住吉町1525番	Parking	Freehold	100%
Higashi Nagasaki 1.2, 1027–45 and another tract, Tanakamachi, Nagasaki-shi, Nagasaki-ken, Japan 東長崎1.2 長崎県長崎市田中町1027–45外	Retail	Freehold	100%

Particulars of Investment Properties

Location	Existing use	Tenure	Attributable interest of the Group
#603 Sun Park Sumiyoshi, 54–1 and other tracts, Chitosemachi, Nagasaki-shi, Nagasaki-ken, Japan サンパーク住吉603 長崎県長崎市千歳町54–1外	Residence	Freehold	100%
K's Building I, 30, Ohashimachi, Nagasaki-shi, Nagasaki-ken, Japan ケイズビル 長崎県長崎市大橋町30	Residence	Freehold	100%
K's Building II, 31, Ohashimachi, Nagasaki-shi, Nagasaki-ken, Japan ケイズIIビル 長崎県長崎市大橋町31	Residence	Freehold	100%
Hachikoku, 3798 and another tract, Aza-Shinkai, Hinamigo, Togitsucho, Nishisonogi-gun, Nagasaki-ken, Japan 八工区 長崎県西彼杵郡時津町 日並郷字新開3798外	Storage	Freehold	100%
Hilltop, 740–33, Sumiyoshidaimachi, Nagasaki-shi, Nagasaki-ken, Japan ヒルトツプ 長崎県長崎市住吉台町740–33	Residence	Freehold	100%
Apple Park Shimanjicho, 80–3 and other tracts, Shimanjicho, Sasebo-shi, Nagasaki-ken, Japan アツプルパーク島地町 長崎県佐世保市 島地町80–3外	Parking	Freehold	100%
Tower City Parking Court, 420 Asahimachi, Nagasaki-shi, Nagasaki-ken, Japan タワーシティ長崎パーキングコート 長崎県長崎市旭町420	Retail and parking lot	Freehold	100%