

# TARGET

## Intelligence Report

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T U E S D A Y

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### **OKURA HOLDINGS LTD: THE PROBLEMS OF OPERATING PACHINKO HALLS IN JAPAN**

Pachinko is a Japanese pinball game, played on a vertical machine in which slots struck by the player's ball release other balls that in turn are exchanged for noncash prizes.

Pachinko halls have, for eons, been very popular in Japan, but they differ from the more-popular concept of a casino, those found in Las Vegas, The United States of America, and the Macau Special Administrative Region (MSAR) of the People's Republic of China (PRC), to mention only two areas of the world where gamblers go in order to try their luck in the vain hope of beating the house odds by playing against gambling devices, returning to their homes with their pockets, full of their cash winnings.

The major difference between pachinko halls, in Japan, and casinos in most parts of the world, is that the winners, in a pachinko hall, go home with only noncash prizes of one kind or another.

Okura Holdings Ltd (Code: 1655, Main Board, The Stock Exchange of Hongkong Ltd) proudly states that it is a pachinko hall operator in the Kyushu, Kanto, Kansai, and Chugoku regions of Japan, under the trading names of '*Big Apple*' and '*K's Plaza*.'

On or about May 15, 2017, Management of Okura Holdings Ltd sought and obtained a listing of its entire Issued and Fully Paid-Up Share Capital on the premier equity market of the Hongkong Special Administrative Region (HKSAR) of the PRC.

However, since donning the purple robe of magnificence in the HKSAR, six years ago, things have not gone as Management would have anticipated and appreciated.

In the past three Financial Years, ended June 30, 2022, Management of the Company has had to inscribe the Bottom Lines in red ink.

#### **The Chairman Has His Say**

The Chairman of Okura Holdings Ltd, today, is Mr Katsuya Yamamoto (山本勝也).

He took the trouble to put pen to paper, so to speak, explaining, in three pages, to his shareholders, the Company's plight in respect of the Financial Year, ended June 30, 2022.

The following are some of this gentleman's thoughts and explanations, extracted from the 2022 Annual Report of the Company:

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

*'Despite the emergence of new variants of COVID-19 in Japan during the Year, there has been no industry-wide shutdowns of the pachinko halls in FY2022 (Financial Year, ended June 30, 2022). However, in light of the COVID-19 situations which remained challenging in Japan during the Year, the Group has implemented infection prevention measures based on the "Guidelines for Preventing the Spread of New Coronavirus Infections in Pachinko and Pachislot Hall Operation" issued by the 21st Century Pachinko and Pachislot Industry Association on 21 May 2020, in its business operations such as requiring all of our employees to wear face masks at all times and applying disinfectant to pachinko machines from time to time to control the spread of the COVID-19 pandemic in the Group's pachinko halls and provide a safe working environment for its employees.*

*'During FY2022, the Group observed a partial recovery of customer traffic at some of its pachinko halls, particularly those located in the Kyushu region. Notwithstanding the recovery of customer traffic at those pachinko halls, the Group had closed down three pachinko halls ... The management considered that the closure of the aforementioned three pachinko halls will be more beneficial for the Group as the Group would be able to focus its resources on its other more promising pachinko halls by enhancing customer experience there and minimise further losses from business operations by closing down those halls with weaker performance ...*

*'Despite the closure of the aforementioned three pachinko halls, the Group has recorded a loss before income tax of approximately ¥1,205 million for FY2022, representing an increase in loss before income tax of approximately 341.4% from approximately ¥273 million for FY2021. The increase in loss before income tax for FY2022 was mainly attributable to (i) the loss on fair value changes of the Group's financial assets at fair value through profit or loss of approximately ¥504 million in FY2022, as compared with a gain of approximately ¥16 million in FY2021, due to fluctuations in the market prices of the underlying assets in the Company's*

*investments, (ii) the decrease in gain on release of lease liabilities, which is approximately ¥460 million in FY2022 as compared with approximately ¥731 million in FY2021, due to the fewer number of lease agreements that were terminated in FY2022 as compared with that in FY2021, and (iii) the increase in provision for impairment loss of investment properties, which is approximately ¥160 million in FY2022 as compared with approximately ¥44 million in FY2021, due to the continuing uncertainty in the business performance of the Group's investment properties caused by the prolonged impact of COVID-19 and its new variants in Japan in FY2022.*

### ***'COPING WITH OBSTACLES AND UNCERTAINTIES FROM REGULATORY MEASURES***

*'As disclosed in the previous interim reports and annual reports of the Company, the "Regulations to Partially Amend Regulations on the Entertainment and Amusement Trades Rationalising Act and Regulations on Certifying Machines and Conducting Type Test on Machines" issued by the National Public Safety Commission of Japan on 1 February 2018 (the "2018 Regulations") has continued to have an adverse impact on the pachinko and pachislot industry in Japan by reducing the attractiveness of the game and contributing to the continuous decline of pachinko and pachislot players, as pachinko and pachislot machines with a higher gaming element are required to gradually phase out of the pachinko industry in batches by the end of January 2021. Pursuant to revisions of the 2018 Regulations in May 2020 and May 2021 ...*

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