

INDUSTRY OVERVIEW

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GLOBAL GOLF PRODUCTS INDUSTRY

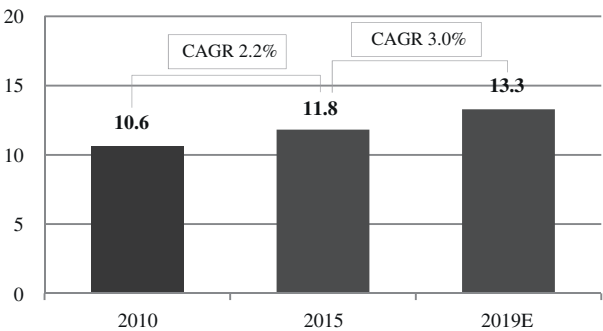
Overview

Golf is a sport which boasts worldwide popularity and is enjoyed by millions globally. The sport involves players using various types of clubs to hit balls into a series of holes with the aim of minimizing the number of strokes required. To play golf, a golfer needs a set of clubs of various lengths and sizes, a set of golf balls and related accessories such as gloves and bags. These products make up the core of the global golf products market. Golf apparel includes clothing and shoes targeted at the golf lifestyle market and forms another important segment of the golf products market.

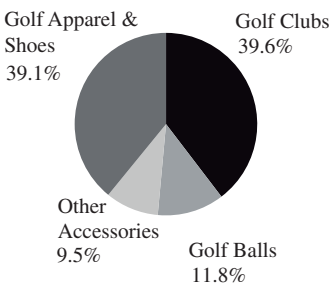
From 2010 to 2015, the global golf products market has expanded steadily at a CAGR of 2.2%, reaching US\$11.8 billion in terms of retail sales value in 2015. This market is expected to grow at a slightly higher rate over the next several years with total market size reaching US\$13.3 billion in terms of retail sales value in 2019, representing a CAGR of 3.0% from 2015 to 2019, according to the Frost & Sullivan Report. For more information, see “— Key Drivers and Trends in Global Golf Products Industry.” In terms of product breakdown, golf clubs constituted the largest market segment with US\$4.7 billion of retail sales in 2015, representing 39.6% of the overall golf products market. Golf balls and other accessories, with US\$1.4 billion and US\$1.1 billion of retail sales, respectively, represented 11.8% and 9.5% of the golf products market, respectively. Golf apparel, including shoes, represented 39.1% of the market with US\$4.6 billion of retail sales in 2015, according to the Frost & Sullivan Report.

The charts below set forth the global golf products market size in terms of retail sales value from 2010 to 2019 and breakdown by product type in 2015, respectively.

Global Retail Sales Value (2010-2019E),  
in US\$ billions



Breakdown by Product Type (2015)



Source: Frost & Sullivan Report

## **INDUSTRY OVERVIEW**

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### **Regional Breakdown**

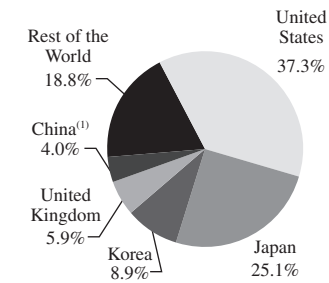
Some of the key golf products markets in the world include the United States, Japan, Korea, the United Kingdom and China. According to the Frost & Sullivan Report:

- *United States.* The largest golf products market in the world, with retail sales of US\$4.4 billion in 2015, representing 37.3% of the global market. The United States golf products market has experienced steady growth in recent years, which growth is expected to continue at a CAGR of 2.3% from 2015 to 2019, reaching US\$4.8 billion in terms of retail sales in 2019;
- *Japan.* The second largest golf products market in the world, with retail sales of US\$3.0 billion in 2015, representing 25.1% of the global market. Japan’s golf products market has been rather stagnant in recent years. With greater representation of Japanese golfers among the professional golf circuit as well as the upcoming Olympic Games in Tokyo in 2020, the market in Japan is expected to rediscover growth at a CAGR of 2.0% from 2015 to 2019, reaching US\$3.2 billion in terms of retail sales in 2019;
- *Korea.* The third largest golf products market in the world, with retail sales of US\$1.0 billion in 2015, representing 8.9% of the global market. Korea’s golf products market has experienced robust growth in recent years, on the back of strong interest among the population in golf, particularly the younger generation, following the success of Korean professional golfers such as Bo-Mee Lee (李寶美) on the JLPGA tour in recent years. These factors are expected to continue to drive the expansion of Korea’s golf products market, which is projected to grow at a CAGR of 5.9% from 2015 to 2019 and reach US\$1.3 billion in terms of retail sales in 2019;
- *United Kingdom.* A mature golf products market, with retail sales of US\$692 million in 2015, representing 5.9% of the global market. The United Kingdom golf products market has experienced steady growth in recent years, which growth is expected to continue at a CAGR of 2.0% from 2015 to 2019, reaching US\$750 million in terms of retail sales in 2019; and
- *China (including Hong Kong and Macau).* One of the fastest growing golf products markets in the world, driven by the emergence of the middle and upper class, increasing disposable income and spending on leisure activities, together with increasing golf participation and per capita expenditure on golf related products. These factors are expected to continue to drive the expansion of China’s golf products market. China’s golf products market reached US\$469 million in terms of retail sales in 2015, representing 4.0% of the global market. It is expected to increase to US\$646 million in 2019, at a CAGR of 8.3% from 2015 to 2019.

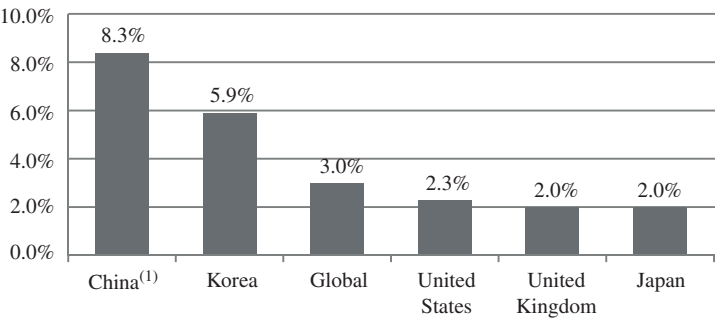
INDUSTRY OVERVIEW

The charts below set forth the breakdown by region of the global golf products market by retail sales in 2015, and comparison of 2015 to 2019 market size measured in CAGR by region, respectively.

Breakdown by Region (2015)



Growth Comparison by Region (2015-2019E CAGR)



Note:

(1) including Hong Kong and Macau

Source: Frost & Sullivan Report

Retail Sales Channels

Golf products are generally sold through a variety of retail channels around the world, including:

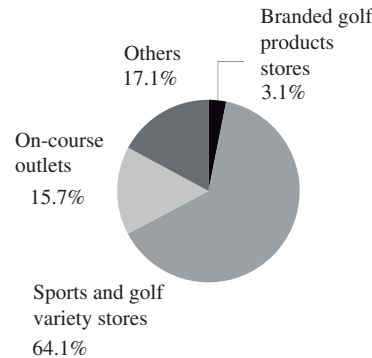
- *Branded golf products stores.* Stand-alone single brand golf products stores operated by golf brands or golf products distributors. Branded golf product stores constitute a relatively small segment of the overall market, representing 3.1% of the global golf products market in terms of retail sales in 2015;
- *Sports and golf variety stores.* Includes sports megastores that sell a comprehensive range of sports equipment under multiple brands, and traditional sports and golf variety stores that provide various brands of sports and golf equipment. Sports and golf variety stores constitute the largest retail sales channel of the overall market, representing 64.1% of the global golf products market in terms of retail sales in 2015;
- *On-course outlets.* Specialty golf products stores located on golf courses. These stores are typically operated by the respective golf courses and sell a variety of golf and related products. On-course outlets represented 15.7% of the global golf products market in terms of retail sales in 2015; and
- *Other channels.* Includes various ecommerce channels, supermarkets and department stores and other channels such as golf colleges and institutions. Other channels represented 17.1% of the global golf products market in terms of retail sales in 2015.

## INDUSTRY OVERVIEW

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The chart below sets forth the breakdown by retail sales channel of the global golf products market in terms of retail sales in 2015, according to the Frost & Sullivan Report.

**Breakdown by Retail Sales Channel (2015)**



Source: Frost & Sullivan Report

Although branded golf products stores represent only a small portion of the overall golf products retail sales market, they can serve a highly important purpose for brands. Such stores are typically staffed with experienced golf advisors, have testing equipment and sometimes even golf simulators and fitting centers to assist consumers with their purchase decisions. Such value added services can translate into a higher degree of satisfaction and brand loyalty for customers, which drive repeat purchases. As of March 31, 2016, HONMA had 86 self-operated golf products stores, the largest number among major golf products companies, according to the Frost & Sullivan Report.

### KEY DRIVERS AND TRENDS IN GLOBAL GOLF PRODUCTS INDUSTRY

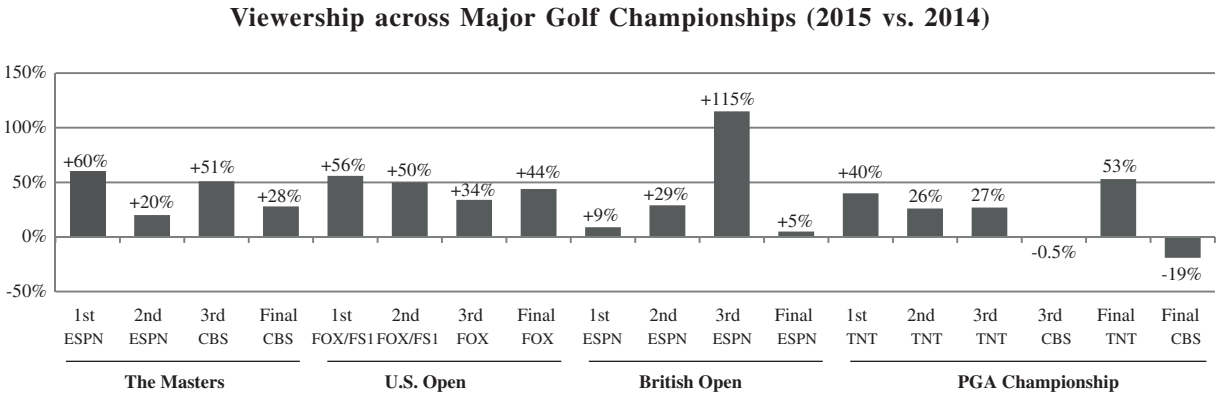
According to the Frost & Sullivan Report, the following factors are expected to be key drivers of growth for the golf products industry over the next several years:

- *New Markets and Demographics.* Golf has traditionally been under-penetrated in emerging markets. In recent years, more people in emerging markets, especially in Asia, have started to play the sport, driven by increasing disposable income, higher standards of living and greater emphasis on leisure activities. Meanwhile, golf has also gained greater popularity among women and the younger generation worldwide, as a result of the increasing perception of golf as a “lifestyle sport”, a new generation of young golfers coming to prominence on the professional circuit, and additional marketing efforts by golf brands towards these demographics.
- *“Lifestyle Sport” Proposition.* Positioned as a “lifestyle sport” with an element of prestige that accommodates competition, entertainment and physical exercise, golf appeals to modern consumers who pursue a higher quality lifestyle with an increasing awareness for health and wellness.
- *New Generation of Professional Golfers.* A new generation of professional golfers, including Jason Day, Jordan Spieth and Rory McIlroy, has helped to renew enthusiasm towards the sport, following the success of premier athletes such as Tiger Woods in the late 1990s and early 2000s.
- *Golf’s Return to the Olympic Games.* The reinclusion of golf in the Olympic Games beginning in 2016 is expected to significantly raise the profile of the sport worldwide. In addition, with Japan hosting the Olympics in 2020, the golf products markets in Japan and Asia are expected to receive a significant boost in the years to come.
- *Expansion of Retail Channels.* Diverse retail channels have been established to address consumers’ purchase preferences, which were predominantly bricks and mortar store focused in the past. In recent years, emerging channels, such as e-commerce channels, have gained increasing importance in capturing previously untapped or underpenetrated consumer segments.

INDUSTRY OVERVIEW

- Technological Innovation. Golf products development has always been driven by technological innovations over the years. Further developments in clubs, balls and related products are expected to make the game more accessible, enjoyable and exciting, while continuing to attract new players.

Reflecting the renewed sense of enthusiasm towards golf, viewership across all major golf championships significantly increased in 2015. Such renewed enthusiasm towards golf is expected to have a positive impact on the demand for golf products. The following chart sets forth the increase in viewership from 2015 vs. 2014 across the major championships.



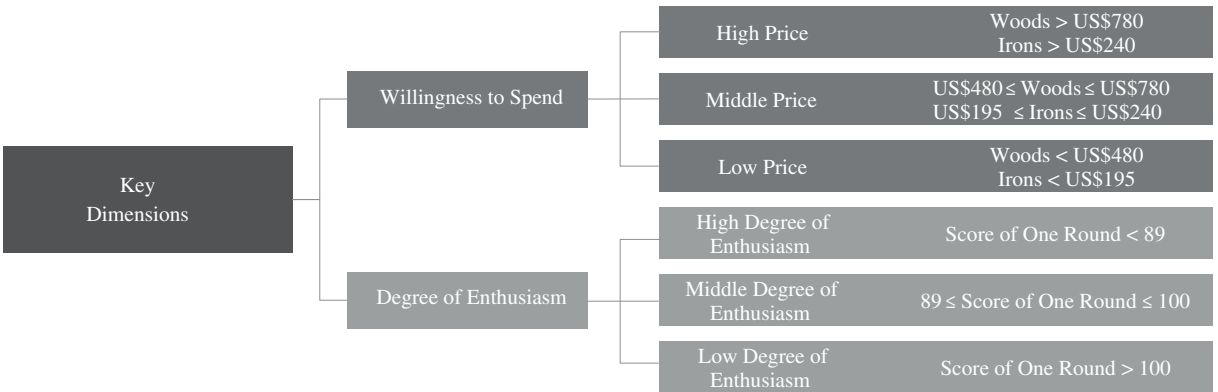
Source: Frost & Sullivan Report

ANALYSIS OF CONSUMER PREFERENCES FOR GOLF CLUBS

Overview of Market Segmentation by Types of Consumers

According to the Frost & Sullivan Report, consumer preferences for golf clubs can be classified under two key dimensions:

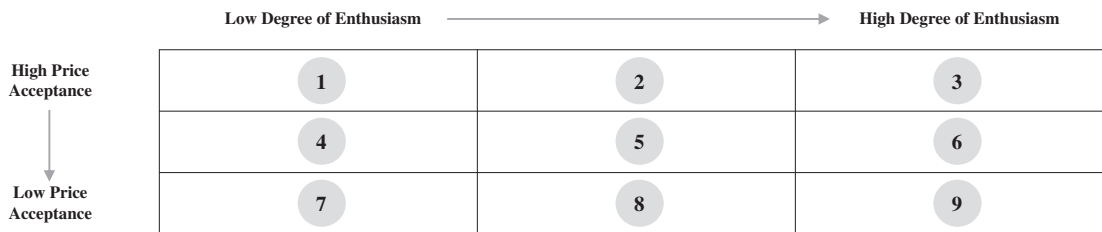
- (i) the willingness to spend, or acceptable price of clubs; and
- (ii) the degree of enthusiasm for golf. The degree of enthusiasm can be measured by the consumer’s skill and participation level, which is score for playing one round of golf, as well as number of rounds played within a particular time period.



Source: Frost & Sullivan Report

## INDUSTRY OVERVIEW

Based on the two key dimensions described above, the golf clubs market can be segmented into the Nine Key Segments, each consisting of a unique type of golf club consumer.



Source: Frost & Sullivan Report

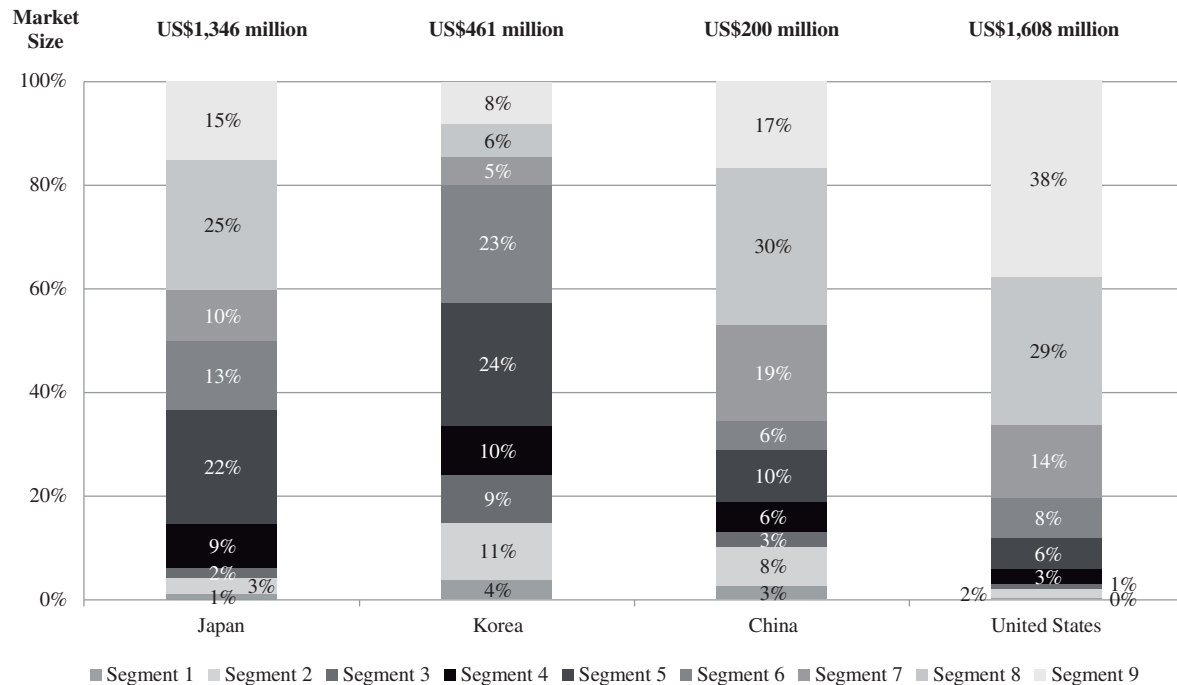
In most major club markets around the world, Segments 5, 6, 8 and 9 constitute the largest consumer pools within the Nine Key Segments, according to the Frost & Sullivan Report.

- *Japan.* Consumers have typically favored higher priced, premium brands. The largest segments were Segments 8, 5, 9 and 6, which represented 25.3%, 22.0%, 15.2% and 13.2% of the overall golf clubs market in terms of retail sales in 2015, respectively.
- *Korea.* Participation in the industry has traditionally skewed towards the upper class who are members of private clubs. The largest segments were Segments 5, 6 and 2, which represented 23.8%, 22.9% and 11.1% of the overall golf clubs market in terms of retail sales in 2015. The Korea market is comparatively more high-end focused and hence Segments 1, 2 and 3 represent greater share of the market as compared to other regions.
- *China.* The largest segments were Segments 8, 7, 9 and 5, which represented 30.2%, 18.6%, 16.7% and 10.1% of the overall golf clubs market in terms of retail sales in 2015, respectively. China is expected to witness the largest shift in segment market representation over the next several years. As average skill levels of golf players gradually improve, Segments 5 and 6 are expected to experience a significant increase in overall market share.
- *United States.* The United States has a mature golf club market with participation across different income groups. The largest segments were Segments 9, 8 and 7, which represented 37.8% and 28.6% and 14.0% of the overall golf clubs market in terms of retail sales in 2015, respectively. The significant market share of Segment 9 and 8 consumers demonstrate the mass market and accessible nature of the golf clubs market in the region.

## INDUSTRY OVERVIEW

The charts below set forth the breakdown of each of the Nine Key Segments in Japan, Korea, China and the United States in terms of golf club retail sales in 2015.

**Nine Key Segments Breakdown by Region by Retail Sales Value (2015)**



Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, consumers belonging to each of the Nine Key Segments place emphasis on different criteria when making their purchase decisions on golf clubs.

1 High Price Low Enthusiasm	Design & Price	2 High Price Middle Enthusiasm	Design & Design	3 High Price High Enthusiasm	Design & Performance
4 Middle Price Low Enthusiasm	Performance & Price	5 Middle Price Middle Enthusiasm	Performance & Design	6 Middle Price High Enthusiasm	Performance & Performance
7 Low Price Low Enthusiasm	Price & Price	8 Low Price Middle Enthusiasm	Price & Design	9 Low Price High Enthusiasm	Price & Performance

Source: Frost & Sullivan Report

As illustrated in the chart above, consumers who accept higher prices generally have higher requirements on product design. Consumers who have higher degree of enthusiasm generally have higher requirements on product performance. For example, among the Nine Key Segments, consumers belonging to Segment 2 have the highest requirements on the design of golf clubs, while consumers belonging to Segment 6 have the highest requirements on performance. Meanwhile, consumers who accept a middle price range are also focused on performance of the clubs, while having lower requirements on design. On the other hand, consumers who have medium level of enthusiasm tend to place more emphasis on the design of golf clubs.

Golf club manufacturers who are able to identify these trends in consumer preferences and develop different products to best cater to such preferences will be best positioned to gain market share, according to the Frost & Sullivan Report.



## INDUSTRY OVERVIEW

### Future Outlook on Global Consumer Preferences

The following chart illustrates the segments within the Nine Key Segments of different geographic regions that are expected to experience increases in shares of their respective golf clubs market in terms of retail sales from 2015 to 2019, according to the Frost & Sullivan Report.



Source: Frost & Sullivan Report

- *Japan.* Segments 9, 6 and 8 are expected to experience the fastest growth in terms of retail sales, with expected CAGRs of 7.3%, 5.5% and 2.9% from 2015 to 2019, respectively, outpacing the country’s overall golf clubs market growth of a CAGR of 1.5% expected for the same time period.
- *Korea.* Segments 8, 9, 7, 6 and 5 are expected to experience the fastest growth in terms of retail sales, with expected CAGRs of 11.5%, 11.1%, 9.4%, 9.3% and 7.6% from 2015 to 2019, respectively, outpacing the country’s overall golf clubs market growth of a CAGR of 6.5% expected for the same time period.
- *China.* Segments 6, 5 and 4 are expected to experience the fastest growth in terms of retail sales, with expected CAGRs of 35.1%, 21.2%, and 11.9% from 2015 to 2019, respectively, outpacing the country’s overall golf clubs market growth of a CAGR of 10.9% expected for the same time period. Segments 8, 9, 7 and 3 are also expected to experience significant growth, with respective CAGRs of 8.3%, 7.6% and 6.7% expected for the same time period.
- *United States.* Segments 5 and 6 are expected to experience the fastest growth in terms of retail sales, with expected CAGRs of 7.4% and 6.6% from 2015 to 2019, respectively, outpacing the country’s overall golf clubs market growth of a CAGR of 1.2% expected for the same time period.

There are several emerging trends with respect to global consumer preferences for golf clubs over the next several years, according to the Frost & Sullivan Report:

- *Consumers to become more value conscious.* With Segments 5, 6, 8 and 9 exhibiting the highest growth among many key golf club markets, there is a clear trend that consumers have become more value conscious when making their golf club purchase decisions. As golf becomes increasingly adopted as a mainstream and mass market lifestyle activity, there is expected to be an influx of casual golf players across different income groups who will drive demand for more affordable products;
- *Functionality over form.* Another key theme is an increasing preference towards product functionality and performance. As various golf club markets around the world become more mature, average skill levels of golf players gradually increase and they tend to become more educated regarding golf clubs, driving demand for products that will allow such players to improve their score on the golf course; and
- *Emphasis on product innovation and development.* Leading golf club brands will need to adjust their product strategy to satisfy shifting consumer preferences for golf clubs. It is expected that there will be an increasing emphasis on product innovation and development of more affordable product families. Golf club brands with premium brand positioning are expected to be more successful in moving into new segments in the Nine Key Segments given their well-respected brand image and product development capabilities.



## INDUSTRY OVERVIEW

### COMPETITIVE LANDSCAPE

The global golf products industry is relatively concentrated, dominated by several well-established companies with recognized brands and strong sales and marketing forces. According to the Frost & Sullivan Report, the top ten brands for golf products and golf clubs had combined global market shares of 73.7% and 76.7%, respectively, in 2015.

HONMA competes on a global basis with the golf segments of multinational sports products companies from the United States and Germany, specialized golf products companies from the United States, as well as other Japanese peers. According to the Frost & Sullivan Report, HONMA was the seventh largest golf products brand and sixth largest golf club brand in the world, with market shares of 2.7% and 5.7%, respectively, in terms of retail sales in 2015. Nonetheless, HONMA was by far the fastest growing brand within the top ten brands as measured by year-on-year retail sales growth from 2014 to 2015, demonstrating the growing awareness of and interest in HONMA’s brand and products among consumers. As a testament to the Company’s prestigious stature, HONMA was also the number one brand for premium golf clubs in the world, with a market share of 22.6% in terms of retail sales in 2015. Premium golf clubs refer to woods sold above US\$700 per club and irons sold above US\$200 per club.

The following tables set forth the top 10 golf products brands, golf club brands and premium golf club brands in terms of global retail sales in 2015, according to the Frost & Sullivan Report.

Top Golf Products Brands by Retail Sales Value (2015)				Top Golf Club Brands by Retail Sales Value (2015)				Top Premium Golf Club Brands <sup>(1)</sup> by Retail Sales Value (2015)		
Rank	Brand/ Company	Market Share	YoY Sales Growth	Rank	Brand/ Company	Market Share	YoY Sales Growth	Rank	Brand/ Company	Market Share
1	Company A	17.8%	4.6%	1	Company C	15.1%	1.7%	1	HONMA	22.6%
2	Company B	11.6%	(5.3%)	2	Company B	14.1%	(4.0%)	2	Company F	12.5%
3	Company C	9.9%	2.2%	3	Company A	11.2%	3.8%	3	Company D	10.3%
4	Company D	9.4%	2.9%	4	Company F	9.9%	3.7%	4	Company A	9.9%
5	Company E	9.2%	3.7%	5	Company D	8.5%	1.3%	5	Company C	9.4%
6	Company F	6.9%	4.5%	6	HONMA	5.7%	16.8%	6	Company B	6.1%
7	HONMA	2.7%	21.0%	7	Company G	3.9%	4.0%	7	Company G	5.1%
8	Company G	2.6%	3.5%	8	Company I	3.1%	1.5%	8	Company J	4.8%
9	Company H	1.9%	3.5%	9	Company H	2.7%	2.5%	9	Company K	3.3%
10	Company I	1.8%	1.1%	10	Company E	2.6%	4.4%	10	Company L	2.2%

Note:

(1) Premium golf clubs refer to woods sold at above US\$700 and irons sold at above US\$200 in terms of retail sales value.

Source: Frost & Sullivan Report

## INDUSTRY OVERVIEW

In Honma’s home markets of Japan, Korea and China (including Hong Kong and Macau), we had market shares of 8.7%, 6.8% and 15.4%, respectively, in terms of retail sales value in 2015, ranking fourth, sixth and second, respectively, in the respective country’s golf club markets. The following tables set forth the top 10 golf club brands in terms of retail sales in 2015 in Japan, Korea and China (including Hong Kong and Macau), according to the Frost & Sullivan Report.

**Top Golf Club Brands in Japan by Retail Sales Value (2015)**    **Top Golf Club Brands in Korea by Retail Sales Value (2015)**    **Top Golf Club Brands in China<sup>(1)</sup> by Retail Sales Value (2015)**

Rank	Brand/Company	Market Share	Rank	Brand/Company	Market Share	Rank	Brand/Company	Market Share
1	Company F	13.7%	1	Company B	11.2%	1	Company F	15.5%
2	Company C	11.0%	2	Company F	11.0%	2	<b>HONMA</b>	<b>15.4%</b>
3	Company A	9.4%	3	Company A	8.5%	3	Company B	12.2%
4	<b>HONMA</b>	<b>8.7%</b>	4	Company C	7.4%	4	Company C	8.4%
5	Company B	8.4%	5	Company J	6.8%	5	Company A	6.6%
6	Company D	6.8%	6	<b>HONMA</b>	<b>6.8%</b>	6	Company G	5.6%
7	Company H	6.0%	7	Company D	6.7%	7	Company H	3.7%
8	Company G	3.1%	8	Company G	5.2%	8	Company M	3.3%
9	Company M	2.8%	9	Company E	4.4%	9	Company D	3.1%
10	Company E	1.0%	10	Company H	1.9%	10	Company E	2.7%

Note:

(i) Including Hong Kong and Macau

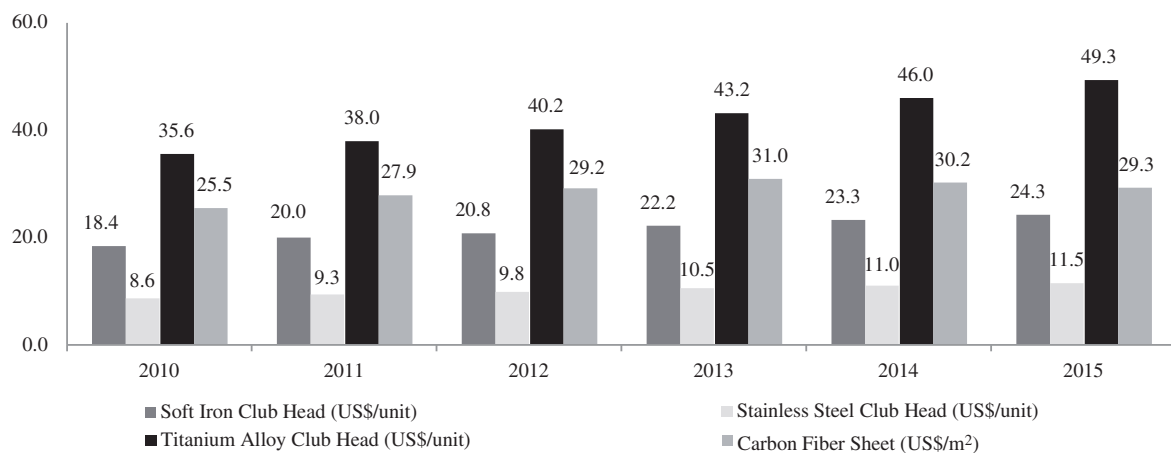
Source: Frost & Sullivan Report

## RAW MATERIALS

HONMA’s major raw materials include soft iron club heads, stainless steel club heads, titanium alloy club heads, and carbon fiber sheets. According to the Frost & Sullivan Report, average wholesale prices of soft iron, stainless steel as well as titanium alloy club heads increased steadily from 2010 to 2015, primarily due to improvements in production techniques and rising of labor costs. The average wholesale price of carbon fiber sheets have remained relatively stable over the same time period.

The chart below sets forth the average wholesale prices of HONMA’s key raw materials on a global basis from 2010 to 2015, according to the Frost & Sullivan Report.

**Average Wholesale Prices of Key Raw Materials (Global), 2010-2015 (US\$)**



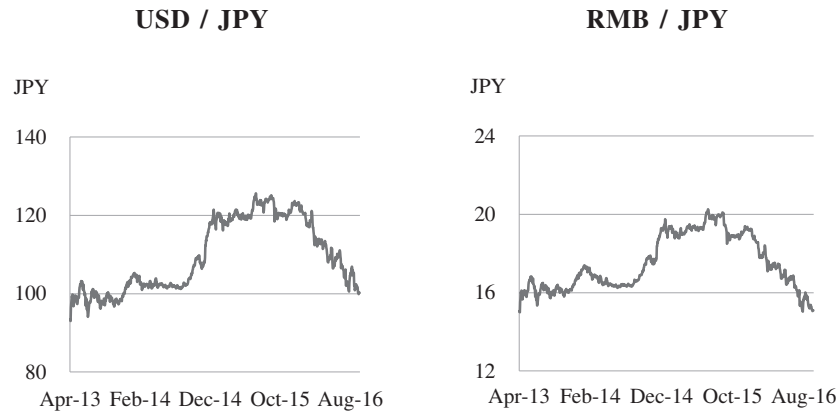
Source: Frost & Sullivan Report

## INDUSTRY OVERVIEW

### FOREIGN EXCHANGE

A substantial portion of our operations are based in Japan, and a substantial portion of our revenue and expenditures transactions are denominated and settled in JPY. As a result, our foreign exchange risk is limited. Nevertheless, given the global nature of our business, we are exposed to various foreign exchange fluctuations, including movements in the USD and RMB against the JPY.

The charts below set forth the historical fluctuations of the JPY in relation to the USD and RMB for the periods indicated.



Source: Factiva

The table below sets forth a summary of the respective foreign exchange fluctuation ranges during the Track Record Period and for the three months ended June 30, 2016.

	Year ended March 31,									Three months ended June 30,		
	2014			2015			2016			2016		
	Avg.	High	Low	Avg.	High	Low	Avg.	High	Low	Avg.	High	Low
USD / JPY . . .	100.2	105.3	93.0	109.9	121.5	101.2	120.1	125.6	111.4	108.0	111.8	102.0
RMB / JPY . . .	16.4	17.4	15.0	17.7	19.8	16.2	18.9	20.3	17.1	16.5	17.2	15.3

Source: Factiva

### SOURCES OF INFORMATION

We commissioned Frost & Sullivan, an independent marketing and consulting agency, for the research and preparation of the Frost & Sullivan Report on Global Golf Products Retail Market, including general economic data, industry data and consumer surveys. The consideration for the research and preparation of the Frost & Sullivan Report is RMB1,000,000, which we believe reflects the market rate for such reports. Founded in 1961, Frost & Sullivan and its affiliates have 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. It offers industry research and market strategies and provides growth consulting and corporate training. Except for the Frost & Sullivan Report, we did not commission any other customized report.

## **INDUSTRY OVERVIEW**

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In the regions covered by the Frost & Sullivan Report, Frost & Sullivan adopted a methodology of both primary research and secondary research and obtained knowledge, statistics, information and insights on industry trends within the golf products retail market. Primary research involved interviewing leading industry participants, consumers and third-party industry associations. Secondary research involved reviewing company annual reports, official bureaus’ databases, independent research reports or journals and Frost & Sullivan’s proprietary database built up over the past decades.

Forecast data was obtained from historical data analyses plotted against macroeconomic data as well as specific industry-related drivers, such as purchasing power and consumer expenditure on golf products. Frost & Sullivan developed its forecast on the following bases and assumptions:

- that the social, economic and political environments of the world remain stable during the forecast period, which ensures the sustained and steady development of consumer goods retail market;
- that the purchasing power is expected to continue to rise rapidly in emerging regions and to grow steadily in developed regions; and
- that related industry key drivers are likely to drive the market in the forecast period.

Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report, which may qualify, contradict or have an impact on the information as disclosed in this section.