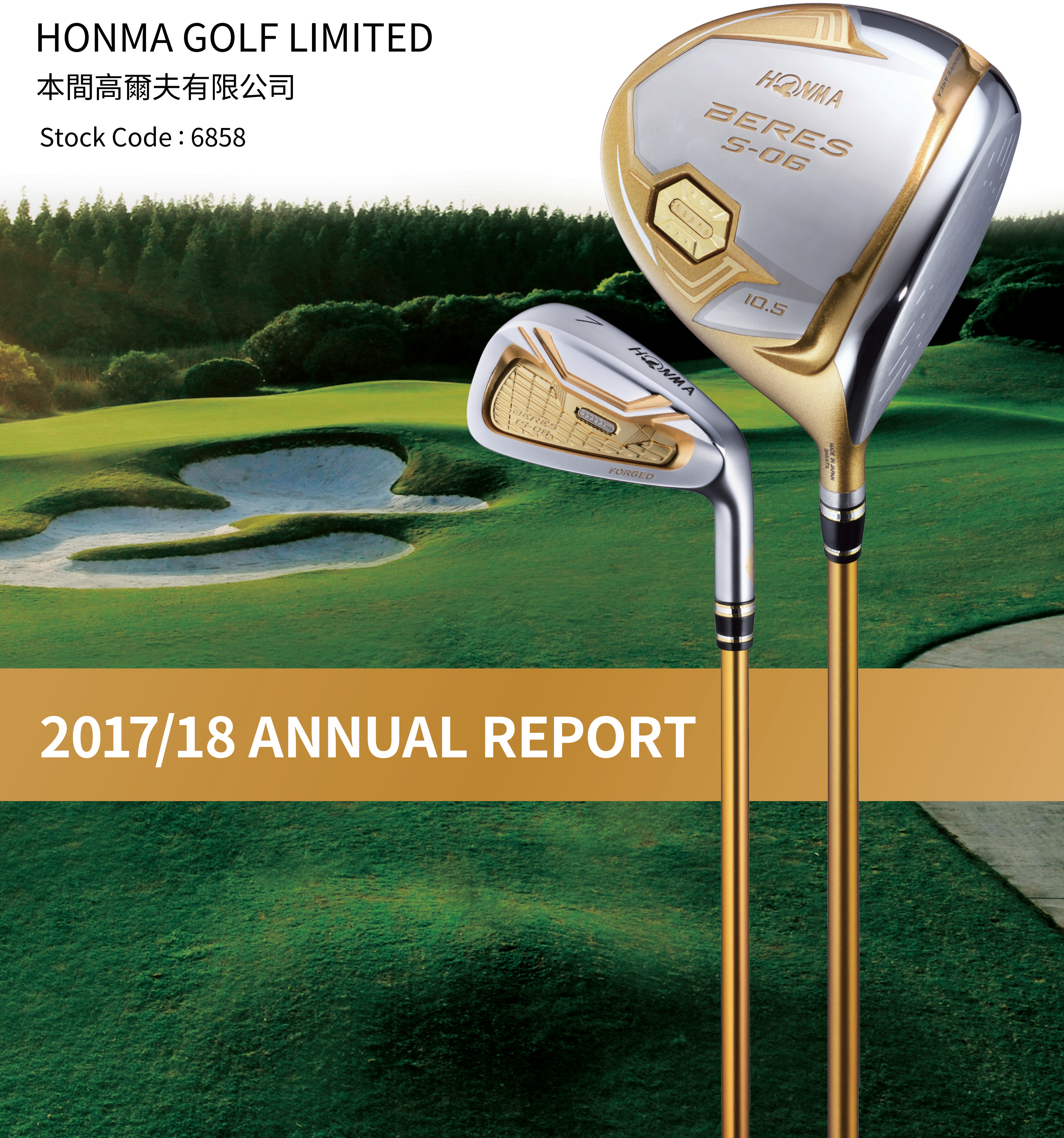
HONMA

HONMA GOLF LIMITED

本間高爾夫有限公司

Stock Code：6858



2017/18 ANNUAL REPORT

Contents

Corporate Information

Board of directors

Executive directors

Mr. Liu Jianguo (劉建國) *(Chairman and President)*

Mr. Ito Yasuki (伊藤康樹)

Mr. Murai Yuji (邨井勇二)

Mr. Zuo Jun (左軍)

Non-executive director

Mr. Yang Xiaoping (楊小平)

Independent non-executive directors

Mr. Lu Pochin Christopher (盧伯卿)

Mr. Wang Jianguo (汪建國)

Mr. Xu Hui (徐輝)

Audit committee

Mr. Lu Pochin Christopher (盧伯卿) *(Chairman)*

Mr. Wang Jianguo (汪建國)

Mr. Xu Hui (徐輝)

Remuneration committee

Mr. Wang Jianguo (汪建國) *(Chairman)*

Mr. Xu Hui (徐輝)

Mr. Zuo Jun (左軍)

Nomination committee

Mr. Liu Jianguo (劉建國) *(Chairman)*

Mr. Wang Jianguo (汪建國)

Mr. Lu Pochin Christopher (盧伯卿)

Company secretary

Ms. Cheng Pik Yuk (鄭碧玉, alias: Patsy Cheng)

Authorized representatives

Mr. Zuo Jun (左軍)

Ms. Cheng Pik Yuk (鄭碧玉, alias: Patsy Cheng)

Auditor

Ernst & Young

Certified public accountants

Compliance advisor

Guotai Junan Capital Limited

Company's website

http://www.honma.hk

Stock code

6858

Registered office in Cayman Islands

The offices of Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

Headquarter in Japan

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P.O. Box#62, 6-10-1
Roppongi
Minatoku
Tokyo, Japan

Shanghai Office

31 Floor
No.100, Century Ave.
Pudong New Area
Shanghai, PRC

Principal place of business in Hong Kong

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

The Cayman Islands principal share registrar and transfer agent

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

Hong Kong share registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal bankers

Mizuho Bank, Ltd., Aoyama Branch
The Tokyo Tomin Bank, Limited, Setagaya Branch
Bank of China Limited, Shanghai Branch, Songjiang Sub-Branch
The Hongkong and Shanghai Banking Corporation Limited

Financial Summary

	For the year ended 31 March			
	2018 JPY'000	2017 JPY'000	2016 JPY'000	2015 JPY'000
Operating Results				
Revenue	**26,296,159**	24,242,435	22,368,761	18,525,092
Gross profit	**15,977,446**	14,548,373	13,194,843	10,905,042
Gross profit margin	**60.8%**	60.0%	59.0%	58.9%
Operating profit	**6,242,193**	4,946,318	4,129,769	1,959,025
Net profit	**3,933,211**	4,952,669	3,564,540	2,302,069
Profit before tax	**5,374,265**	5,563,805	3,959,136	2,003,602
Profit for the year attributable to owners of the Company	**3,934,291**	4,569,948	3,569,201	2,303,775

	As at 31 March			
	2018 JPY'000	2017 JPY'000	2016 JPY'000	2015 JPY'000
Assets and Liabilities				
Assets				
Non-current assets	**5,838,480**	6,379,692	5,689,990	5,342,040
Current Assets	**30,354,928**	24,554,102	14,378,784	12,268,408
Total Assets	**36,193,408**	30,933,794	20,068,774	17,610,448
Equity and liabilities				
Total equity	**28,004,913**	25,729,278	5,527,297	3,515,792
Non-current liabilities	**1,825,221**	2,216,654	2,605,157	2,242,367
Current liabilities	**6,363,274**	2,987,862	11,936,320	11,852,289
Total liabilities	**8,188,495**	5,204,516	14,541,477	14,094,656
Total equity and liabilities	**36,193,408**	30,933,794	20,068,774	17,610,448
Net current assets	**23,991,654**	21,566,240	2,442,464	416,119
Total assets less current liabilities	**29,830,134**	27,945,932	8,132,454	5,758,159

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Honma Golf Limited (the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 March 2018.

The year ended 31 March 2018 was another remarkable year for our Group. By implementing our growth strategies, we achieved outstanding operational results. Our Group's revenue increased by 8.5% on as reported basis from JPY24.2 billion for the year ended 31 March 2017 to JPY26.3 billion for the year ended 31 March 2018.

Further penetration of high growth consumer segments by continuous product innovation

We believe beginner golfers and avid golfers together constitute the vast majority of high growth consumer segments. By leveraging our superior research and development capabilities, we manage our product life cycle to continually generate customer interest, ensure our product offerings remain up to date with the latest market trends and meet the evolving preferences of our target customers. We introduced BeZeal 535 in late 2017, the second generation of the entry-level club product, to accelerate our inroads into the beginner golfers segment. We also plan to launch the fourth generation of TOUR WORLD products in late 2018, and such golf clubs will be engineered to meet the needs of avid golf enthusiasts.

We will continue to design technologically advanced golf clubs and we strive to deliver effortless shots dreamed by every golfer. Our research and development team will seek to incorporate innovations in ergonomics and material sciences in our designs and continue to collaborate closely with professional golf players to optimise product performance. We believe our major product families, namely BERES, TOUR WORLD and Be ZEAL, will further drive our revenue growth going forward.

Nurturing complementary non-club product lines to provide customers with a complete golf lifestyle experience

For the year ended 31 March 2018, we continued to nurture non-club product lines and delivered 56.1% and 21.4% year-over-year revenue growth for golf balls and apparel & accessories on as reported basis, respectively. On 28 January 2018, we announced the formation of a strategic partnership with Itochu Corporation to expand our apparel & accessories business, utilizing Itochu's networks and know-how in the apparel industry while maintaining a "golf total brand approach". We expect to relaunch our apparel business in January 2019 with a debut 2019 spring/summer collection.

Expansion of our distribution network

In the year ended 31 March 2018, we intensified engagement with younger and avid golfers through expansion of third-party distribution channels. As at 31 March 2018, we had over 3,100 distributors, including both third-party retailers and wholesale distributors. Revenue from distributors increased by 12.5% on as reported basis, and revenue contribution increased by 2.3 percentage points to 64.6% of our total revenues.

We operate the largest number of self-operated stores among major golf companies. Self-operated stores provide us with a direct sales channel as well as a platform to maintain and enhance our brand image. Revenue from self-operated stores increased by 1.9% on as reported basis and single-store sales increased by 10%, as testimony to our commitment to drive single store efficiency. The number of self-operated stores nudged lower by seven to 84 as at 31 March 2018.

To better cater to the specific retail landscape and consumer demographics, we develop and manage our sales and distribution network on a country-by-country basis, and we will constantly evaluate our existing channels and explore new channels to optimise our sales and distribution network.

Increase of market share in existing markets and penetration of new markets in North America and Europe

Enhancing brand awareness and gaining market share in Asia will continue to be a key part of our future growth strategies. While we already have a strong presence in our home markets of Japan, Korea and China (including Hong Kong and Macau), we believe that there remains significant room to increase our market share, in particular the new consumer segments comprising of golf enthusiasts who place a higher emphasis on performance and beginner golfers who aim to improve their performance. For example, we initiated intensive TV campaigns in Korea to drive sales of BERES and BeZeal product families and successfully increased revenue from Korea by 25.0% on as reported basis from JPY3,391.2 million for the year ended 31 March 2017 to JPY4,240.3 million for the year ended 31 March 2018.

Following a comprehensive market study, we reorganised our sales and distribution footprint in the U.S. and started to transact directly with major retailers in the U.S. market. For the year ended 31 March 2018, we put together a strong team in the U.S. and recruited industry veterans to drive brand and product awareness through extensive product demos, brand ambassadors, shop in shop as well as targeted offline and online marketing activities. As evidence of the successful execution of the U.S. strategies, our points of sales ("**POSs**") in North America increased by 201 to 376 POSs and revenue increased by 83.6% on as reported basis to reach JPY1,167.9 million for the year ended 31 March 2018.

In parallel to the expansion into the U.S. market, we started the implementation of our European growth strategy, re-entered the European market via a direct go-to-market business model and completed the assembly of a local team possessing solid industry expertise and deep market insights. As a result, revenue from Europe rose by 32.0% on as reported basis from JPY499.6 million for the year ended 31 March 2017 to JPY659.4 million for the year ended 31 March 2018, while the number of POSs increasing by 383 POSs to 393 POSs.

Marketing and promotion of our HONMA brand

We retained a boutique marketing consultancy firm to unleash our brand potentials based on our core brand value while infusing vibrant energies to create a consistent, aspirational, interactive and connected brand image across all different markets that are vital to the implementation of the various growth initiatives.

With a refined brand value, we plan to update and upgrade our marketing assets and platform to drive brand and product awareness globally. We also intend to trade up TEAM HONMA by sponsoring world-class golf players and creating an intensified marketing campaign using traditional television, print media as well as online media and social networking platforms, such as Facebook, Instagram, Twitter and WeChat. We aim to enhance our brand presence and strengthen audience engagement strategically with cohesive brand message communications and accurate influencer campaign across multiple channels.

I would like to avail myself of this opportunity to express my sincere gratitude to the management team and all the employees of the Group for their hard work and contribution to the sustainable development of the Company during the past year. I also express my thankfulness to all shareholders for your concern and trust. I am very optimistic about Honma's prospects in the future, and we aspire to build a world-leading golf lifestyle company on the foundation of our craftsmanship heritage.

LIU Jianguo
Chairman

28 May 2018

Management Discussion and Analysis

Business review and outlook

Overview

HONMA is one of the most prestigious and iconic brands in the golf industry, synonymous with intricate craftsmanship, dedication to performance excellence and distinguished product quality. The Group predominantly designs, develops, manufactures and sells a comprehensive range of aesthetically-crafted and performance-driven golf clubs. To provide customers with a complete golf lifestyle experience, the Group also offers HONMA-branded golf balls, bags, apparels and other accessories. The Group's products are sold in approximately 50 countries worldwide, primarily in Asia and also across North America, Europe and other regions.

For the year ended 31 March 2018, the Group continued to implement its growth strategies, including, among others:

- ***Continued penetrating deeper into the Group's home markets.*** In Japan, Korea and China, the Group continued to penetrate into high growth consumer segments, leveraging on the introduction of BeZeal 535, the second generation of the entry level club product, to attract entry level golf players, while continuously updating its marketing strategies in order to communicate more effectively with this consumer group which enjoys higher growth rates across home markets. As a result, sales of BeZeal products rose by 21.8% from the year ended 31 March 2017. Among others, the Group initiated intensive TV campaigns in Korea to drive sales of BERES and BeZeal product families and successfully increased revenue from Korea by 25.0% from JPY3,391.2 million for the year ended 31 March 2017 to JPY4,240.3 million for the year ended 31 March 2018.

- ***Executing the Group's U.S. growth strategies (the "U.S. Strategies").*** Following a comprehensive market study, the Group reorganised its sales and distribution footprint in the U.S. and started to transact directly with major retailers in the U.S. market. For the year ended 31 March 2018, the Group put together a strong team in the U.S. and recruited industry veterans to drive brand and product awareness through extensive product demos, brand ambassadors, shop in shop as well as targeted offline and online marketing activities. As an evidence of the successful execution of the U.S. Strategies, the Group saw its points of sales ("**POSs**") in North America increased by 201 to 376 POSs and revenue increased by 83.6% to reach JPY1,167.9 million for the year ended 31 March 2018.

- ***Implementing a direct go-to-market business model in Europe.*** In parallel to the expansion into the U.S. market, the Group started the implementation of its European growth strategy, re-entered the European market via a direct go-to-market business model and completed the assembly of a local team possessing solid industry expertise and deep market insights. As a result, revenue from Europe rose by 32.0% from JPY499.6 million for the year ended 31 March 2017 to JPY659.4 million for the year ended 31 March 2018, while the number of POSs increasing by 383 POSs to 393 POSs.

- ***Nurturing non-club businesses in home markets.*** On 28 January 2018, the Group announced the formation of a strategic partnership with Itochu Corporation ("**Itochu**") to develop its apparel & accessories business, utilising Itochu's networks and know-how in the apparel industry while maintaining a "golf total brand approach". Itochu is a leading sogo shosha incorporated in Japan with approximately 120 bases in 63 countries. It is engaged in domestic trading, import and export, and overseas trading of various products, notably textiles. Itochu is listed on the Tokyo Stock Exchange (Stock Code: 8001). The Group expects to relaunch its apparel business in January 2019 with a debut 2019 spring/summer collection.

Business review and outlook (continued)

Overview (continued)

- ***Continued optimisation of the Group's operations.*** The Group completed the implementation of an integrated ERP system during the year ended 31 March 2018 to gain instant visibility on its business operations and to deliver continued improvement in supply chain management. In conjunction with the implementation of the ERP system as well as the strengthening of its local presence in the U.S. and European markets, the Group streamlined its operations and headcount structure and reduced the overall headcount number by 121 mainly through optimisation of back-office supporting functions.

- ***Infusing high profile industry talents into the Group.*** To nurture business DNAs that are critical to future growth, the Group recruited a number of high profile industry experts and professional managers to drive deeper penetration into third-party retail and wholesale channels in Japan, to lead and drive the HONMA re-branding project, to accelerate growth in the U.S. and Europe, and to revamp its non-club businesses across the globe.

Driven by the various growth initiatives, the Group continued to deliver solid revenue growth during the year ended 31 March 2018. The Group's revenue increased by 8.5% from JPY24.2 billion for the year ended 31 March 2017 to JPY26.3 billion for the year ended 31 March 2018. On a constant currency basis, the Group's revenue grew by 7.9% from the year ended 31 March 2017 to the year ended 31 March 2018.

Business review and outlook (continued)

Overview (continued)

Principal Families of Golf Clubs

The Group currently offers golf clubs mainly under three major product families, namely BERES, TOUR WORLD and BeZeal, each targeting specific consumer segments. Based on extensive market research, the Group categorises the golf clubs market into nine key segments according to the priorities golf players place on price, design and performance, which are correlated with their respective levels of affluence and enthusiasm towards golf, as illustrated in the chart below.

1 High Price Low Enthusiasm	Design & Price	2 High Price Middle Enthusiasm	Primarily 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	Primarily Performance
7 Low Price Low Enthusiasm	Primarily Price	8 Low Price Middle Enthusiasm	Price & Design	9 Low Price High Enthusiasm	Price & Performance

BERES golf clubs target consumers in Segment 2, which is the Group's traditional customer base and comprises affluent consumers willing to pay a premium price for golf clubs. The Group has successfully expanded beyond Segment 2 with additional product offerings. TOUR WORLD golf clubs target consumers in Segment 6, which comprises golf enthusiasts who place a higher emphasis on performance. BeZeal golf clubs target consumers in Segment 5, which comprises beginner golfers who aim to improve their performance. Segments 5 and 6 are experiencing faster growth rates compared to the overall growth rates of major golf markets.

Business review and outlook (continued)

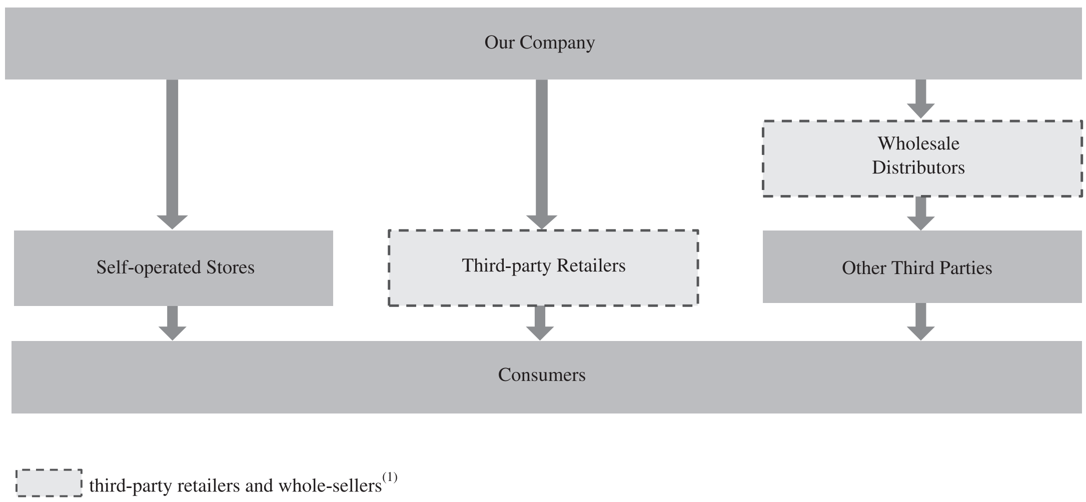
Overview (continued)

Principal Families of Golf Clubs (continued)

The Group designs technologically advanced golf clubs and constantly strives to deliver effortless shots dreamed by every golfer. By leveraging its superior research and development capabilities, the Group manages its product life cycle to continually generate customer interest, ensure its product offerings remain up to date with the latest market trends and meet the preferences of its target customers.

Sales and Distribution Network

The Group's sales and distribution network consists of HONMA-branded self-operated stores as well as distributors. The following diagram illustrates the structure of the Group's sales and distribution network.



Note:

(1) The Group's distributors consist of (a) third-party retailers and (b) wholesale distributors that on-sell the Group's products to other third parties.

The Group operates the largest number of self-operated stores among major golf companies. Self-operated stores provide the Group with a direct sales channel and serves as a platform to maintain and enhance its prestigious brand image. As at 31 March 2018, the Group had 84 HONMA-branded self-operated stores, all of which were located in Asia. The table below sets forth the numbers of self-operated stores opened and closed during the year ended 31 March 2018.

	For the year ended 31 March 2018			
	Year start	Opened	Closed	Year end
Japan	37	—	5	32
China (including Hong Kong and Macau)	50	7	9	48
Rest of Asia	4	—	—	4
Total	91	7	14	84

Business review and outlook (continued)

Overview (continued)

Sales and Distribution Network (continued)

During the 12-month period ended 31 March 2018, the Group continued to optimise its retail footprint by closing five stores in Japan and relocating seven stores in China which are mainly apparel dedicated stores, in line with the Group's strategy to grow non-club product categories.

To better serve avid golf enthusiasts, certain self-operated stores offer fitting centres equipped with high-speed cameras and precision software to capture relevant swing data. As at 31 March 2018, the Group had four fitting centres.

As at 31 March 2018, the Group had approximately 3,178 distributors. The Group's distributors consist of (a) third-party retailers ("**Retailers**") and (b) wholesale distributors ("**Wholesale Distributors**") that on-sell the Group's products to other third parties and consumers. Retailers include, among others, sports megastores, which are large retailers of sports goods. As at 31 March 2018, the Group's products were sold at 1,424 sports megastores.

In Japan, the Group mainly sells products to Retailers, namely sports megastores such as Golf 5 and Xebio. Outside Japan, the Group sells products to both Retailers and Wholesale Distributors.

The Group develops and manages its sales and distribution network on a country-by-country basis to cater for the specific retail landscape and consumer demographics. The makeup of its sales and distribution network varies across regions depending on local retail landscape and its go-to-market strategy in that particular region, reflecting on the purchase behaviour of target consumers. The Group is constantly evaluating its existing channels and exploring new channels to optimise its sales and distribution network.

Manufacturing Processes

Committed to its craftsmanship heritage, the Group is the only major golf products company that possesses professional handcrafted techniques together with significant in-house manufacturing capabilities. The Group performs all key manufacturing processes for golf clubs at its campus located in Sakata, Yamagata prefecture of Japan (the "**Sakata Campus**") while outsourcing non-core processes to the Group's suppliers, most of whom the Group has stable and long-term relationships with. This combination of in-house and outsourced manufacturing processes enables the Group to control core technical know-how and intellectual property and ensure the quality of products while controlling production costs.

Located on an approximately 163,000 square metre parcel of land, the Sakata Campus is staffed with approximately 291 craftsmen, 24 of whom are master craftsmen with more than 30 years of experience on average. The craftsmen's dedication to product quality enables the Group to maintain the iconic and premium status of the HONMA brand in the golf industry.

Business review and outlook (continued)

Overview (continued)

Employees

As at 31 March 2018, the Group had 881 employees worldwide, a majority of whom were based in Japan.

The Group seeks to hire people who identify with its core values and emphasises on the job training. For sales personnel in self-operated stores, the Group offers a number of training curriculum, including an internal golf club fitter certification program. Moreover, the Group has implemented a rigorous apprenticeship program at the Sakata Campus through which senior craftsmen pass down their experience to the younger generation.

To retain and incentivise the management and employees, the Group offers competitive remuneration packages including, among others, salaries, performance-based cash bonus and share-based compensation. The Group reviews its remuneration scheme from time to time to ensure its consistency with market practice. The Group's employee benefits expenses amounted to JPY5,281.9 million for the year ended 31 March 2018.

The Group adopted its restricted share unit ("**RSU**") scheme in October 2015 to incentivise its directors, management and eligible employees. The Group recognised RSU expenses of JPY80.3 million during the year ended 31 March 2018, including JPY7.1 million for manufacturing personnel, JPY28.5 million for sales and marketing personnel and JPY44.7 million for administrative personnel.

Management Discussion and Analysis

Business review and outlook

Outlook

Business Outlook

For the year ending 31 March 2019, the Group will continue its efforts to build a world-leading golf lifestyle company on the foundation of its craftsmanship heritage. The Group intends to continue pursuing the following:

- ***Re-brand the HONMA brand to create a consistent brand image across different markets, to promote HONMA in mature markets that are nascent to HONMA and to fuel growth in its non-club businesses.*** The Group retained a boutique marketing consultancy firm to unleash its brand potentials based on its core brand value while infusing vibrant energies to create a consistent, aspirational, interactive and connected brand images across all different markets that are vital to the implementation of the various growth initiatives.

- ***Update and upgrade the Group's marketing strategies, digital platform and assets to drive HONMA brand and products awareness.*** With a refined brand value, the Group plans to update and upgrade its marketing assets and platform to drive brand and product awareness globally. The Group also intends to trade up its group of prominent professional golf players ("**TEAM HONMA**") by sponsoring world-class golf players and creating an intensified marketing campaign using traditional television, print media as well as online media and social networking platforms, such as Facebook, Instagram, Twitter and WeChat. The Group aims to enhance its brand presence and strengthen audience engagement strategically with cohesive brand message communications and accurate influencer campaign across multiple channels. Research shows that the Group has not yet maximised its influence on social media, leaving tremendous opportunities to exploit.

- ***Provide new generation of retail experience.*** The Group plans to provide modern retail experience to consumers based on a re-branded HONMA brand. The Group intends to renovate its retail footprint in Japan and China, with an initial focus on the greater Tokyo area and cosmopolitan cities in China. The new retail experience will utilise and integrate art, design, commerce and digital technology in order to anchor the Group's new brand image, to attract new consumers and to create a space for consumers to connect, discover and interact with the HONMA brand and its products.

Business review and outlook (continued)

Outlook (continued)

Business Outlook (continued)

- ***Accelerate penetration into the high growth consumer segments by establishing TOUR WORLD and BeZeal as the second product franchises of HONMA.*** The Group's traditional customer base comprises Segment 2 consumers, which are affluent consumers who are willing to pay a premium price for golf clubs. Since 2013, the Group has made steady inroads into Segment 5 and 6, which together constitute the vast majority of the high growth global golf products segments that are nascent to the Group. The Group will launch the next generation of TOUR WORLD products in late 2018 and aim to actively seek market share gains in these consumers segments through high-performance mid-end product offerings design that meets the evolving playing preferences of these consumers.

- ***Further increase its market share in the home markets by maintaining leadership in the premium segment while penetrating into the high growth segments.*** Enhancing brand awareness and gaining market share in Asia will continue to be a key part of the Group's future growth strategies. While the Group already has a strong presence in its home markets of Japan, Korea and China (including Hong Kong and Macau), the Group believes that there remains significant room to increase its market share, in particular in the new consumer segments of Segment 5 and 6. The Group intends to achieve this by further expanding its distribution channels across Asia and by continuously investing in marketing campaigns and channels that are relevant to these consumer segments.

- ***Fuel growth in North America and Europe.*** North America and Europe account for a significant share of the global golf products market. Following the initial successes in both markets for the year ended 31 March 2018, the Group intends to accelerate its growth into these markets by, among others, (i) strengthening its sales and marketing teams in these markets, (ii) retaining and stepping up marketing activities to drive brand and product awareness among top notch world players, (iii) partnering with quality retailers to roll out shop-in-shops to selected locations and (iv) considering attractive and complementary acquisition opportunities. The Group's other initiatives include the establishment of distribution and customer service centres and engagement of green grass players to raise its brand awareness and product recognition.

- ***Continue product innovation and development to cater for the latest market trends.*** The Group devotes significant resources to new product development to ensure that its product offerings remain up to date with the latest market trends. The Group's research and development expenses amounted to JPY526.0 million and JPY350.6 million for the year ended 31 March 2017 and 2018, respectively. All of the Group's golf clubs are developed at the Sakata Campus by its master craftsmen and other research and development personnels. The research and development team will seek to incorporate innovations in ergonomics and material sciences in its designs and continue to collaborate closely with professional golf players to optimise product performance. In December 2017 and January 2018, the Group launched the following two new product categories: (i) BERES06, the fifth generation of BERES family of golf clubs, which targets consumers in Segment 2 and (ii) BeZeal535, the second generation of the BeZeal family of golf clubs, which targets consumers in Segment 5. The activation of these two new product categories drove market share gains in the high growth consumer segments in home and new markets.

Business review and outlook (continued)

Outlook (continued)

Business Outlook (continued)

- ***Continue increasing operational efficiency and optimising cost structure.*** While pursuing its growth strategies, the Group intends to continuously drive operational efficiency and cost optimisation. The Group has completed the implementation of an integrated ERP system in its home markets to deliver continued improvement in production planning and inventory management. The Group also streamlined its operations in Japan and reduced the overall headcount number by 121 mainly through optimisation of back-office support staff.

- ***Provide customers with a complete golf lifestyle experience by growing non-club product lines.*** The Group plans to leverage the strength of its brand to continue expanding its business to related product lines such as golf balls, bags, apparels and other accessories to complement its future growth. For example, the Group is redesigning its golf ball business and seeking strategic partnerships to restructure apparel business.

Industry Outlook

Golf is a sport which boasts worldwide popularity and is enjoyed by millions globally. The Group expects the following factors to be key drivers of growth for the golf products industry over the next several years:

- ***"Lifestyle sport" proposition and increasing popularity in major markets.*** 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. As a result, the sport has been gaining popularity in major markets. For example, there were 2.5 million beginner golfers, which comprised individuals who played golf on a golf course for the first time, in the U.S. in 2016, up from 1.5 million in 2011, representing a compound annual growth rate of 10.8%. The number of rounds played in the U.S. increased by 0.6% from 2015 to 2016. Women and non-Caucasians represent 24% and 19%, respectively, of golfers in the U.S. in 2016, reflecting golf's growing popularity in these demographic segments.

- ***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.

- ***Golf's return to the Olympic Games and the recent "Tiger Effects".*** 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 markets in Japan and other parts of Asia are expected to receive a significant boost in the years to come. The most recent pick-me-up to the market is the return of Tiger Woods to the PGA tour in early 2018, with viewership of the final round of Valsper Championship surged by 190% compared to last year. The return of Tiger Woods shows the impact of role model and major influencer to golf, which will largely help to lead the reinvigoration of the excitement to golf with a new generation of professional golfers.

Business review and outlook (continued)

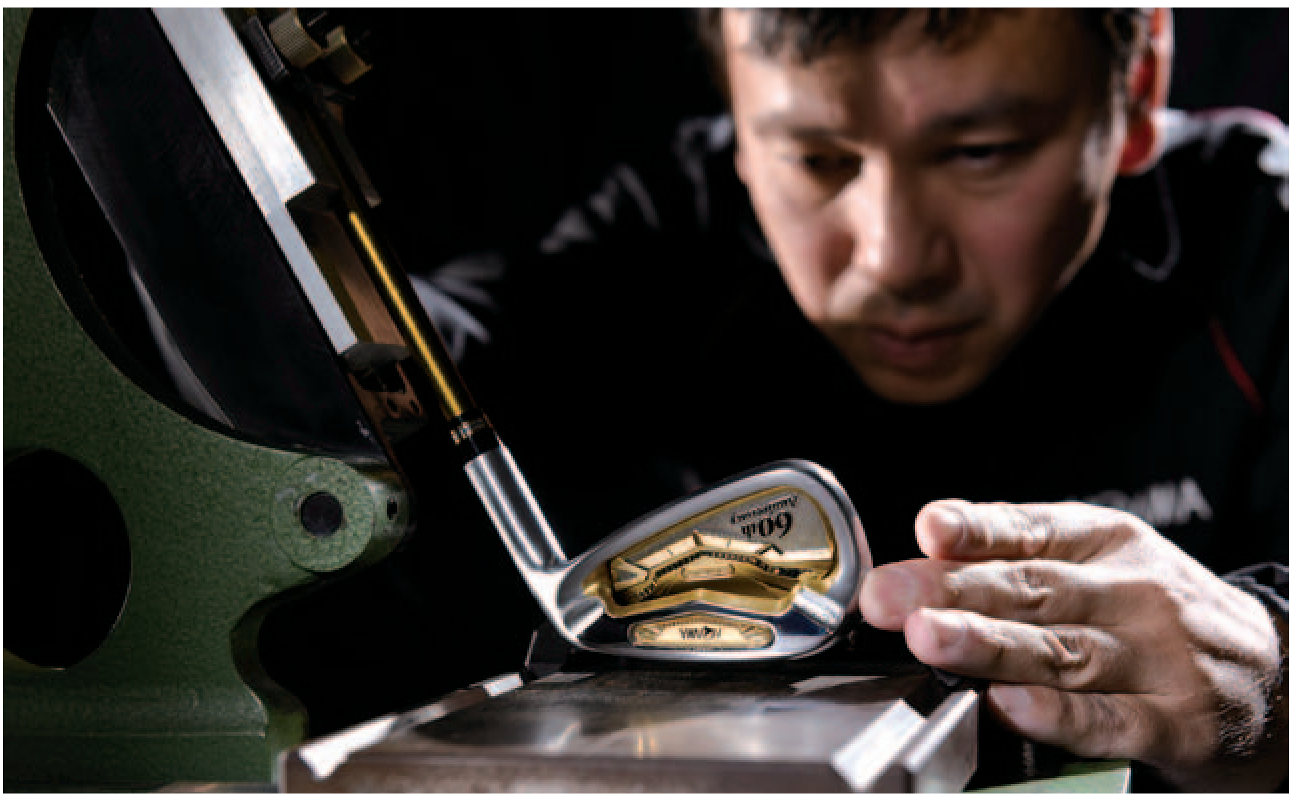
Outlook (continued)

Industry Outlook (continued)

- ***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.

- ***"Value over Volume" transition in consumers' purchasing behaviours in developed markets.*** Over the years of development, data shows that the lower end segment in mature markets, where major players have been competing vigorously, is reaching saturation with decreased volume. At the meantime, consumer preference on club purchase has been trending towards quality and performance over price supported by a significant growth in average selling price ("**ASP**"). Taking the U.S. market for instance, Golf Datatech report shows that both wood and iron club ASP grew by double digits over the course of 2015 to 2017, which largely offsetting the decrease in volume and in turn contributing to a flat annual sales change.

- ***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.



Financial review

The following table is a summary of the Group's consolidated statement of profit or loss with line items in absolute amounts and as percentages of the Group's total revenue for the years indicated, together with the change (expressed in percentages) from the year ended 31 March 2017 to the year ended 31 March 2018.

	For the year ended 31 March				Year-on-Year Change
	2018		2017		
	JPY	%	JPY	%	%
	(In thousands, except for percentages and per share data)				
Consolidated Statement of Profit or Loss					
Revenue	**26,296,159**	**100.0**	24,242,435	100.0	8.5
Cost of sales	**(10,318,713)**	**(39.2)**	(9,694,062)	(40.0)	6.4
Gross profit	**15,977,446**	**60.8**	14,548,373	60.0	9.8
Other income and gains	**50,005**	**0.2**	1,178,475	4.9	(95.8)
Selling and distribution expenses	**(8,410,223)**	**(32.0)**	(8,511,354)	(35.1)	(1.2)
Administrative expenses	**(1,522,235)**	**(5.8)**	(1,581,675)	(6.5)	(3.8)
Other expenses, net	**(837,672)**	**(3.2)**	(89,993)	(0.4)	830.8
Finance costs	**(21,872)**	**(0.1)**	(22,225)	(0.1)	(1.6)
Finance income	**138,816**	**0.5**	42,204	0.2	228.9
Profit before tax	**5,374,265**	**20.4**	5,563,805	23.0	(3.4)
Income tax expense	**(1,441,054)**	**(5.5)**	(611,136)	(2.5)	135.8
Net profit	**3,933,211**	**14.9**	4,952,669	20.4	(20.6)
Earnings per share attributable to ordinary equity holders of the parent:					
Basic and diluted - For profit for the year (JPY)	**6.46**		8.47		(23.7)
Non-IFRS Financial Measures					
Adjusted SG&A(1)	**(9,859,227)**	**(37.5)**	(9,635,334)	(39.7)	2.3
Operating profit(2)	**6,242,193**	**23.7**	4,946,318	20.4	26.2
Net operating profit(3)	**4,707,416**	**17.9**	4,365,611	18.0	7.8

Notes:

(1) Adjusted SG&A is derived from the sum of (a) selling and distribution expenses and (b) administrative expenses by (i) subtracting listing expenses and (ii) subtracting RSU expenses in relation to sales and marketing staff and administrative staff. For a reconciliation of adjusted SG&A to the sum of (a) selling and distribution expenses and (b) administrative expenses, see "Management Discussion and Analysis — Financial Review — Non-IFRS Financial Measures — Adjusted SG&A".

(2) Operating profit is derived from profit before tax by (i) subtracting other income and gains, (ii) adding other expenses, (iii) adding listing expenses and (iv) adding RSU expenses. For a reconciliation of operating profit to profit before tax, see "Management Discussion and Analysis — Financial Review — Non-IFRS Financial Measures — Operating Profit".

(3) Net operating profit is derived from net profit by (i) subtracting other income and gains, (ii) adding other expenses, (iii) adding listing expenses, (iv) adding RSU expenses and (v) adding impact on tax. The Group referred to such measure as adjusted net profit in the Group's Interim Results Announcement for the Six Months Ended 30 September 2016 dated 16 November 2016. For a reconciliation of net operating profit to net profit, see "Management Discussion and Analysis — Financial Review — Non-IFRS Financial Measures — Net Operating Profit".

Financial review (continued)

Revenue

The Group's total revenue increased by 8.5% from JPY24,242.4 million for the year ended 31 March 2017 to JPY26,296.2 million for the year ended 31 March 2018.

Constant Currency Revenue Growth

On a constant currency basis, the Group's total revenue grew by 7.9% from the year ended 31 March 2017 to the year ended 31 March 2018. For the purpose of calculating constant currency revenue growth, the Group has used the average exchange rate of the year ended 31 March 2017 to translate sales recorded during the year ended 31 March 2018, to the extent the original currency for such sales is not in JPY.

Constant currency revenue growth is used to supplement measures that were prepared in accordance with IFRS. It is however not a measure of financial performance under IFRS and should not be considered as an alternative to measures presented in accordance with IFRS.

Revenue by Product Groups

The Group offers customers a complete golf lifestyle experience through an extensive portfolio of HONMA-branded golf clubs, golf balls, bags, apparels and other accessories. The following table shows the revenue of product groups by absolute amounts and as percentages of the Group's total revenue for the years indicated.

	For the year ended 31 March				Year-on-Year Change	
	2018		2017		on as reported basis	on constant currency basis[1]
	JPY	%	JPY	%	%	%
	(In thousands, except for percentages)					
Golf clubs	21,117,356	80.3	20,185,807	83.3	4.6	4.2
Golf balls	1,148,410	4.4	735,762	3.0	56.1	54.8
Bags, apparels and other accessories [2]	4,030,392	15.3	3,320,866	13.7	21.4	19.9
Total	26,296,159	100.0	24,242,435	100.0	8.5	7.9

Notes:

(1) For further information, see "— Constant Currency Revenue Growth".

(2) Include golf bags, apparels, golf club head covers, footwear, gloves, headwear and other golf-related accessories.

Golf clubs comprise the majority of the Group's business, and albeit continued shift from retail to wholesale, the Group recorded modest revenue growth in golf clubs during the year ended 31 March 2018. Revenue for golf clubs increased by 4.6% from JPY20,185.8 million for the year ended 31 March 2017 to JPY21,117.4 million for the year ended 31 March 2018. On a constant currency basis, revenue for golf clubs grew by 4.2% from the year ended 31 March 2017 to the year ended 31 March 2018. The growth in golf clubs was primarily attributable to the robust growth in the sales of BeZeal following the launch of its second generation with improved performance and design appealing to younger and entry level golfers.

Financial review (continued)

Revenue (continued)

Revenue by Product Groups (continued)

Revenue for golf balls increased significantly by 56.1% from JPY735.8 million for the year ended 31 March 2017 to JPY1,148.4 million for the year ended 31 March 2018. On a constant currency basis, revenue for golf balls grew by 54.8% from the year ended 31 March 2017 to the year ended 31 March 2018. The growth in golf balls was driven by the Group's dedicated sales force and the successful adoption of go-to-market strategy in Japan and China.

Revenue for bags, apparels and other accessories increased by 21.4% from JPY3,320.9 million for the year ended 31 March 2017 to JPY4,030.4 million for the year ended 31 March 2018. On a constant currency basis, revenue for these complementary product lines increased by 19.9% from the year ended 31 March 2017 to the year ended 31 March 2018. The increase was mainly attributed to the Group's continued efforts to nurture its non-club business in its home markets in order to become a golf lifestyle company.

Revenue by Geography

The Group's products are sold in approximately 50 countries worldwide, primarily in Asia and also across North America, Europe and other regions. The following table sets forth revenue from regions by absolute amounts and as percentages of total revenue for the years indicated.

	For the year ended 31 March				Year-on-Year Change	
					on as reported basis	on constant currency basis[1]
	2018		2017			
	JPY	%	JPY	%	%	%
	(In thousands, except for percentages)					
Japan	**13,640,542**	**51.9**	12,950,336	53.4	5.3%	5.3%
Korea	**4,240,280**	**16.1**	3,391,232	14.0	25.0%	25.0%
China (including Hong Kong and Macau)	**4,598,348**	**17.5**	4,451,910	18.4	3.3%	1.0%
North America	**1,167,873**	**4.4**	636,080	2.6	83.6%	86.5%
Europe	**659,370**	**2.5**	499,592	2.1	32.0%	23.6%
Rest of the World	**1,989,746**	**7.6**	2,313,285	9.5	(14.0)%	(14.3)%
Total	**26,296,159**	**100.0**	24,242,435	100.0	8.5%	7.9%

Note:

(1) For further information, see "— Constant Currency Revenue Growth".

Revenue from Japan, Korea and China (including Hong Kong and Macau) collectively accounted for 85.5% of the Group's total revenue for the year ended 31 March 2018, and these markets are the Group's home markets. Sales in the Group's home markets were the primary drivers of revenue growth during the year ended 31 March 2018.

Financial review (continued)

Revenue (continued)

Revenue by Geography (continued)

Revenue from Japan increased by 5.3% from JPY12,950.3 million for the year ended 31 March 2017 to JPY13,640.5 million for the year ended 31 March 2018. The increase was primarily due to the Group's continued penetration into third-party retail and wholesale channels, which witnessed a year on year growth of 15.9%.

Revenue from Korea recorded a double-digit growth of 25.0% for the fifth consecutive year from JPY3,391.2 million for the year ended 31 March 2017 to JPY4,240.3 million for the year ended 31 March 2018. On a constant currency basis, revenue for Korea increased by 25.0% from the year ended 31 March 2017 to the year ended 31 March 2018. The increase was primarily due to the strength of the Group's product portfolio, successful cooperation with its exclusive distributor in the country and intensive TV campaigns to drive sales of BERES and BeZeal product families.

Revenue from Mainland China increased by 8.0% from JPY3,143.4 million for the year ended 31 March 2017 to JPY3,396.3 million for the year ended 31 March 2018. Revenue from Hong Kong and Macau declined by 8.1% as a result of the closure of one retail store following penetrating into wholesale channels in Hong Kong. Combined revenue from China (including Hong Kong and Macau) increased by 3.3% nominally and 1.0% on a constant currency basis from the year ended 31 March 2017 to the year ended 31 March 2018. The Group intends to continue to fuel growth through wholesale channels in China (including Hong Kong and Macau).

Revenue from North America increased significantly by 83.6% from JPY636.1 million for the year ended 31 March 2017 to JPY1,167.9 million for the year ended 31 March 2018. On a constant currency basis, revenue from North America increased by 86.5% from the year ended 31 March 2017 to the year ended 31 March 2018. The growth was primarily due to the reorganisation of the Group's distribution channels and continued marketing activities to promote brand and products awareness.

Revenue from Europe increased by 32.0% from JPY499.6 million for the year ended 31 March 2017 to JPY659.4 million for the year ended 31 March 2018. On a constant currency basis, revenue from Europe increased by 23.6% from the year ended 31 March 2017 to the year ended 31 March 2018. The increase was primarily due to the Group's successful re-entry into and re-organisation of its footprint in the European market supported by a strong local team with solid industry expertise and insights in Europe.

Financial review (continued)

Revenue (continued)

Revenue by Sales and Distribution Channels

The Group has an extensive sales and distribution network that allows the Group to reach a broad customer base in its target markets. The Group's sales and distribution network consists of HONMA-branded self-operated stores as well as distributors. The Group's distributors include (a) Retailers, including sports megastores, and (b) Wholesale Distributors that on-sell the Group's products to other third parties and consumers. The following table sets forth revenue for self-operated stores and distributors by absolute amounts and as percentages of total revenue for the years indicated.

	For the year ended 31 March				Year-on-Year Change	
					on as reported basis	on constant currency basis[1]
	2018		2017			
	JPY	%	JPY	%	%	%
	(In thousands, except for percentages)					
Self-operated stores	**9,315,368**	**35.4**	9,145,251	37.7	1.9%	0.9%
Distributors	**16,980,791**	**64.6**	15,097,184	62.3	12.5%	12.2%
Total	**26,296,159**	**100.0**	24,242,435	100.0	8.5%	7.9%

Note:

(1) For further information, see "— Constant Currency Revenue Growth".

Revenue from sales to distributors increased by 12.5% from JPY15,097.2 million for the year ended 31 March 2017 to JPY16,980.8 million for the year ended 31 March 2018, as the Group continued to fuel growth via third-party retail and wholesale channels in order to engage with younger and avid golfers across the globe. Going forward, the Group expects that sales to distributors will continue to increase at higher pace as the Group plans to penetrate new markets by partnering with quality distributors.

Revenue from self-operated stores slightly increased by 1.9% from JPY9,145.3 million for the year ended 31 March 2017 to JPY9,315.4 million for the year ended 31 March 2018. The increase, despite the decrease in the number of self-operated stores by seven, was primarily attributed to the Group's continued effort to engage with younger and avid golfers across the globe and its commitment to drive single store efficiency, which is evidenced by single-store sales increasing by 10%.

Financial review (continued)

Revenue (continued)

Cost of Sales

Cost of sales increased by 6.4% from JPY9,694.1 million for the year ended 31 March 2017 to JPY10,318.7 million for the year ended 31 March 2018, which was primarily due to increased raw material and manufacturing costs following sales growth. The table below sets forth a breakdown of the key components of cost of sales, each expressed in absolute amounts and as percentages of the total cost of sales during the years indicated.

	For the year ended 31 March			
	2018		2017	
	JPY	%	JPY	%
	(In thousands, except for percentages)			
Raw materials	5,167,520	50.1	4,843,565	50.0
Employee benefits	1,629,278	15.8	1,509,481	15.6
Manufacturing overhead[1]	688,973	6.7	500,288	5.1
Finished goods purchased from suppliers	2,832,942	27.4	2,840,728	29.3
Total	10,318,713	100.0	9,694,062	100.0

Note:

(1) Includes depreciation and amortisation of property, plant and equipment, other manufacturing overhead and cost of services rendered.

Gross Profit and Gross Profit Margin

Gross profit increased by 9.8% from JPY14,548.4 million for the year ended 31 March 2017 to JPY15,977.5 million for the year ended 31 March 2018. Gross profit margin increased from 60.0% for the year ended 31 March 2017 to 60.8% for the year ended 31 March 2018.

Gross Profit and Gross Profit Margin by Product Groups

The following table sets forth a breakdown of gross profit and gross profit margin by product groups for the years indicated.

	For the year ended 31 March			
	2018		2017	
	JPY	%	JPY	%
	(In thousands, except for percentages)			
Golf clubs	13,305,564	63.0	13,152,107	65.2
Golf balls	558,551	48.6	378,136	51.4
Bags, apparels and other accessories[1]	2,113,331	52.4	1,018,130	30.7
Total	15,977,446	60.8	14,548,373	60.0

Note:

(1) Include golf bags, apparels, golf club head covers, footwear, gloves, headwear and other golf-related accessories.

Financial review (continued)

Gross Profit and Gross Profit Margin (continued)

Gross Profit and Gross Profit Margin by Product Groups (continued)

Gross profit for golf clubs increased by 1.2% from JPY13,152.1 million for the year ended 31 March 2017 to JPY13,305.6 million for the year ended 31 March 2018. Gross profit margin for golf clubs decreased from 65.2% for the year ended 31 March 2017 to 63.0% for the year ended 31 March 2018, primarily due to higher sales growth from third-party retail and wholesale channels as well as Segment 5 and 6 products.

Gross profit for golf balls increased by 47.7% from JPY378.1 million for the year ended 31 March 2017 to JPY558.6 million for the year ended 31 March 2018. Gross profit margin for golf balls decreased from 51.4% for the year ended 31 March 2017 to 48.6% for the year ended 31 March 2018, primarily due to accelerated sales growth from third-party retail and wholesale channels in Japan and China.

Gross profit for bags, apparels and other accessories increased by 107.6% from JPY1,018.1 million for the year ended 31 March 2017 to JPY2,113.3 million for the year ended 31 March 2018, and gross profit margin for bags, apparels and other accessories increased from 30.7% for the year ended 31 March 2017 to 52.4% for the year ended 31 March 2018. The increases were due to a consolidation of the Group's sourcing platforms in Japan and China and continued improvement in vendor management.

Other Income and Gains

Other income and gains decreased from JPY1,178.5 million for the year ended 31 March 2017 to JPY50.0 million for the year ended 31 March 2018. The decrease was primarily due to a reduction in translation gains following continued weakening in the U.S. dollar against Japanese Yen.

Selling and Distribution Expenses

Selling and distribution expenses slightly decreased by 1.2% from JPY8,511.4 million for the year ended 31 March 2017 to JPY8,410.2 million for the year ended 31 March 2018. Selling and distribution expenses as a percentage of revenue decreased from 35.1% for the year ended 31 March 2017 to 32.0% for the year ended 31 March 2018. These decreases were primarily due to a decrease in employee benefits and rental fees resulting from the streamlining of the Group's operations in Japan. The following table sets forth a breakdown of selling and distribution expenses by absolute amounts and percentages of total selling and distribution expenses for the years indicated.

	For the year ended 31 March			
	2018		2017	
	JPY	**%**	*JPY*	*%*
	(In thousands, except for percentages)			
Employee benefits	**3,185,319**	**37.9**	3,248,991	38.2
Advertising and promotion expenses	**2,489,651**	**29.6**	2,473,951	29.1
Rental fees	**1,387,291**	**16.5**	1,433,347	16.8
Others(1)	**1,347,962**	**16.0**	1,355,065	15.9
Total	**8,410,223**	**100.0**	8,511,354	100.0

Note:

(1) Include depreciation, travel expenses, consumables, transportation expenses and other expenses.

Financial review (continued)

Administrative Expenses

Administrative expenses decreased by 3.8% from JPY1,581.7 million for the year ended 31 March 2017 to JPY1,522.2 million for the year ended 31 March 2018, absent one-off listing expenses and thanks to continued discretionary cost management.

Other Expenses, Net

Other expenses increased by 830.8% from JPY90.0 million for the year ended 31 March 2017 to JPY837.7 million for the year ended 31 March 2018. The increase was primarily due to foreign exchange loss of JPY524.2 million.

Finance Costs

Finance costs decreased by 1.6% from JPY22.2 million for the year ended 31 March 2017 to JPY21.9 million for the year ended 31 March 2018. The decrease was primarily due to decrease of weight-average amount of bank borrowings during the year ended 31 March 2018.

Finance Income

Finance income increased by 228.9% from JPY42.2 million for the year ended 31 March 2017 to JPY138.8 million for the year ended 31 March 2018. The increase was primarily due to the interest income received from unused balance of the proceeds from the global offering as well as operational cash inflow.

Profit Before Tax

As a result of the foregoing, profit before tax decreased by 3.4% from JPY5,563.8 million for the year ended 31 March 2017 to JPY5,374.3 million for the year ended 31 March 2018.

Income Tax Expense

Income tax expense increased by 135.8% from JPY611.1 million for the year ended 31 March 2017 to JPY1,441.1 million for the year ended 31 March 2018. The increase was primarily due to full utilisation of unrecognised deferred tax assets for the year ended 31 March 2017. The Group's effective tax rate increased from 11.0% for the year ended 31 March 2017 to 26.8% for the year ended 31 March 2018.

Net Profit

As a result of the foregoing, net profit decreased by 20.6% from JPY4,952.7 million for the year ended 31 March 2017 to JPY3,933.2 million for the year ended 31 March 2018. Net profit margin decreased from 20.4% for the year ended 31 March 2017 to 14.9% for the year ended 31 March 2018.

Financial review (continued)

Non-IFRS Financial Measures

In addition to the IFRS measures in its consolidated financial statements, the Group also uses the non-IFRS financial measures of adjusted SG&A, operating profit and net operating profit to evaluate its operating performance. The Group believes that such non-IFRS measures provide useful information to investors in understanding and evaluating its consolidated results of operations in the same manner as its management and in comparing financial results across accounting periods on a like-for-like basis.

The use of adjusted SG&A, operating profit and net operating profit has material limitations as analytical tools, as adjusted SG&A does not include all items that have impacted selling and distribution expenses and administrative expenses, the nearest IFRS expense measures, operating profit does not include all items that have impacted profit before tax, the nearest IFRS performance measure, and net operating profit does not include all items that have impacted net profit, the nearest IFRS performance measure.

Adjusted SG&A

The Group derives adjusted SG&A from the sum of (a) selling and distribution expenses and (b) administrative expenses by (i) subtracting listing expenses and (ii) subtracting RSU expenses in relation to sales and marketing staff and administrative staff. The following table reconciles adjusted SG&A to the sum of (a) selling and distribution expenses and (b) administrative expenses for the years indicated.

	For the year ended 31 March	
	2018	2017
	(In JPY thousands)	
Selling and distribution expenses	**8,410,223**	8,511,354
Administrative expenses	**1,522,235**	1,581,675
Adjustment for:		
Listing expenses	**–**	(243,000)
RSU expenses in relation to sales and marketing staff and administrative staff	**(73,231)**	(214,695)
Adjusted SG&A	**9,859,227**	9,635,334

Financial review (continued)

Non-IFRS Financial Measures (continued)

Operating Profit

The Group derives operating profit from profit before tax by (i) subtracting other income and gains, (ii) adding other expenses, (iii) adding listing expenses and (iv) adding RSU expenses. Operating profit eliminates the effect of other income and gains and other expenses, which are primarily related to non-recurring events. The following table reconciles operating profit to profit before tax for the years indicated.

	For the year ended 31 March	
	2018	2017
	(In JPY thousands)	
Profit before tax	**5,374,265**	5,563,805
Adjustment for:		
Other income and gains	**(50,005)**	(1,178,475)
Other expenses	**837,672**	89,993
Listing expenses	**—**	243,000
RSU expenses	**80,261**	227,995
Operating profit	**6,242,193**	4,946,318

Net Operating Profit

The Group derives net operating profit from net profit by (i) subtracting other income and gains, (ii) adding other expenses, (iii) adding listing expenses, (iv) adding RSU expenses and (v) adding impact on tax related to items (i) and (ii) above. Net operating profit eliminates the effect of other income and gains and other expenses, which are primarily related to non-recurring events. The following table reconciles net operating profit to net profit for the years indicated.

	For the year ended 31 March	
	2018	2017
	(In JPY thousands)	
Net profit	**3,933,211**	4,952,669
Adjustment for:		
Other income and gains	**(50,005)**	(1,178,475)
Other expenses	**837,672**	89,993
Listing expenses	**—**	243,000
RSU expenses	**80,261**	227,995
Impact on tax	**(93,723)**	30,429
Net operating profit	**4,707,416**	4,365,611

Financial review (continued)

Working Capital Management

	For the year ended 31 March 2018	2017
Inventories turnover days[(1)]	**232**	258
Trade and bills receivables turnover days[(2)]	**96**	65
Trade payables turnover days[(3)]	**30**	39

Notes:

(1) Inventories turnover days are calculated using the average of opening balance and closing balance of inventories for a year divided by cost of sales for the relevant year and multiplied by 365 days.

(2) Trade and bills receivables turnover days are calculated using the average of opening balance and closing balance of trade and bills receivables for a year divided by revenue for the relevant year and multiplied by 365 days.

(3) Trade payables turnover days are calculated using the average of opening balance and closing balance of trade payables for a year divided by cost of sales for the relevant year and multiplied by 365 days.

Compared to the year ended 31 March 2017, inventories turnover days and trade payables turnover days decreased for the year ended 31 March 2018. The decreases were primarily due to continued supply chain improvement within the Group's Sakarta factory. Trade and bills receivables turnover days increased for the year ended 31 March 2018, primarily due to continued penetration into third-party retail and wholesale channels for which credit terms are offered.

Inventories

The following table sets forth the balance of the Group's inventories as at the dates indicated.

	As at 31 March 2018	As at 31 March 2017
	(In JPY thousands)	
Raw materials	**2,776,492**	962,601
Work in progress	**818,854**	1,173,860
Finished goods	**3,628,450**	4,508,865
Less: provision	**(416,801)**	(352,428)
Total	**6,806,995**	6,292,898

Financial review (continued)

Inventories (continued)

The following table sets forth aging analysis of the Group's inventories as at the dates indicated.

	As at 31 March 2018	As at 31 March 2017
	(In JPY thousands)	
Within 1 year	**3,713,065**	3,572,854
1 year to 2 years	**1,608,077**	1,287,782
2 to 3 years	**888,229**	698,430
3 to 4 years	**236,740**	355,957
Over 4 years	**360,884**	377,875
Total	**6,806,995**	6,292,898

The Group prepares its inventory aging analysis with reference to product launch date, instead of capitalisation date. For example, inventories reported as aged between two to three years in the table above represent inventories relating to products that were launched two to three years before the relevant balance sheet date. Such inventories may have been produced and/or procured and hence capitalised more recently than as shown in the said aging analysis.

The Group adopted this approach of inventory aging analysis because it allows the Group to implement a more effective inventory management process with a view to each product's life cycle. The Group typically launches new products every 18 to 24 months while continuously marketing the older generation for another six to twelve months.

Liquidity and Capital Resources

During the year ended 31 March 2018, the Group financed its operations primarily through cash from operations, net proceeds received from the global offering and proceeds from bank loans. The Group intends to finance its expansion and business operations by internal resources and through organic and sustainable growth, bank borrowings, as well as the net proceeds received from the global offering.

As at 31 March 2018, the Group had JPY14,147.3 million in cash and cash equivalents, which were primarily held in U.S. dollar, Japanese yen and Renminbi. The Group's cash and cash equivalents primarily consist of cash in hand and demand deposits.

A substantial portion of the Group's operation is based in Japan, and a substantial portion of the Group's revenue and expenditures are denominated and settled in Japanese yen. As a result, the Group's currency risk is limited, and the Group did not use any derivative contracts to hedge against such risk as at 31 March 2018.

Financial review (continued)

Indebtedness

As at 31 March 2018, the Group's interest-bearing borrowings amounted to JPY2,500 million, all of which were denominated in Japanese yen. All of such borrowings were unsecured and payable within one year. The effective interest rate for the balance of the Group's interest-bearing borrowings as at 31 March 2018 ranged from 0.33% to 0.50%.

Gearing Ratio

The Group's gearing ratio is calculated by dividing (i) interest-bearing bank borrowings by (ii) total equity. As at 31 March 2017 and 31 March 2018, the Group's gearing ratio was 1.1% and 8.9%, respectively.

Capital Expenditures

The Group's capital expenditures for the year ended 31 March 2018 amounted to JPY391.9 million, which was used primarily to the purchase of equipment and other tangible assets to improve the operational efficiency within the Group's manufacturing base in Sakarta. In the year ended 31 March 2018, the Group financed its capital expenditures primarily with cash generated from operations and net proceeds received from the global offering.

Contingent Liabilities

As at 31 March 2018, the Group did not have any significant contingent liabilities.

Material Acquisitions and Future Plans for Major Investment

During the year ended 31 March 2018, the Group did not conduct any material investments, acquisitions or disposals. In addition, save for the expansion plans as disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the prospectus (the "**Prospectus**") of the Company dated 23 September 2016, the Group has no specific plan for major investment or acquisition for major capital assets or other businesses. However, the Group will continue to identify new opportunities for business development.

Use of Proceeds from the Global Offering

The Company was listed on the Stock Exchange on 6 October 2016. The net proceeds from the Company's global offering amounted to JPY16,798.4 million, which are intended to be applied in compliance with the intended use of proceeds as set out in the section headed "Net Proceeds from the Global Offering" in the Group's Announcement of Offer Price and Allotment Results dated 5 October 2016.

Financial review (continued)

Use of Proceeds from the Global Offering (continued)

The following table sets forth the status of the use of proceeds from the global offering[1]:

Intended use of proceeds	Percentage of intended use of proceeds (%)	Intended use of proceeds from the global offering (In JPY millions)	Percentage of used amount as at 31 March 2018 (%)	Percentage of unused balance as at 31 March 2018 (%)
Potential strategic acquisitions	29.4	4,939	—	29.4
Sales and marketing activities in North America and Europe	15.1	2,536	13.2	1.9
Sales and marketing activities in home markets of Japan, Korea and China (including Hong Kong and Macau)	15.1	2,536	11.7	3.4
Capital expenditures	13.0	2,184	5.1	7.9
Repayment of interest-bearing bank borrowings	17.3	2,906	17.1	0.2
Providing funding for working capital and other general corporate purposes	10.1	1,697	3.8	6.3
Total	100.0	16,798	50.9	49.1

Note:

(1) The figures in the table are approximate figures.

As at 31 March 2018, the unused balance of the proceeds from the global offering of approximately JPY8,247.8 million are currently deposited with creditworthy banks with no recent history of default.

Events after the Reporting Period

Final Dividend

The Board recommends the payment of a final dividend of JPY3.23 per share, amounting to approximately a total of JPY1,967.2 million for the year ended 31 March 2018 (the "**2017/2018 Final Dividend**"), representing approximately 50% of the Group's distributable profit for the year ended 31 March 2018. The 2017/2018 Final Dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (the "**AGM**").

Exchange Rate Conversion

Unless otherwise specified, amounts denominated in USD have been translated, for the purpose of illustration only, into JPY at the exchange rate of USD1.00:JPY110.7. No representation is made that any amount in USD and JPY could have been or could be converted at the above rates or at any other rates or at all.

Exposure to Foreign Exchange

The Group has in place a policy of hedging foreign exchange exposure arising from profit and loss accounts transactions. Since the Group's sales and purchases are mainly settled in JPY and USD, net exposure to foreign exchange risk is insignificant. As such, no hedging activity was conducted for the year ended 31 March 2018.

Biographies of Directors and Senior Management

Directors

Executive Directors

Mr. Liu Jianguo (劉建國), aged 49, was appointed as the Chairman of the Board, President and executive Director of the Company on 14 June 2016. He is the chairman of the Nomination Committee of the Company. He is also the chairman and representative director of Honma Golf Co., Ltd. ("**Honma Japan**") and a director of Honma Holdings Group Limited ("**Honma Holdings**") and certain subsidiaries of the Company. He is responsible for formulating the overall development strategies and business plans of our Group and overseeing the management and strategic development of our Group. Mr. Liu acquired our Group in 2010 and he has served as chairman of Honma Japan since June 2010. Mr. Liu has over 27 years of experience in business management. He has been the chairman of Shanghai POVOS Enterprise (Group) Co., Ltd. (上海奔騰企業(集團)有限公司), which is engaged in the development, manufacturing and marketing of household appliance products, since January 2002 and has been chairman of Zhejiang POVOS Appliance Co., Ltd. (浙江奔騰電器股份有限公司) since September 2000. From May 1991 to August 2000, Mr. Liu was the general manager of Zhejiang Changjiang Electronical Industry Co., Ltd. (浙江長江電子工業有限公司), where he was responsible for general management and daily operations of the company. Mr. Liu obtained an executive master of business administration degree from Guanghua School of Management, Peking University (北京大學), PRC, in January 2007.

Mr. Ito Yasuki (伊藤康樹), aged 57, was appointed as an executive Director, Chief Marketing Officer and President of Japan Operations of the Company on 14 June 2016. He is mainly responsible for overseeing the marketing strategies and operations of our Group and overseeing our business in Japan. Mr. Ito has also served as president and representative director of Honma Japan since 21 December 2015, and as the director of the Marketing Division and the Third Overseas Sales Division since 1 February 2016. Mr. Ito joined our Group on 1 April 1985 and has served the Group for more than 33 years, during which he has gained extensive experience in the marketing of golf products. In February 1990, he joined as the senior staff of Ogikubo Office (荻窪營業所), and in April 1997, he became the manager of the Second Section of the First Department of the Sales Division. After that, he served in various positions in the Group, including as the deputy director of the Fifth Department of the Sales Division from May 2002 to March 2006, as the director of various sales and planning departments from April 2007 to April 2011, as the operating director of the Marketing Division from May 2011 to March 2014, and as the managing operating director of the Marketing Division from April 2014 to December 2015. Mr. Ito obtained a bachelor's degree in business from Seikei University, Japan, in March 1985.

Mr. Murai Yuji (邨井勇二), aged 58, was appointed as an executive Director and Chief Sales Officer of the Company on 14 June 2016. He is mainly responsible for overseeing the sales strategies and operations of our Group. Since 1 February 2016, Mr. Murai has also been the managing operating director of the Domestic Sales Division, as well as the managing operating director and head of the First Overseas Sales Division. Mr. Murai joined our Group in April 1983 and has served the Group for more than 35 years, during which he has gained extensive experience in the sales operations of golf products. Mr. Murai served as the deputy manager of various sales departments from April 1992 to March 1997. He was deputy director of the First Department of the Sales Division as well as deputy director of the Construction Department from April 1997 to March 2001, and deputy director and director of the Overseas Sales Department of the Sales Division from April 2001 to March 2007. From April 2007 to March 2009, Mr. Murai served as operating director of the Overseas Sales Division. Thereafter, he served as the operating director of the Domestic Sales Division from April 2009 to April 2011, as the operating director of the Sales Division from May 2011 to March 2012, and back to the position of operating director of the Domestic Sales Division from April 2012 to March 2014. Mr. Murai then served as the managing operating director of the Domestic Sales Division from April 2014 to January 2016. Mr. Murai obtained a bachelor's degree in political economics from Nihon University, Japan, in March 1983.

Directors (continued)

Executive Directors (continued)

Mr. Zuo Jun (左軍), aged 45, was appointed as an executive Director, Chief Administrative Officer and President of China Operations of the Company on 14 June 2016. He is also a member of the Remuneration Committee of the Company. He is primarily responsible for overseeing the administrative management of our Group and overseeing our business in the PRC. Mr. Zuo has been the president of World Power International Trading (Shanghai) Company Limited (世力國際貿易（上海）有限公司) since he joined our Group in February 2015 and a director of Honma Japan since June 2015. Mr. Zuo has nearly 22 years of experience in business management and operations. Prior to joining our Group, Mr. Zuo was a vice president of POVOS Electrical Appliance (Shanghai) Co., Ltd. (奔騰電器(上海)有限公司), a comprehensive high-tech enterprise which centres on development, manufacture and distribution of household electrical appliance, from March 2009 to December 2014. He was deputy general manager at TCL Household Appliance (Nanhai) Company (TCL小家電(南海)有限公司) from June 2006 to September 2008. From September 2004 to June 2006, he served as general manager of Shunde Ecom Intelligent Household Appliance Co., Ltd. (順德一家智能電器有限公司), a company engaged in intelligent household appliances manufacturing. He worked at Shunde Gree Household Appliance Company (順德格力小家電有限公司) as deputy general manager from June 2002 to June 2004. Mr. Zuo graduated from Central South University(中南大學, formerly known as Central South University of Technology (中南工業大學)), PRC, with a master's degree in thermal engineering in March 1996.

Non–executive Director

Mr. Yang Xiaoping (楊小平), aged 54, was appointed as a non-executive Director of the Company on 28 May 2018. He is responsible for providing strategic advice on the business development of the Group. Mr. Yang has been the senior vice chairman of Charoen Pokphand Group Company Limited, a substantial shareholder of the Company, since January 2017, an executive director and the vice chairman of C.P. Lotus Corporation (卜蜂蓮花有限公司), a company listed on The Stock Exchange of Hong Kong Limited (Stock Code: 121), since April 2000 and January 2012 respectively, and chief executive officer of CT Bright Holdings Limited (正大光明控股有限公司) since May 2003. He has also been a non-executive director of Ping An Insurance (Group) Company of China, Ltd. (中國平安保險（集團）股份有限公司), a company listed on The Stock Exchange of Hong Kong Limited (Stock Code: 2318), since June 2013, CITIC Limited (中國中信股份有限公司), a company listed on The Stock Exchange of Hong Kong Limited (Stock Code: 267), since August 2015 and Tianjin Binhai Teda Logistics (Group) Corporation Limited (天津濱海泰達物流集團股份有限公司), a company listed on The Stock Exchange of Hong Kong Limited (Stock Code: 8348), since December 2012 respectively. Mr. Yang previously acted as the manager of the China Division of Nichiyo Co., Ltd. from 1989 to 1993 and the chief representative of the Beijing Office of Nichiyo Co., Ltd. from 1993 to 2001. Mr. Yang was a member of The Twelfth National Committee of the Chinese People's Political Consultative Conference. He is the vice president of the China Institute for Rural Studies of Tsinghua University (清華大學中國農村研究院), the associate dean of the Institute of Global Development of Tsinghua University (清華大學全球共同發展研究院) and the chairman of the Related Party Transaction Committee of the board of directors of China Minsheng Investment (Group) Corp., Ltd. (中國民生投資股份有限公司). Mr. Yang holds a bachelor's degree from Jiangxi Institute of Technology (江西省工學院) and he also has experience studying in Japan.

Directors (continued)

Independent non-executive Directors

Mr. Lu Pochin Christopher (盧伯卿), aged 59, was appointed as an independent non-executive Director of the Company on 18 September 2016. He is also the chairman of the Audit Committee and a member of the Nomination Committee of the Company. Mr. Lu worked at Deloitte Touche Tohmatsu for approximately 30 years from 1981, where he served in various positions, including chief executive officer of Deloitte Huayong Certified Public Accountants, managing partner of Eastern China Region, co-chairman of China Service Group, and the managing partner of the client and market strategy department. Since March 2015, Mr. Lu Pochin Christopher has served as an executive director of FIT Hon Teng Limited (incorporated in the Cayman Islands under the name of Foxconn Interconnect Technology Limited), a company engaged in the manufacture, sales and service of information technology products which became listed on The Stock Exchange of Hong Kong Limited on 13 July 2017 (stock code: 6088). Since August 2015, Mr. Lu has served as an independent director of Greenland Holdings Corporation Limited (綠地控股集團股份有限公司), a real property development company which is listed on the Shanghai Stock Exchange (stock code: 600606). He has also served as an independent non-executive director of Pantronics Holdings Limited (桐成控股有限公司), a manufacturer in the electronic manufacturing services industry which is listed on The Stock Exchange of Hong Kong Limited (stock code: 1611) since October 2016.

Mr. Lu has been a member of the American Institute of Certified Public Accountants since November 1988, and he is also a member of the Shanghai Institute of Certified Public Accountants. Mr. Lu graduated from the University of Illinois at Urbana-Champaign, USA, in January 1980 with a bachelor's degree of science majoring in accountancy, and in January 1981 with a master's degree in accounting science. He was presented with the Magnolia Silver Award by the Shanghai Municipal People's Government in 2003, and the Magnolia Gold Award by the Shanghai Municipal People's Government in 2005.

Mr. Wang Jianguo (汪建國), aged 57, was appointed as an independent non-executive Director of the Company on 18 September 2016 and he is also the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Wang Jianguo has served as the chairman of Kidswant Children Products Co., Ltd since April 2016, a company engaged in the sales and service of kids products which was listed on the National Equities Exchange and Quotations on 9 December 2016 and ceased to be listed on the National Equities Exchange and Quotations since 24 April 2018 (stock code: 839843). Mr. Wang has been the chairman of the Five Star Holdings Group Co., Ltd. (五星控股集團有限公司) since February 2009. Before that, Mr. Wang was the vice president of the Asia-Pacific Region for Best Buy Co., Inc., an American multinational consumer electronics corporation which is listed on the New York Stock Exchange (stock code: BBY). From December 1998 to February 2009, Mr. Wang served as the chairman and president of Jiangsu Five Star Appliance Co., Ltd. (江蘇五星電器有限公司), a company engaged in the sales of appliances. From July 1992 to October 1998, Mr. Wang worked at Jiangsu Wujiaohua Corporation (江蘇省五交化總公司), and served in various positions including manager of comprehensive development, deputy general manager and general manager.

Mr. Wang graduated from the Australian National University, Australia, in July 2004 with an executive master's degree in business administration. He has been the vice chairman of Jiangsu General Chamber of Commerce since December 2014. Mr. Wang was awarded the Service Industry Professional Special Contribution Award by Jiangsu Provincial People's Government in October 2014. Mr. Wang was granted the Outstanding Achievement Award by the China Chain Store & Franchise Association in November 2012. He was elected as the Model Worker of the National Business System (全國商務系統勞動模範) by the Ministry of Personnel and the Ministry of Commerce of the PRC in 2007. Mr. Wang has been sponsor of Hupan University (湖畔大學) since September 2015.

Directors (continued)

Independent non-executive Directors (continued)

Mr. Xu Hui (徐輝), aged 44, was appointed as an independent non-executive Director of the Company on 18 September 2016 and he is also a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Xu has been the chief executive officer and executive director of Shenzhen Chuangxin Qizhi Technology Co., Ltd. (深圳創新奇智科技有限公司) since February 2017. He served as the general manager of customer services and support of Greater China at Microsoft Corporation from March 2013 to December 2014, the vice president of Greater China at Microsoft Corporation from January 2015 to November 2016 and the chief executive officer of Shanghai Xinfeifan E-commerce Co., Ltd. (上海新飛凡電子商務有限公司) from November 2016 to January 2017. From October 2009 to February 2013, he served in various positions in SAP Beijing Software System Co., Ltd, a multinational software company, including as the sales director, general manager of East and Central China and the vice president of Greater China. Mr. Xu had also held various positions at IBM China Company Limited since November 1996, including its business representative and clusters client unit executive of financial services sector.

Mr. Xu obtained his bachelor's degree in communications engineering from Shanghai Jiao Tong University (上海交通大學), PRC, in July 1995 and his executive master of business administration degree from Peking University (北京大學), PRC, in January 2007. He has served as an entrepreneurship mentor at Shanghai Jiao Tong University and Tongji University (同濟大學) since 2015 and at Fudan University (復旦大學) School of Management since 2016.

Senior management

Mr. Suwa Hiroshi (諏訪博士), aged 62, was appointed as our Managing Executive Officer of Product Development on 14 June 2016 and is primarily responsible for overseeing the research and development of our Group's products. He has been the Managing Executive Officer of Product Development of Honma Japan since 1 April 2014. He has also been the manager of the Sakata Campus since April 2009. Since Mr. Suwa joined our Group in 1978 in the Hawaii factory, he has held the following positions: deputy manager of the Golf Club Manufacturing Section from April 1983 to March 1986; manager of the Golf Club Manufacturing and Assembly Section from April 1986 to January 1990; deputy director of the Golf Club Manufacturing Department from February 1990 to May 1992; deputy director of the Wooden Golf Club Manufacturing Department from June 1992 to September 1996; deputy director of the Product Development Department from October 1996 to April 1998; director of the Product Development Department from May 1998 to June 2005; deputy manager of the Sakata Campus and director of the Product Development Department from June 2005 to March 2006; general manager of the Operational Planning, Product Development and Product Production Division, and deputy manager of the Sakata Campus from March 2006 to March 2007. From April 2007 to March 2014, Mr. Suwa also served as the operating director of the Product Development Division. Prior to joining our Group, Mr. Suwa worked at Oita Tourism Co., Ltd. from April 1974 to March 1978. Mr. Suwa graduated from Oita Prefectural Usuki Commercial High School, Japan, in March 1974.

Senior management (continued)

Mr. Ueda Kenji (上田健次), aged 61, was appointed as our Executive Officer of Production on 14 June 2016 and is mainly responsible for overseeing the production process and quality control of our Group. Mr. Ueda has been the executive officer of Production of Honma Japan since 1 May 2015 and is also the director of our Golf Club Manufacturing Department and Procurement Department. He joined our Group as operating director of the Manufacturing Division and deputy manager of the Sakata Campus on 9 August 2010. He was appointed as general manager of the Sakata Reform Promotion Office on 1 April 2014. Prior to joining our Group, Mr. Ueda had served as a project manager in Honeywell Japan Co., Ltd., a turbocharger production company, operating officer and director of quality assurance department at Fuji Car Manufacturing Co., Ltd., a company specializing in the manufacturing and selling products of environmental machinery, plant and vehicles, and the director of manufacturing department of Recaro Japan Co., Ltd., an automotive seating manufacturing and selling company, from June 1988 to October 2005. Mr. Ueda graduated from Osaka University, Japan, in March 1980 with a bachelor's degree in shipbuilding.

Ms. Bian Weiwen (邊蔚文), aged 48, joined our Group on 1 November 2015 and was appointed as the Chief Financial Officer of our Group on 14 June 2016. She is responsible for overseeing the overall financial management of our Group. Ms. Bian has over 24 years of experience in the finance industry. Prior to joining our Group, Ms. Bian served in various positions at Royal Philips Electronics Co., Ltd., which is listed on the New York Stock Exchange (stock code: PHG) and Euronext N.V. (stock code: PHIA), and was the head of Finance of Business Group Domestic Appliance from April 2006 to September 2015. From January 2000 to March 2006, Ms. Bian was senior manager of the Project & Trade Finance Unit of the Corporate Finance Department at ThyssenKrupp AG, a diversified industrial group which is listed on Frankfurt Stock Exchange (stock code: DE 000 750 0001), where her responsibilities included the arrangement and execution of project financing for major projects in various areas of the group. Ms. Bian served as associate director of the Structured Finance and Advisory Department of UBS Warburg Deutschland from Setpember 1997 to September 1999. From April 1994 to September 1997, she was an associate at Credit Suisse First Boston, working in its China and Germany offices. Ms. Bian graduated from Fudan University (復旦大學), PRC, with a bachelor's degree in international finance in July 1992. She was presented with the Magnolia Silver Award by the Shanghai Municipal People's Government in September 2011.

The Board is pleased to present its report together with the audited consolidated financial statements of the Group, for the year ended 31 March 2018.

Principal activities

The Company is an investment holding company. The principal activity of the Group is to design, develop, manufacture and sell a comprehensive range of golf clubs, and the Group also offers golf balls, bags, apparel and other accessories. Details of the principal activities of the principal subsidiaries are set out in note 1 to the consolidated financial statements.

Business Review

In the year ended 31 March 2018, the Group continued to implement its growth strategies, including, among others, (i) marketing golf clubs that target high growth consumer segments; (ii) continued scaling up non-club product categories; (iii) deepening cooperation with sports megastores in home and new markets; (iv) implementing the Group's U.S. business development plan; and (v) sponsoring TEAM HONMA players. Driven by these initiatives, the Group's revenue increased by 8.5% from JPY24.2 billion for the year ended 31 March 2017 to JPY26.3 billion for the year ended 31 March 2018. The Group's products are sold in approximately 50 countries worldwide, primarily in Asia and also across North America, Europe and other regions.

Performance of the Group's Business

The Group's revenue increased by 8.5% from JPY24.2 billion for the year ended 31 March 2017 to JPY26.3 billion for the year ended 31 March 2018. On a constant currency basis, the Group's revenue grew by 7.9% from the year ended 31 March 2017 to the year ended 31 March 2018. In the year ended 31 March 2018, the Group reorganised distribution channels and activated various marketing campaigns in North America as part of the U.S. growth strategy.

Financial Highlights

In the year ended 31 March 2018,

- Revenue rose by 8.5% on as reported basis and 7.9% on a constant currency basis from the year ended 31 March 2017;
- Gross profit margin advanced by 0.8 percentage points to reach 60.8% as compared to the year ended 31 March 2017;
- Operating profit improved by 26.2% as compared to the year ended 31 March 2017, and operating profit margin grew by 3.3 percentage points as compared to the year ended 31 March 2017, reaching 23.7%;
- Net profit decreased by 20.6% from the year ended 31 March 2017 and net profit margin declined to 14.9%;
- Net cash flows generated from operating activities amounted to JPY1,934.8 million, representing a 48.0% decrease from the year ended 31 March 2017; and
- Inventories increased to JPY6,807.0 million as at 31 March 2018, up by 8.2% from 31 March 2017.

Business Review (continued)

Outlook for 2018/2019

In the year ending 31 March 2019, the Group will continue to pursue the following: (i) optimise the product mix by further penetrating high growth consumer segments; (ii) continue product innovation and development to cater for the latest market trends; (iii) further increase market share and enhance brand awareness in existing markets; (iv) penetrate new markets in North America and Europe; (v) continue to invest in the marketing and promotion of HONMA brand; (vi) continue to increase operational efficiency and optimise cost structure; and (vii) provide customers with a complete golf lifestyle experience by growing non-club product lines.

Further discussion and analysis of the business of the Group as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622), including an indication of likely future development in the Group's business, are set out in the section headed "Management Discussion and Analysis" in this annual report which constitutes part of this Directors' Report.

Key Relationships

Relationship with suppliers

The Group depends on its suppliers, whom the Group views as its strategic partners, to supply raw materials or manufacture certain of the products. The suppliers are mainly located in Japan, Taiwan, China, Hong Kong and the United States, consisting of both bill of materials ("**BOM**") suppliers and original equipment manufacturer ("**OEM**") suppliers. The strategic partnerships with OEM suppliers have enabled the Group to diversify its product mix and offer new products at competitive prices. Most of the OEM suppliers have cooperated with the Group for over four years.

Relationship with customers

The Group strives to provide a bespoke "HONMA shopping experience" to its customers. The Group operates the largest number of self-operated stores among major golf products companies, most of which are equipped with golf simulators to assist the customers with their purchase decisions. Certain self-operated stores offer specialised fitting centres with high-speed cameras and precision software to capture relevant swing data for the customers. The Group's sales staff are trained in relationship selling, rather than transaction-based results, and are encouraged to maintain regular contact with the customers to provide personalised updates about the Group's products.

Relationship with employees

The Group believes that the ability to attract, motivate and retain skilled and experienced personnel, including craftsmen and employees responsible for research and development as well as quality control, is of significant importance to the long-term successful development of the Group. Through the design of discretionary performance-based bonuses and such other arrangements, the Group has managed to ensure that the employees of the Group are provided with the incentive to devote to the long-term development of the Group.

Business Review (continued)

Environmental policies and performance

The Group has always attached great importance to the protection of the environment, and has adopted a number of measures which are regularly carried out to manage emissions and wastes in the course of business operations, including (i) regularly monitor and perform maintenance on key environmental protection facilities such as dust removal and sewage treatment equipment to ensure these are in proper working order in removing harmful substances; (ii) tests are regularly carried out to ensure that the water discharged is safe to the surrounding community and that it also meets the standards required by the authority; (iii) regular collection of hazardous wastes (such as cyanide and chrome) from sewage, and scraps (such as metals and coatings) are handled by qualified service providers for recycling and treatment; (iv) scraps (such as metal, coating, carbon fiber, etc.) generated in the manufacturing process are regularly monitored and reduced wherever possible for the purpose of cost and waste reduction; (v) use the video conferencing system instead of air travel when communicating between different offices to reduce the number of business trips whenever possible; (vi) wrapping materials and paper cartons are reused wherever possible, otherwise recycle properly, or dispose of responsibly; and, (vii) the Waste Recycling Committee has continued to explore different ways to recycle and reduce waste in the manufacturing processes.

During the year, the Group adopted the following additional measures to mitigate emissions and reduce wastes: (i) the Group upgraded its ERP system with the aim of streamlining the workflow, and thus increased the efficiency of the use of energy and water in the manufacturing process; (ii) at the Manufacturing Centre, some air-conditioners have also been replaced by more energy-efficient models.

Licences, regulatory approvals and compliance with laws and regulations

During the year ended 31 March 2018, there were no material breaches or violations of relevant laws and regulations in Japan, China, Korea, and where the Group has business entities and operation, and the Group obtained all material licences and permits necessary for its business in the jurisdictions in which the Group operates. Details of our compliance with relevant laws and regulations are set out in Environmental, Social and Governance Report.

Principal risks and uncertainties

A number of factors may affect the results and business operation of the Group, and principal risks and uncertainties that the Group faces and key mitigations that the Group adopts are summarized as follows:

Principal Risks and Uncertainties	Description	Key Mitigations
Risks related to any possible deterioration in the brand image of the Honma brand of the Company	We are dependent on our HONMA brand for all our revenue and we expect to continue relying heavily on the HONMA brand. Product defects, counterfeit products and ineffective promotional activities are all potential threats to the strength of our brand.	• We keep decent R&D investments to insure innovative technologies and high quality in our products; • We take legal actions against counterfeit products in different markets.
Uncertainty as to maintenance of high growth rate of the business	Our ability to maintain a high growth rate in the future depends on the implementation of our growth strategies. There can be no assurance that our strategies will continue to be successful. If we are not able to implement our growth strategies effectively or adjust them as market conditions evolve, we will not be able to sustain our growth.	• We entered into new consumer segments for golf clubs and strengthened the efforts on non-club business, i.e. golf balls, apparels and accessories etc; • We reorganised the commercial team in USA and Europe to have deeper penetration and coverage.
Uncertainty as to the maintenance or expansion of the sales and distribution network	Our products are currently sold in approximately 50 countries worldwide, primarily in Asia and also across North America, Europe and other regions. We sell our products through a combination of self-operated stores and distribution channels. If we are unable to maintain or grow our sales and distribution network, we could experience a decline in sales and market share.	• We fine-tuned the channels in home markets by shutdown of non-profitable self-operated stores and expanded our distributors/dealers base; • We reorganised our team in USA and Europe with a direct connection with retailers to have better service and deeper penetration.
Uncertainty as to expansion into new consumer segments and product categories	We devote significant resources to developing and marketing golf clubs that appeal to new target consumer segments. However, there can be no assurance that our efforts to expand into new consumer segments will continue to be successful. If our golf clubs fail to attract our target consumers, our business, results of operations and financial condition would be materially and adversely affected.	• We keep a healthy pace on technology innovations in new consumer segments of golf clubs; • We introduced BeZeal535 in late 2017 and plan to launch the fourth generation Tour World in late 2018.

Principal Risks and Uncertainties	Description	Key Mitigations
Uncertainty as to the international expansion, especially in North America and Europe	As we expand into new geographic markets, we will face competition from competitors who are well established in these markets. In addition, in many of these markets, the retail market conditions, consumer behavior, operating environments and tax and regulatory requirements may differ significantly from those in our home markets of Japan, Korea and China (including Hong Kong and Macau). Moreover, our international expansion may not be successful for a number of other reasons, such as changes in consumer demand and product trends, economic fluctuations, political and social turbulences, changes in legal regulations or other conditions and difficulties. If we are not successful in expanding into new geographic markets, our business, results of operations and financial condition would be materially and adversely affected.	• We reorganised the team in USA and Europe with experienced professionals; • The new Tour World generation has taken into account more technology requirements from international markets; • We also intend to trade up TEAM HONMA by sponsoring world-class golf players which will have heavy influence in international markets; • We have increased the POS coverage in international markets to 376 in USA and 393 in Europe for the year ended 31 March 2018.
Risks inherent in our effort to expand grow non-club sales	We set the strategy to grow the non-club business, i.e. golf balls, apparels and accessories. However, there can be no assurance that our strategy on growing non-club business will continue to be successful. If our non-club products fail to attract our target consumers, our business, results of operations and financial condition would be materially and adversely affected.	• On 28 January 2018, the Group announced the formation of a strategic partnership with Itochu Corporation ("**Itochu**") to develop its apparel & accessories business; • We have good partnership with Foremost to develop the most advanced golf balls; • We have established dedicated team in key markets to focus on non-club business.

Directors' Report

Financial statements

The results of the Group for the year ended 31 March 2018 and the state of the Group's financial position as at that date are set out in the financial statements on pages 91 to 98.

Final dividend

The Board recommends the payment of a final dividend of JPY3.23 per Share, amounting to approximately a total of JPY1,967.2 million for the year ended 31 March 2018 (the "**2017/2018 Final Dividend**"), representing approximately 50% of the Group's distributable profit for the year ended 31 March 2018. The 2017/2018 Final Dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The 2017/2018 Final Dividend will be declared in Japanese Yen and paid in Hong Kong dollars, the exchange rate of which will be calculated based on the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its middle rate of exchange as at the record date for determining such dividend entitlement.

Distributable reserves

As at 31 March 2018, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium and retained profits totaling approximately JPY16,952.2 million (JPY17,747.8 million as at 31 March 2017).

Reserves

Changes to the reserves of the Group during the year ended 31 March 2018 are set out in the consolidated statement of changes in equity.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 March 2018 are set out in note 15 to the consolidated financial statements in this annual report.

Share capital

Details of movements in the share capital of the Company during the year ended 31 March 2018 are set out in note 29 to the consolidated financial statements in this annual report.

Bank borrowings and other loans

Details of bank borrowings and other loans of the Group as at 31 March 2018 are set out in note 26 to the consolidated financial statements of this annual report.

Charge on Assets

There was no charge on the Group's assets as at 31 March 2018.

Donation

Donations made by the Group during the year ended 31 March 2018 was JPY6,446,000.

Financial summary

A summary of the published results and of the assets and liabilities of the Group for the last four financial years is set out on page 4 of this annual report. This summary does not form part of the audited consolidated financial statements.

Purchase, sale or redemption of listed securities of the company

During the year ended 31 March 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

Restricted share unit scheme and post-IPO share option scheme

Restricted Share Unit Scheme

On 20 October 2015, the Restricted Share Unit Scheme (the "**RSU Scheme**") was approved and adopted by the then shareholders of the Company. The purpose of the RSU Scheme is to incentivize Directors, senior management and employees of the Company or any of its subsidiaries (the "**RSU Eligible Persons**") for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. The Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion. The RSU Scheme will be valid and effective for a period of ten (10) years from the date of the first grant of the RSUs, being 20 October 2015. As at 31 March 2018, the remaining life of the RSU Scheme is approximately seven years and seven months. The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of Shares held or to be held by the trustee for the RSU Scheme for the purpose of the RSU Scheme from time to time. There is no maximum entitlement for each RSU Eligible Person under the rules of the RSU Scheme. Further details of the principal terms of the RSU Scheme are set out in the Prospectus.

The Company has appointed The Core Trust Company Limited (the "**RSU Trustee**") as the trustee to assist in the administration of the RSU Scheme. All the Shares underlying the RSUs granted and to be granted under the RSU Scheme will be transferred, allotted or issued to the RSU Trustee and/or Taisai Holdings Ltd. (the "**RSU Nominee**"), a company indirectly wholly-owned by the RSU Trustee. As at the date of this annual report, RSUs in respect of 18,825,196 underlying Shares were granted under the RSU Scheme for the benefit of RSU Eligible Persons pursuant to the RSU Scheme, and RSUs in respect of 9,347,488 underlying Shares, representing approximately 1.53% of the total issued Shares of the Company as at the date of this annual report, have not been exercised, lapsed or cancelled and remain to be held by the RSU Nominee.

An Eligible Person selected by the Board to be granted RSUs under the RSU Scheme may accept the RSUs in such manner set out in the grant letter. The grant letter shall also set out the vesting criteria, conditions, and the time schedule when the RSUs will vest. RSUs held by a participant in the RSU Scheme (the "**RSU Participant**") that are vested as evidenced by the vesting notice may be exercised (in whole or in part) by the RSU Participant serving an exercise notice in writing on the RSU Trustee and copied to the Company. Any exercise of RSUs must be in respect of a board lot of 500 Shares each or an integral multiple thereof (except where the number of RSUs which remains unexercised is less than one board lot). Upon receipt of an exercise notice, the Board shall direct and procure the RSU Trustee to, within three (3) business days, transfer the Shares underlying the RSUs exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the RSU Participant which the Company has allotted and issued to the RSU Trustee as fully paid up Shares or which the RSU Trustee has either acquired by purchasing existing Shares or by receiving existing Shares from any shareholder, subject to the RSU Participant paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the RSU Trustee or as the RSU Trustee directs.

The RSU Participant shall serve the exercise notice within three (3) months after receiving the Vesting Notice. The Trustee will not hold the Shares underlying the RSUs vested for the RSU Participant after this three (3) months period. If the exercise notice is not served during this three (3) months period or the Shares underlying the RSUs exercised cannot be transferred to the RSU Participant pursuant to the preceding paragraph due to the RSU Participant not being able to provide sufficient information to effect the transfer, the RSUs vested or exercised (as the case may be) shall lapse unless otherwise agreed by the Board at its absolute discretion.

Restricted share unit scheme and post-IPO share option scheme (continued)

Restricted Share Unit Scheme (continued)

A RSU Participant does not have any contingent interest in any Shares underlying the RSUs unless and until such Shares are actually transferred to the RSU Participant. Further, a RSU Participant may not exercise voting rights in respect of the Shares underlying the RSUs prior to their exercise and, unless otherwise specified by the Board in its entire discretion in the RSU grant letter to the RSU Participant, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the RSUs.

On 6 October, 2017, eleven employees of the Group were granted RSUs in respect of an aggregate of 318,396 Shares. The grantees of the RSUs granted under the RSU Scheme as referred to in the table below are not required to pay for the grant of any RSU under the RSU Scheme.

Details of the RSUs granted under the RSU Scheme and outstanding as of 31 March 2018 and details of the vesting period and the movements in RSUs during the year ended 31 March 2018 are set out below:

Name of grantee of RSU	Position held with the Group	Number of Shares represented by RSUs at 1 April 2017		Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Number of Shares represented by RSUs at 31 March 2018
			date of grant					
Director of the Company								
Liu Jianguo	Chairman of the Board, President and Executive Director	571,350	03-Nov-2015	–	–	–	–	571,350
Ito Yasuki	Executive Director, Chief Marketing Officer and President of Japan Operations	571,740	20-Oct-2015 31-May-2016	–	–	–	–	571,740
Murai Yuji	Executive Director and Chief Sales Officer	457,470	20-Oct-2015 31-May-2016	–	–	–	–	457,470
Zuo Jun	Executive Director, Chief Administrative Officer and President of China Operations	381,030	03-Nov-2015	–	–	–	–	381,030

Restricted share unit scheme and post-IPO share option scheme (continued)

Restricted Share Unit Scheme (continued)

Name of grantee of RSU	Position held with the Group	Number of Shares represented by RSUs at 1 April 2017	*date of grant*	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Number of Shares represented by RSUs at 31 March 2018
Senior management of the Company, and directors and other executive managers of the subsidiaries of the Company (excluding those who are also Directors of the Company)								
3 senior management of the Company, 3 directors and 2 other executive managers of the subsidiaries of the Company		2,671,110	20-Oct-2015 3-Nov-2015 31-May-2016	–	–	123,506	–	2,547,604
Other employees of the Group								
117 other employees of the Group		5,650,710	20-Oct-15 3-Nov-15 06-Oct-2017	318,396	–	162,536	988,276	4,818,294
Total		10,303,410	20-Oct-2015 3-Nov-2015 31-May-2016 06-Oct-2017	318,396	–	286,042	988,276	9,347,488

Restricted share unit scheme and post-IPO share option scheme (continued)

Restricted Share Unit Scheme (continued)

Details of movements in the RSUs under the RSU Scheme are also set out in note 30 to the consolidated financial statements.

No exercise price is required for the exercise of the RSUs granted to the RSU Participants under the RSU Scheme as referred to in the above. The RSU Participants shall serve the exercise notice within three (3) months after receiving the vesting notice. Subject to the vesting conditions, the RSUs granted to the RSU Participants under the RSU Scheme shall be vested in accordance with the vesting schedule as follows:

(i) as to 40% on the date on which the shares of the Company are listed on the Stock Exchange of Hong Kong Limited;

(ii) as to 30% on 30 April 2018 or the date on which the Company publishes its annual result for the fiscal year ending 31 March 2018 (whichever is earlier); and

(iii) as to 30% on 30 April 2019 or the date on which the Company publishes its annual result for the fiscal year ending 31 March 2019 (whichever is earlier),

Restricted share unit scheme and post-IPO share option scheme (continued)

Post-IPO share option scheme

On 18 September 2016, a post-IPO share option scheme (the "**Post-IPO Share Option Scheme**") was approved and adopted by the then shareholders of the Company. The purpose of the Post-IPO Share Option Scheme is to provide incentives and/or rewards to Directors or employees of the Group who in the sole discretion of the Board has contributed or will contribute to the Group (the "**Eligible Persons**") for their contribution to, and continuing efforts to promote the interests of, the Group.

Subject to the terms of the Post-IPO Share Option Scheme, the Board shall be entitled at any time within the period of ten (10) years after the adoption date, being 18 September 2016 to 17 September 2026, to grant options to any Eligible Persons as the Board in its absolute discretion selects. As at 31 March 2018, the remaining life of the Post-IPO Share Option Scheme is approximately eight years and six months. No offer shall be made and no option shall be granted to any participant in the Post-IPO Share Option Scheme (the "**Participant**") in circumstances prohibited by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") at a time when the Participant would or might be prohibited from dealing in the Shares by the Listing Rules or by any applicable rules, regulations or law. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period; and (ii) the deadline for the Company to publish its interim or annual results announcement under the Listing Rules; and ending on the date of actual publication of such results announcement.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and all other share option schemes existing at such time of the Company shall not in aggregate exceed 60,905,000 Shares (representing 10% of the total number of Shares in issue as at the Listing Date, the "**Scheme Mandate Limit**"), which represents 10% of the total number of Shares in issue as at the date of the annual report. The Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval but in any event, the total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes of the Company under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of approval of the renewal of the Scheme Mandate Limit.

The maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted to any Eligible Person under the Post-IPO Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in any 12 month period shall not at the time of grant exceed 1% of the Shares in issue, unless otherwise separately approved by shareholders in general meeting with such Eligible Person and his associates abstaining from voting.

Restricted share unit scheme and post-IPO share option scheme (continued)

Post-IPO share option scheme (continued)

An offer made to the Participant is open for acceptance by the Participant for a period of 28 days from the date of the offer made. Participants shall accept the offer by returning the duly signed duplicate letter clearly stating the number of Shares in respect of which the offer is accepted, with payment of HK$1.00 as consideration for the acceptance of an option granted to them.

Subject to the terms of grant of any option, an option may be exercised by the grantee of the option at any time during the option period and in accordance with the vesting schedule and other terms specified in the offer. No option may be vested more than 10 years after the date of grant. Subject to earlier terminations by the Company in general meetings or by the Board, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years commencing from the adoption date.

The exercise price shall be a price determined by the Board and notified to an Eligible Person but in any event shall be at least the higher of:

- the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of the option, which must be a business day;
- the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and
- the nominal value of a Share on the date of grant.

Further details of the principal terms of the Post-IPO Share Option Scheme are set out in the Prospectus.

During the period from 18 September 2016 to 31 March 2018, no option had been granted or agreed to be granted by the Company pursuant to the Post-IPO Share Option Scheme.

Directors

The Directors of the Company during the year ended 31 March 2018 and up to the date of this report were:

Name	Position
Mr. Liu Jianguo (劉建國)	Executive Director, Chairman and President
Mr. Ito Yasuki (伊藤康樹)	Executive Director, Chief Marketing Officer and President of Japan Operations
Mr. Murai Yuji (邨井勇二)	Executive Director and Chief Sales Officer
Mr. Zuo Jun (左軍)	Executive Director, Chief Administrative Officer and President of China Operations
Mr. Yang Xiaoping (appointed on 28 May 2018)	Non-executive Director
Mr. Lu Pochin Christopher (盧伯卿)	Independent Non-executive Director
Mr. Wang Jianguo (汪建國)	Independent Non-executive Director
Mr. Xu Hui (徐輝)	Independent Non-executive Director

In accordance with the articles of association of the Company, Mr. Ito Yasuki, Mr. Murai Yuji, Mr. Xu Hui and Mr. Yang Xiaoping will retire and, being eligible, will offer themselves for re-election at the forthcoming AGM.

The biographical details of the Directors of the Company as at the date of this annual report are set out in the section headed "Biographies of the Directors and Senior Management" in this annual report. Save as disclosed therein, there is no change in the Directors' biographical details which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Directors' service contracts and letters of appointment

The service contracts with each of the executive Directors are for a fixed term of three years. The letters of appointment with the non-executive Director and each of the independent non-executive Directors are for a fixed term of three years. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with the articles of association of the Company and the applicable Listing Rules.

None of the Directors has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Confirmation of independence of independent non-executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors (being Mr. Lu Pochin Christopher, Mr. Wang Jianguo and Mr. Xu Hui), and the Company considers such Directors to be independent for the year ended 31 March 2018.

Directors' and controlling shareholders' interests in transactions, arrangements or contracts of significance

Save as the related party transactions as disclosed in note 35 to the consolidated financial statements and the connected transactions as disclosed in the section headed "Connected Transactions" in this Directors' Report, there was no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director and/or any of its connected entity had a material interest, whether directly or indirectly, and there was no transaction, arrangement or contract of significance between the Company or any of its subsidiaries and the Company's controlling shareholders or any of its subsidiaries, subsisted at the end of, or at any time during the year ended 31 March 2018.

Directors' and chief executive's interests and short positions in Shares, underlying shares and debentures

As at 31 March 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules were as follows:

Directors' and chief executive's interests and short positions in Shares, underlying Shares and debentures (continued)

Interests in the company

Name of Director/Chief Executive	Capacity/Nature of interest	Number of Shares or underlying Shares interested [1]	Approximate percentage of interest[6]
Mr. Liu Jianguo [2]	Interest of controlled corporation	323,560,525 (L)	
	Beneficial owner	952,250 (L)	
		324,512,775(L)	53.28%
Mr. Ito Yasuki [3]	Beneficial owner	571,900 (L)	0.09%
Mr. Murai Yuji [4]	Beneficial owner	457,950 (L)	0.08%
Mr. Zuo Jun[5]	Beneficial owner	635,050 (L)	0.10%

Notes:

(1) The letter "L" denotes the person's long position in such Shares or underlying Shares.

(2) Mr. Liu Jianguo is the sole beneficial owner and sole director of Kouunn Holdings Limited, which beneficially owned 323,560,525 Shares. By virtue of the SFO, Mr. Liu is deemed to be interested in the Shares held by Kouunn Holdings Limited. Mr. Liu also directly held 380,900 Shares and was interested in 571,350 restricted share units (the "**RSU**"s) granted to him under the RSU Scheme entitling him to receive 571,350 Shares upon vesting.

(3) Mr. Ito Yasuki directly held 160 Shares and was interested in 571,740 RSUs granted to him under the RSU Scheme entitling him to receive 571,740 Shares upon vesting.

(4) Mr. Murai Yuji directly held 480 Shares and was interested in 457,470 RSUs granted to him under the RSU Scheme entitling him to receive 457,470 Shares upon vesting.

(5) Mr. Zuo Jun directly held 254,020 Shares and was interested in 381,030 RSUs granted to him under the RSU Scheme entitling him to receive 381,030 Shares upon vesting.

(6) The calculation is based on the total number of 609,050,000 Shares in issue as at 31 March 2018.

Interests in Associated Corporation of the Company

Name of Director	Name of associated corporation	Capacity/Nature of interest	Number of Shares held	Percentage of the issued share capital
Mr. Liu Jianguo	Kouunn Holdings Limited	Beneficial owner	1,000	100%

Save as disclosed above, as at 31 March 2018, none of the Directors or the chief executive of the Company had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial shareholders' and other persons' interests and short positions in Shares and underlying Shares

As at 31 March 2018, the following persons (other than the Directors and the chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name	Nature of interest	Number of Shares or underlying Shares interested(1)	Approximate percentage of interest(8)
Kouunn Holdings Limited (2) (5)	Beneficial owner	323,560,525(L)	53.13%
Ms. Huang Wenhuan (黃文歡) (3)	Interest of spouse	324,512,775(L)	53.28%
Fosun Industrial Holdings Limited (復星產業控股有限公司) (4)	Beneficial owner	35,629,425(L)	5.85%
Fosun International Limited (4)	Interest of controlled corporation	35,629,425(L)	5.85%
Fosun Holdings Limited (4)	Interest of controlled corporation	35,629,425(L)	5.85%
Fosun International Holdings Ltd. (4)	Interest of controlled corporation	35,629,425(L)	5.85%
Mr. Guo Guangchang (郭廣昌) (4)	Interest of controlled corporation	35,629,425(L)	5.85%
Yuanta Financial Holding Co., Ltd. (2) (5)	Person having a security interest in Shares	103,000,000(L)	16.91%
上海華瑞銀行股份有限公司(2) (6)	Person having a security interest in Shares	120,497,315(L)	19.78%
Charoen Pokphand Group Company Limited (7)	Interest of controlled corporation	91,296,500(L)	14.99%
ITOCHU Corporation	Beneficial owner	38,284,000(L)	6.29%

Notes:

(1) The letter "L" denotes the person's long position in such Shares or underlying Shares.

(2) 103,000,000 and 120,497,315 Shares held by Kouunn Holdings Limited were pledged in favour of Yuanta Commercial Bank Co., Ltd. and上海華瑞銀行股份有限公司 respectively.

(3) Ms. Huang Wenhuan (黃文歡) is the wife of Mr. Liu Jianguo and, by virtue of the SFO, is deemed to be interested in the Shares and the underlying Shares in which Mr. Liu is interested.

(4) Fosun Industrial Holdings Limited (復星產業控股有限公司) is a wholly-owned subsidiary of Fosun International Limited ("**FIL**"). FIL was 71.53% held by Fosun Holdings Limited ("**FHL**"). Fosun International Holdings Ltd. ("**FIHL**") is the beneficial owner of all issued shares in FHL and is in turn owned as to 64.45% by Mr. Guo Guangchang (郭廣昌). By virtue of the SFO, FIL, FHL, FIHL and Mr. Guo Guangchang (郭廣昌) are deemed to be interested in the same parcel of Shares held by Fosun Industrial Holdings Limited (復星產業控股有限公司).

(5) Yuanta Financial Holding Co., Ltd. is interested in the 103,000,000 Shares held by Yuanta Commercial Bank Co., Ltd., which it controls 100%. Yuanta Commercial Bank Co., Ltd. has a security interest in 103,000,000 Shares pledged by Kouunn Holdings Limited in its favour.

(6) 上海華瑞銀行股份有限公司 has a security interest in 120,497,315 Shares pledged by Kouunn Holdings Limited in its favour.

(7) These Shares are held by Chia Tai Primrose Holdings Limited (正大平樂控股有限公司) which is 100% controlled by Chia Tai Giant Far Limited (正大鉅發有限公司) ("**CTGF**"). CTGF is 100% controlled by CT Bright Group Company Limited (正大光明集團有限公司) ("**CTBG**"). CTBG is 100% controlled by CPG Overseas Company Limited which is in turn 100% controlled by Charoen Pokphand Group Company Limited.

(8) The calculation is based on the total number of 609,050,000 Shares in issue as at 31 March 2018.

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 ended 31 March 2018.

Major customers and suppliers

The Group has a large and diverse customer base. During the year ended 31 March 2018, sales to the Group's five largest customers accounted for approximately 36.6% of the Group's total sales for the same period (of which sales to the Group's single largest customer accounted for approximately 14.7% of the Group's total sales for the same period).

The Group depends on suppliers to supply raw materials or manufacture certain of the products. In the year ended 31 March 2018, purchases from the Group's five largest suppliers accounted for approximately 63.3% of the Group's total purchases from all suppliers for the year (of which purchases from the Group's single largest supplier accounted for approximately 24.6% of the Group's total purchases for the year).

All of the Group's five largest customers and suppliers are independent third parties. None of the Directors, their close associates or the shareholders which to the best knowledge of the Directors, own more than 5% of the issued share capital of the Company, had any interest in any of the five largest customers or suppliers during the year ended 31 March 2018.

Pre-emptive rights

There is no provision for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

Emolument policy

The Directors believe that the ability to attract, motivate and retain skilled and experienced personnel, including the craftsmen and employees responsible for research and development as well as quality control, is of significant importance to the long-term successful development of the Group. The remuneration package of the Group's employees includes salaries, allowances, benefit in kind and performance related bonuses. The Group has established a remuneration committee to review the policy and structure of the remuneration for the Directors and senior management and make recommendations on the remuneration packages of individual executive Directors and senior management. In general, the Group determines the emolument payable to its directors based on each Director's qualifications, experience, time commitment and responsibilities, salaries paid by comparable companies as well as the performance of the Group. The Company also provides various incentives through the implementation of restricted share unit scheme and post-IPO share option scheme to better motivate its employees.

Employee benefits

Particulars of the employee benefits of the Group are set out in note 28 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the Corporate Governance Code, the annual remuneration of the senior management by band for the year ended 31 March 2018 is set out below:

Remuneration band (in JPY)	Number of senior management
10,000,001-15,000,000	2
20,000,001-25,000,000	1

Public float

As at the latest practicable date prior to the issue of this annual report and based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained minimum public float of 25% as required under the Listing Rules.

Rights to acquire the company's securities and equity-linked agreements

Save as disclosed under the section headed "Restricted Share Unit Scheme and Post-IPO Share Option Scheme" above, at no time during the year was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, nor did the Company enter into any equity-linked agreement.

Directors' interests in competing business

During the year and up to the date of this annual report, none of the Directors and directors of the Company's subsidiaries, or their respective associates had interests in business, which compete or are likely to compete either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

Permitted indemnity provision

Every Director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. Subject to the Companies Law (2013 Revision) of the Cayman Islands, if any Director or other person shall become personally liable for the payment of any sum primarily due from the Company, the Board may execute or cause to be executed any mortgage, charge, or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the Director or person so becoming liable as aforesaid from any loss in respect of such liability. Such provisions were in force throughout the year ended 31 March 2018 and are currently in force. The Company has arranged for appropriate insurance cover for Directors' liabilities in respect of legal actions that may be brought against the Directors.

Use of proceeds from the global offering

On 6 October 2016, the Company's Shares were listed on the Stock Exchange. A total of 133,991,000 Shares with nominal value of US$0.0000025 each were issued at HK$10.00 per Share for a total of HK$1,339,910,000 under the global offering of the Company. The net proceeds raised by the Company from the above mentioned global offering, after deducting the underwriting fees and commissions and expenses paid by the Company in connection with the global offering, amounted to approximately JPY16,798.3 million. Details of the Group's use of proceeds as at 31 March 2018 are set out in the section headed "Management Discussion and Analysis – Financial Review – Use of Proceeds from the Global Offering" in this annual report.

Connected transactions

Mr. Liu Jianguo, an executive Director and a substantial shareholder of the Company, is a connected person of the Company under the Listing Rules. Shanghai POVOS Enterprise (Group) Co., Ltd. (上海奔騰企業（集團）有限公司) ("**Shanghai POVOS**") is wholly owned by Mr. Liu and is therefore an associate of Mr. Liu and hence a connected person of the Company under the Listing Rules. A property lease agreement and a subsequent renewal agreement, which is also a related party transaction disclosed in note 35 to the audited consolidated financial statements in accordance with International Accounting Standards 24 "Related Party Disclosure", was entered into between Shanghai POVOS, as the lessor, and World Power International Trading (Shanghai) Company Limited (世力國際貿易（上海）有限公司), being a member of the Group, as the lessee, on 31 December 2013 and 6 June 2016, respectively, which constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. As the highest relevant "percentage ratio" (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules is expected to be less than 5% and the total consideration is expected to be less than HK$3,000,000, in each case on an annual basis, the transaction is exempt from the annual review, annual reporting, announcement, circular (including independent financial advice) and independent shareholders' approval requirements pursuant to Rule 14A.76(1) of the Listing Rules. Details of the fully-exempt continuing connected transaction are set out in the section headed "Connected Transactions" of the Prospectus.

Subsequent event

Particulars of important events affecting the Group that have occurred since the year ended 31 March 2018 are stated in note 40 to the consolidated financial statements.

Audit committee

The audit committee of the Company has reviewed the accounting principles and policies adopted by the Group and discussed the Group's risk management, internal controls and financial reporting matters with the management. The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 March 2018.

Auditor

The financial statements for the year ended 31 March 2018 have been audited by Ernst & Young who shall retire at the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution will be proposed at the forthcoming AGM to re-appoint Ernst & Young as the auditor of the Company.

Save as otherwise stated, all references above to other sections, reports or notes in this annual report form part of this Directors' report.

On behalf of the Board
LIU Jianguo
Chairman

28 May 2018

Corporate Governance Report

Corporate governance practices

The board of directors (the "**Board**") of the Company is committed to achieving good corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance its transparency and accountability.

The Company has adopted the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") as the basis of the Company's corporate governance practices.

In the opinion of the directors of the Company (the "**Directors**"), throughout the year ended 31 March 2018 (the "**Year**"), the Company has complied with all the code provisions as set out in the CG Code save for the deviations from code provisions A.1.1 and A.2.1 which deviations are explained in the relevant paragraphs of this Corporate Governance Report.

The Board will from time to time, review, monitor and enhance its corporate governance practices to ensure that the Company continues to meet the requirements of the CG Code.

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' and relevant employees' dealings in the Company's securities.

Specific enquiry has been made with all the Directors and the Directors have confirmed that they have complied with the Model Code and the Company's own code of conduct regarding directors' securities transactions throughout the Year.

Board of Directors

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board regularly reviews the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time in performing them.

Board composition

The Board currently comprises eight Directors, consisting of four executive Directors, one non-executive Director and three independent non-executive Directors:

Executive Directors

Mr. Liu Jianguo (劉建國) *(Chairman and President)*
Mr. Ito Yasuki (伊藤康樹)
Mr. Murai Yuji (邨井勇二)
Mr. Zuo Jun (左軍)

Non-executive Director

Mr. YANG Xiaoping (楊小平)*

Independent Non-executive Directors

Mr. Lu Pochin Christopher (盧伯卿)
Mr. Wang Jianguo (汪建國)
Mr. Xu Hui (徐輝)

* Appointed on 28 May 2018

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The biographical information of the Directors are set out in the section headed "Biographies of the Directors and Senior Management" on pages 32 to 36 of this annual report.

None of the members of the Board is related to one another.

Board meetings

Code provision A.1.1 stipulates that regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

During the Year, the Board held two meetings to approve the final results for the year ended 31 March 2017 and the interim results for the six months ended 30 September 2017. The Company has not held board meeting in the first and third quarters as the Company does not announce its results quarterly.

The Chairman also held a meeting with the independent non-executive Directors without the presence of executive Directors during the Year.

Chairman and chief executive

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.

The positions of the chairman and president of the Company are both held by Mr. Liu Jianguo who provides leadership and is responsible for the effective functioning of the Board. He is also responsible for formulating the overall development strategies and business plans of the Group.

With the assistance of Mr. Ito Yasuki and Mr. Zuo Jun, the respective presidents of Japan operations and China operations overseeing the Group's business in Japan and China, the Board believes that this arrangement would allow for effective and efficient planning and implementation of business decisions and strategies under the strong and consistent leadership and should be beneficial to the management and development of the Group's business.

Independent non-executive Directors

During the Year, the Board at all times has three independent non-executive Directors and met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and re-election of Directors

The independent non-executive Directors are appointed for a specific term of three years commencing from 18 September 2016.

The non-executive Director is appointed for a specific term of three years commencing form 28 May 2018.

The Company's Articles of Association provides that all Directors appointed to fill a casual vacancy or as an addition to the Board shall be subject to re-election by shareholders at the next following general meeting after appointment.

Under the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The retiring Directors shall be eligible for re-election.

Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the local senior management led by Mr. Ito Yasuki and Mr. Zuo Jun who are the respective presidents of Japan operations and China operations.

Continuous professional development of Directors

Directors shall keep abreast of regulatory developments and changes and of the conduct, business activities and development of the Company in order to effectively perform their responsibilities.

Every newly appointed Director will receive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and other relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

Continuous professional development of Directors (continued)

During the Year, the following Directors attended seminar(s) and training session(s) arranged by professional institution(s)/professional firm(s):

Directors	Type of Training[Note]
Executive Directors	
Liu Jianguo	A, B
Ito Yasuki	A, B
Murai Yuji	A, B
Zuo Jun	A, B
Independent Non-executive Directors	
Lu Pochin Christopher	A, B
Wang Jianguo	A, B
Xu Hui	A, B

Notes:

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Board committees

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are posted on the websites of Hong Kong Exchanges and Clearing Limited ("**HKEx**") and the Company and are available to shareholders upon request.

All Board committees of the Company comprise a majority of independent non-executive Directors, and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this annual report.

Audit committee

The Audit Committee consists of three independent non-executive Directors. The members are:

Mr. Lu Pochin Christopher *(Chairman)*
Mr. Wang Jianguo
Mr. Xu Hui

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the Year, the Audit Committee held two meetings to review, among other things, (i) the annual results and reports in respect of the year ended 31 March 2017 and the interim results and reports in respect of the six months ended 30 September 2017, respectively; (ii) the continuing connected transaction; (iii) the effectiveness of the risk management and internal control systems and internal audit function; (iv) the arrangements for employees to raise concerns about possible improprieties in financial reporting, internal control or other matters; and (v) the appointment of external auditors and their relevant scope of works.

The Audit Committee also met the external auditor without the presence of the executive Directors and the management during the Year.

Remuneration committee

The Remuneration Committee consists of two independent non-executive Directors and one executive Director. The members are:

Mr. Wang Jianguo *(Chairman)*
Mr. Xu Hui
Mr. Zuo Jun

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, as well as making recommendations to the Board on the remuneration of all Directors and senior management; assessing performance of executive Directors and approving the terms of executive Directors' service contracts; reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and ensuring that no Director or any of his associates is involved in deciding his own remuneration.

During the Year, the Remuneration Committee met once to review the Company's policy and structure for the remuneration of all Directors and senior management, the remuneration packages of individual executive Directors and senior management, and the remuneration of independent non-executive Directors.

Pursuant to code provision B.1.5 of the CG code, details of the remuneration of the senior management (other than Directors) by bands are set out in note 11 to the consolidated financial statements in this annual report.

Nomination committee

The Nomination Committee consists of two independent non-executive Directors and one executive Director. The members are:

Mr. Liu Jianguo *(Chairman)*
Mr. Wang Jianguo
Mr. Lu Pochin Christopher

The principal duties of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendation on any proposed changes to the Board to complement the Company's corporate strategy; formulating a policy of selection and nomination of directors and the procedures for the sourcing of suitably qualified director for consideration of the Board; making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and assessing the independence of independent non-executive Directors.

The Board has adopted a board diversity policy which sets out the approach adopted by the Board regarding diversity of Board members. In designing the Board's composition, board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board strives to ensure that it has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies and in order for the Board to be effective. The Board will review the board diversity policy, as appropriate, to ensure the effectiveness of the policy.

The Nomination Committee has a set of nomination procedures for the Directors. In recommending candidates for appointment to the board of Directors, the Nomination Committee will evaluate and select candidates for directorship based on the director's characters, backgrounds and qualifications, commitment, board diversity policy and any measurable objectives adopted, as well as factors relating to the Company's business model and specific needs. The Nomination Committee will determine the candidate qualified for directorship and then recommend to the Board the appropriate candidate to stand for election as directors at the general meeting.

During the Year, the Nomination Committee met once to review the structure, size and composition of the Board, to assess the independence of the independent non-executive Directors, to consider the qualifications of the retiring Directors standing for election at the 2017 annual general meeting and to review the effectiveness of the board diversity policy.

Corporate governance functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code. These include: to develop and review the Company's policies and practices on corporate governance; to review and monitor the training and continuous professional development of Directors and senior management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and to review the Company's compliance with the CG Code as set out in Appendix 14 to the Listing Rules and disclosure in the Corporate Governance Report.

During the Year, the Board reviewed the Company's corporate governance policies and practices, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code by Directors and relevant employees and the Company's compliance with the CG Code.

Attendance records of Directors and committee members

The attendance records of each Director at the Board and Board committee meetings and the annual general meeting held during the Year are set out in the table below:

	Attendance/Number of Meetings during the Tenure of Directorship				
Name of Director	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Mr. Liu Jianguo	2/2	N/A	1/1	N/A	1/1
Mr. Ito Yasuki	2/2	N/A	N/A	N/A	1/1
Mr. Murai Yuji	2/2	N/A	N/A	N/A	1/1
Mr. Zuo Jun	2/2	N/A	N/A	1/1	1/1
Mr. Yang Xiaoping*	N/A	N/A	N/A	N/A	N/A
Mr. Lu Pochin Christopher	2/2	2/2	1/1	N/A	1/1
Mr. Wang Jianguo	2/2	2/2	1/1	1/1	1/1
Mr. Xu Hui	2/2	2/2	N/A	1/1	1/1

* Appointed on 28 May 2018

Risk management and internal controls

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee, assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

All material subsidiaries of the Company perform annual enterprise risk assessment to identify, evaluate and manage significant risks associated with its long term strategy and day to day operation. All material risks, once identified, are quantified financially and responded with concrete risk actions. These actions are reviewed annually to determine the effectiveness of the risk management system and to resolve material internal control defects.

The Company has an internal audit function which is performed by the internal audit teams heading by the Company's chief financial officer. The internal audit teams are responsible for performing independent review of the adequacy and effectiveness of the risk management system and internal control system. The Company reviews the Company's enterprise risk map on an annual basis and the risk mitigating actions on a semi-annual basis. The Board has reviewed the effectiveness of the internal audit function and the review result is satisfactory.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management system and internal control system for the Year. The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management system and internal control system of the Group, including the financial, operational and compliance controls, for the Year, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and staff qualifications, experience and relevant resources.

Arrangements are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Group.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees for handling and dissemination of inside information, monitoring information disclosure and responding to enquiries.

Directors' responsibility in respect of the financial statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2018.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 85 to 90 of this annual report.

Auditors' remuneration

An analysis of the remuneration paid or payable to the external auditors of the Company, Messrs. Ernst & Young, in respect of audit services and non-audit services for the year ended 31 March 2018 is set out below:

Service Category	Fees Paid/Payable
Audit Services	JPY79,784,000
Non-audit Services	
– Consulting Services	JPY30,315,000
– Tax Filling Services	JPY1,666,000
	JPY111,765,000

Company secretary

The Company has engaged Ms. Cheng Pik Yuk of Tricor Services Limited, external service provider, as the Company's company secretary. Its primary contact person at the Company is Ms. Bian Weiwen, chief financial officer of the Company.

Shareholders' rights

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange respectively after each general meeting.

Right to call an extraordinary general meeting

Pursuant to the Articles of Association of the Company, general meetings may be convened on the written requisition of any two or more members holding, as at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. Shareholders should follow the requirements and procedures as set out in the Company's Memorandum and Articles of Association, for convening a general meeting.

Putting forward proposals at general meetings

There are no provisions in the Company's Articles of Association or the Cayman Islands Companies Law for shareholders to put forward new proposals at general meetings. Shareholders who wish to put forward a proposal may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. As regards proposing a person for election as a director of the Company, please refer to the "Procedures for Shareholders to Propose a Person for Election as Director" of the Company which is posted on the Company's website.

Putting forward enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the following address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Address:	31 Floor, No.100, Century Ave., Pudong New Area, Shanghai, PRC (For the attention of the Board of Directors/Chief Investor Relations Officer)
Email:	IR@honma.hk

For enquiries about shareholdings, shareholders should direct their enquiries to the Company's Hong Kong share registrar. Their details are as follows:

Name:	Computershare Hong Kong Investor Services Limited
Address:	Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Tel No.:	(852) 2862 8555
Fax No.:	(852) 2865 0990

Communication with shareholders and investor relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At annual general meetings, Directors, in particular, the chairmen of the Board committees or their delegates, appropriate senior executives and external auditor shall attend annual general meetings to answer questions from shareholders.

Constitutional documents

During the Year, the Company had not made any changes to its Memorandum and Articles of Association. An up to date version of the Company's Memorandum and Articles of Association is also available on the websites of HKEx and the Company.

Environmental, Social and Governance Report

This Environmental, Social and Governance ("**ESG**") Report (the "**Report**") summarises the initiatives, programmes and performance of Honma Golf Limited ("**Group**"), while demonstrating its commitment to sustainability.

The board of directors ("**Board**") of the Group recognizes the importance of strong ESG performance in meeting the changing expectations of stakeholders and enhancing the performance of the Group. The Board has taken the overall responsibility for the Group's ESG strategy and reporting. It is committed to environmental protection and endeavours to promote an environmental culture among all employees to enhance the sustainability of the Group.

With a view to improving its ESG disclosures, the Group has taken the initiative to formulate policies, measure relevant data, monitor progress and report to investors and other stakeholders on its achievement, in accordance with the Environmental, Social and Governance Reporting Guide (Appendix 27 to the Main Board Listing Rules) of The Stock Exchange of Hong Kong Limited ("**HKEX**") and other related rules.

This Report presents our approach to and performance in the environmental and social sustainability of our business for the reporting period from 1 April 2017 to 31 March 2018. This Report covers the Research & Development and Manufacturing Centre (the "**Manufacturing Centre**") in Japan where the golf clubs are manufactured, Group Headquarters in Shanghai of the People's Republic of China ("**Group Headquarters**"), as well as the self-operating stores ("**Stores**") across both Japan and Mainland China where golf clubs and golf-related products are sold to customers.

The Group values the business and ESG concerns of its key stakeholders — employees, investors, customers, suppliers, government bodies and communities. It communicates with them through different channels such as conferences, electronic platforms and public events. In formulating operational strategies and ESG measures, the Group takes into account the stakeholders' expectations. It endeavours to improve its performance through collaborating with the stakeholders, thereby creating greater value for the community.

Subject Area A - Environmental Aspects

Aspect A1: Emissions

Air and GHG emissions

Emissions generated were mainly direct air emissions from burning of fuel from boilers and the use of motor vehicles for transportation used within the Manufacturing Centre, and indirect emissions of greenhouse gases ("**GHG**") from the use of purchased electricity at both the Manufacturing Centre for the manufacturing processes and general use such as lighting and heating, and also at various Stores across Japan and PRC for general use.

Subject Area A - Environmental Aspects (continued)

Aspect A1: Emissions (continued)

Air and GHG emissions (continued)

The amounts of the different types of air emissions during the year by the Group Headquarters, Manufacturing Centre, and Stores in Japan and Mainland China were as follows:

Types of air emissions	Air emission source(s)	Total volume emitted (approx. in kilograms)	Intensity of emission (per unit of production volume) (Note)
Nitrogen Oxides (NOx)	Burning of fuel in the manufacturing processes and the use of motor vehicles	385	0.000430
Sulphur Oxides (SOx)		5,556	0.006208
Particulate Matter (PM)		12	0.000013

Note: Intensity is measured by volume emitted divide by the total estimated production volume 895,000 from 1 April 2017 to 31 March 2018

The amounts of different types of GHG emissions in CO_2 equivalent emissions ("**CO_2e**") by the Group Headquarters, Manufacturing Centre, and Stores in Japan and Mainland China during the year were as follows:

Greenhouse gas emissions	Air emission source(s)	Total volume emitted (approx. in tonnes)	Percentage of total volume (%)	Totall volume emitted from Manufacturing Centre	Intensity of emission (per unit of production volume)
Scope 1 Direct emissions or removals from sources	• Burning of fuel in the manufacturing processes and the use of motor vehicles	847	24	847	0.000946
Scope 2 Energy indirect emissions	• Purchased electricity	2,569	72	2,368	0.002646
Scope 3 Other indirect emissions	• Business travel by employees • Electricity use for fresh water and sewage processing by government departments	155	4	145	0.00162
Total		3,571	100	3,360	0.003754

Subject Area A - Environmental Aspects (continued)

Aspect A1: Emissions (continued)

Air and GHG emissions (continued)

During the year approximately 847 tonnes of Scope 1 GHG emissions were emitted by the Group Headquarters, Manufacturing Centre, and Stores in Japan and Mainland China, with a monthly average emission of approximately 71 tonnes, resulting from the fuel consumed during the manufacturing processes and the use of motor vehicles for operational needs.

A total of approximately 2,569 tonnes of Scope 2 GHG emissions were emitted from the use of purchased electricity.

For Scope 3 GHG emissions, approximately 131 tonnes were emitted as a result of business air travel by employees, while approximately 24 tonnes were emitted as an indirect result of the electricity used for fresh water and sewage processing by government departments. Hence a total of 155 tonnes of Scope 3 GHG emissions were generated during the year, with a monthly average of approximately 13 tonnes.

Wastes

Wastes produced from the manufacturing processes were mainly dust, sewage and scraps. The electroplating process generated sewage containing cyanide and chrome which are hazardous. This sewage was processed through evaporation, filtration and other effluent treatment before being discharged into a designated pipe network. The grinding process generated dust which was removed by the installation of dust removal devices to avoid hazard to the health and safety of workers.

Non-hazardous scrap materials such as carbon fiber and hazardous ones such as metals and coatings were collected and reused wherever possible. Non-recyclable materials were disposed using qualified service providers.

The amounts of the different types of waste generated during the year by the Group Headquarters, Manufacturing Centre, and Stores in Japan and Mainland China were as follows:

Types of waste	Hazardous/ Non-hazardous	Total waste generated (approx. in tonnes)	Total waste generated from Manufacturing Centre (approx. in tonnes)	Intensity (per unit of production volume)
Chemical waste	Hazardous	8	8	0.000009
Paper	Non-hazardous	40	40	0.000044
Carbon fiber	Non-hazardous	22	22	0.000024
Polyethylene	Non-hazardous	18	18	0.000020
Magazine, waste plastics, waste coating, etc.	Non-hazardous	90	90	0.000101

The Group has managed to maintain air emissions and waste generated from the manufacturing processes at a relatively lower level than other manufacturing companies by performing only key manufacturing processes at the Manufacturing Centre and by outsourcing non-core manufacturing processes to strategic supplier partners.

Subject Area A - Environmental Aspects (continued)

Aspect A1: Emissions (continued)

Wastes (continued)

Nonetheless, the Group has always attached great importance to the protection of the environment, and has adopted a number of measures which are regularly carried out to manage emissions and waste in the course of business operations. These are:

- Regularly monitor and perform maintenance on key environmental protection facilities such as dust removal and sewage treatment equipment to ensure these are in proper working order in removing harmful substances;
- Tests are regularly carried out to ensure that the water discharged is safe to the surrounding community and that it also meets the standards required by the authority;
- Regular collection of hazardous wastes (such as cyanide and chrome) from sewage, and scraps (such as metals and coatings) are handled by qualified service providers for recycling and treatment;
- Scraps (such as metal, coating, carbon fiber, etc.) generated in the manufacturing process are regularly monitored and reduced wherever possible for the purpose of cost and waste reduction.
- Use the video conferencing system instead of air travel when communicating between different offices to reduce the number of business trips whenever possible;
- Wrapping materials and paper cartons are reused wherever possible, otherwise recycle properly, or dispose of responsibly; and,
- The Waste Recycling Committee has continued to explore different ways to recycle and reduce waste in the manufacturing processes.

During the year the Group adopted the following additional measures to mitigate emissions and reduce wastes:

- The Group upgraded its ERP system with the aim of streamlining the workflow, and thus increased the efficiency of the use of energy and water in the manufacturing process.
- At the Manufacturing Centre, some air-conditioners have also been replaced by more energy-efficient models.

The Manufacturing Centre is subject to stringent Japanese environmental laws and regulations, including the following:

➢ "Water Pollution Prevention and Control Law of Japan";

➢ "Air Pollution Prevention and Control Law of Japan";

➢ "Noise Regulation Law";

➢ "Vibration Regulation Law"; and

➢ "Soil Pollution Countermeasures Law".

Subject Area A - Environmental Aspects (continued)

Aspect A1: Emissions (continued)

Wastes (continued)

Inspections were periodically carried out by local government officials at the Manufacturing Centre. Similar to previous year, the Group devoted significant financial resources on ensuring strict compliance with laws and regulations and the safety of the surrounding community. As a result, no administrative sanctions were imposed upon the Company, nor has the Company paid any penalty for violating environmental laws or regulations.

In addition, the Group is also committed to complying with requirements set out in the environmental laws and regulations of other countries in which it operates.

Aspect A2: Use of Resources

The Group has always placed great emphasis on energy and resources conservation, and has adopted an efficient energy-saving strategy to improve the utilization of raw materials, reduce wastes and reuse recyclable resources.

The resources consumed by the Group during the year were mainly fuel oil, liquefied petroleum gas ("**LPG**"), natural gas, water, electricity and others such as paper cartons used in product packaging.

The amounts of energy, water and other resources used by the Group Headquarters, Manufacturing Centre, and Stores in Japan and Mainland China during the year were as follows:

Resources (Unit)	Amount	Total amount of energy & water consumed at Manufacturing Centre	Intensity (per unit of production volume)
Electricity (MWh)	4,985	4,736	0.005292
LPG and others (MWh)	3,662	3,662	0.004092
Water (tonnes)	56,813	53,051	0.059275
Printing Paper (tonnes)	8	8	0.000009

Subject Area A - Environmental Aspects (continued)

Aspect A1: Emissions (continued)

Wastes (continued)

To ensure the efficient use of resources, to minimize inefficiency and wastage, and to realize the conservation of energy and resources, the Company has implemented the 5S on-site management and organization method in its manufacturing processes. In addition, the Group adopts the following measures to achieve the objective of the effective utilization of resources:

- Continuously optimising the entire production process, i.e. centralising manufacturing efforts to shorten the production cycle and minimising raw material utilization; reducing the travel distances in the logistics of raw materials and production within the factory through careful management of inventory location and warehouse space.
- Prioritising the use of water-saving and energy-efficient production machinery and office equipment, i.e. water-efficient sanitary-ware in toilets, electrical appliances which are certified to be energy-efficient or environmental-friendly.
- Prioritising the use of air-conditioners which have good temperature and humidity controls, allowing employees to work in a comfortable environment in the workshops and offices, while at the same time reducing unnecessary energy use due to over-heating or over-cooling.
- Prompting employees to turn off lighting in work areas during their lunch breaks to save energy.

Aspect A3: Environment and Natural Resources

Direct impact on the environment and natural resources is minimal with respect to the sales activities of the Group.

At the Manufacturing Centre, craftsmen apply gold plating to the club heads using the electroplating process for BERES series irons, golf clubs with higher HONMA star ratings. This process was developed through years of research. This in-house plating expertise differentiates HONMA from other golf club manufacturers. Water is used during this electroplating process of golf clubs. Sewage generated from the manufacturing process is processed through evaporation, filtration and other effluent treatment before being discharged into a designated pipe network.

Similar to the Group's waste reduction and water conservation measures, the Group regularly monitors and performs maintenance on key environmental protection facilities so as to minimise the impact on the environment and the consumption of natural resources. This is done to ensure these facilities are in proper working order to remove harmful substances. Tests are regularly carried out to ensure that the water discharged is safe to the surrounding community which it also meets the standards required by the authority. Hazardous wastes such as cyanide and chrome are collected from sewage by qualified service providers for recycling and treatment. As part of the Group's continuous efforts to optimise our manufacturing process, production is constantly improved to conserve water and energy without sacrificing product quality.

Subject Area B – Social Aspects

Employment and Labour Practices

Aspect B1: Employment

The Group highly values its employees and ensures that they are reasonably remunerated, For instance, the Group has established a defined benefit plan for employees in Sakata Campus, Japan, in accordance with the general practice of Japan to recruit and retain employees. In addition, the Group has also established a restricted share unit scheme to incentivize our directors, senior management and employees to enhance their sense of belonging to the Group and to work for the Group diligently.

The Group is committed to providing a fair and balanced working environment for all employees, and strictly complies with the requirements set out in the relevant laws and regulations of the countries in which we operate, including:

- the Labour Standards Act of Japan:
- the Labour Law of the People's Republic of China; and
- the Labour Contract Law of the People's Republic of China.

The Group endeavors to ensure employees are recruited, remunerated and promoted based on their merit, qualifications, competence, suitability and contribution to the Group. The Group is an equal opportunities employer which is committed to maintaining a diverse workforce without regard to age, gender, family status, sexual orientation, disability, ethnicity, religion and political beliefs. Any form of discrimination is prohibited in the workplace.

Subject Area B – Social Aspects (continued)

Employment and Labour Practices (continued)

Aspect B1: Employment (continued)

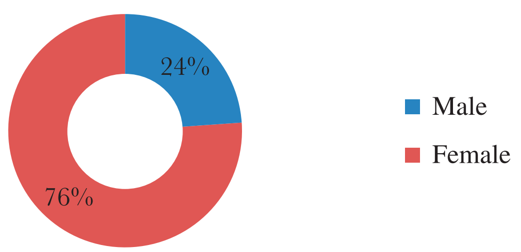
The Group believes that attracting and retaining qualified talents is vital to our continuous success. To achieve this, the Group provides a market competitive remuneration system, including wage, bonus, benefits and allowances.

Within the working hours that meet the requirements of the relevant labour protection laws of places in which the Group operates, reasonable arrangements are made for the working hours of employees, and reasonable rest times are given. For overtime work under exceptional circumstances, the Group will pay overtime wages or give holidays for working extra shifts. The Group strictly abides by the relevant requirements of labour laws of the countries in which it operates to ensure that the rest and leave rights of employees are protected.

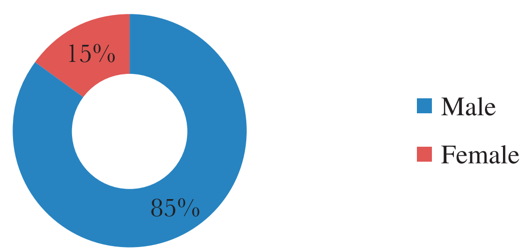
Employees of different races, family backgrounds, regions, nationalities, genders and academic qualifications enjoy equal employment, position and salary adjustment, promotion, training and education opportunities. The Group gives a high degree of respect to and protects these rights, and will not tolerate the occurrence of any discriminatory acts in business.

As at 31 March 2018, there were a total of 779 employees in the Group Headquarters, Manufacturing Centre, and Stores in Japan and Mainland China, of those 215 were employed in China and 564 were employed in Japan. The gender ratios of the workforce in two of the Group's major geographic locations are depicted below:

Mainland China



Japan



There were 531 male and 248 female employees in Japan and Mainland China, with a male-to-female ratio of approximately 2:1. The ratio of male employees is higher due to the higher percentage of male employees at the Manufacture Centre, which is where the majority of the workforce is based. The work involved in the manufacturing processes is by its nature of labour-intensive and thus has traditionally been preferred by male employees. Nonetheless as evident by the Group's strategy in the sales of ladies golf sets, golf apparels and sponsoring professional ladies golfers, golf is a sport which appeals equally to both genders.

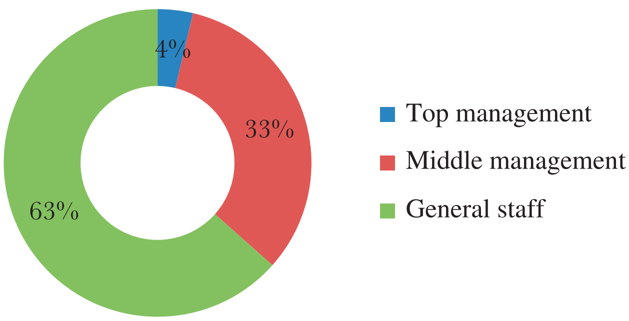
Subject Area B – Social Aspects (continued)

Employment and Labour Practices (continued)

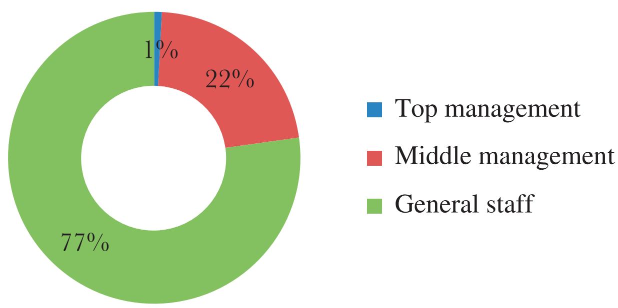
Aspect B1: Employment (continued)

There were 571 employees at the operational level, 194 at middle-management level, and 14 at top management level in Japan and Mainland China. All of them were full-time employees. The ratios of the three hierarchies of the workforce in two of the Group's major geographic locations are depicted below:

Mainland China

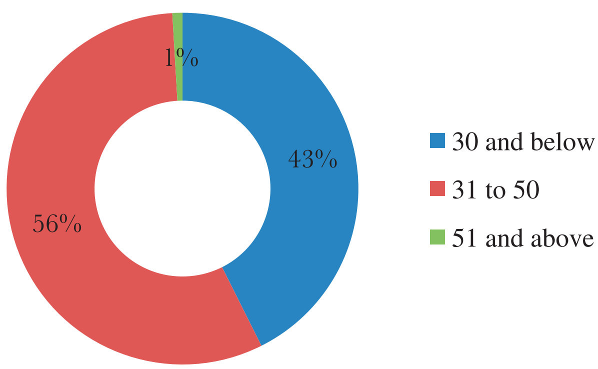


Japan

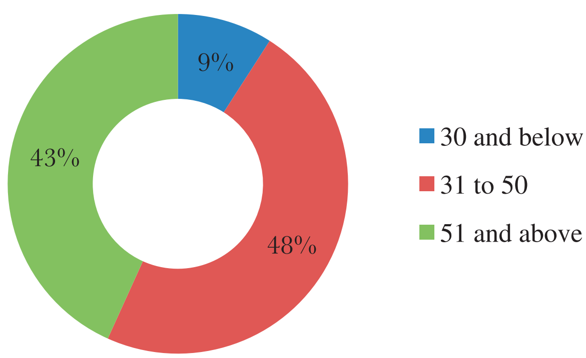


There were 389 employees aged between 31 and 50, 247 employees aged 51 and above, and 143 employees aged 30 and below. The ratios of the age groups of the workforce at two of the Group's major geographic locations in Japan and Mainland China are depicted below:

Mainland China



Japan

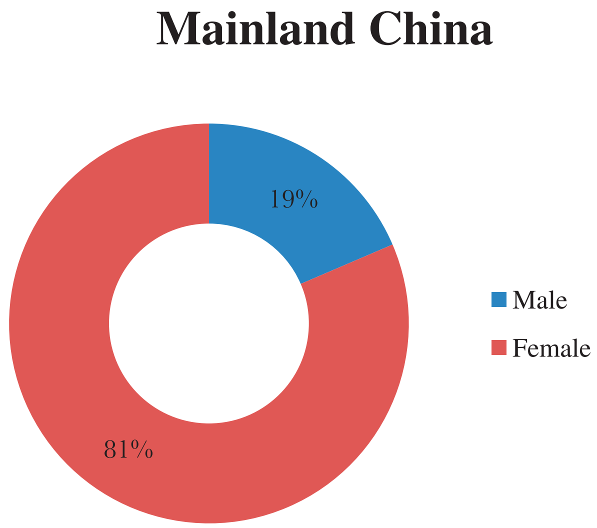


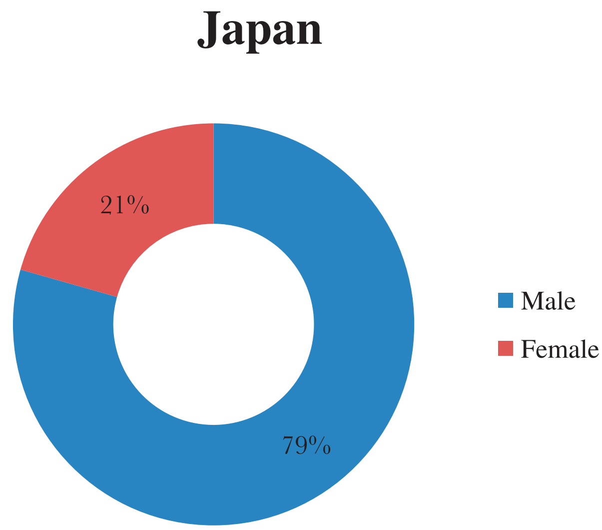
Subject Area B – Social Aspects (continued)

Employment and Labour Practices (continued)

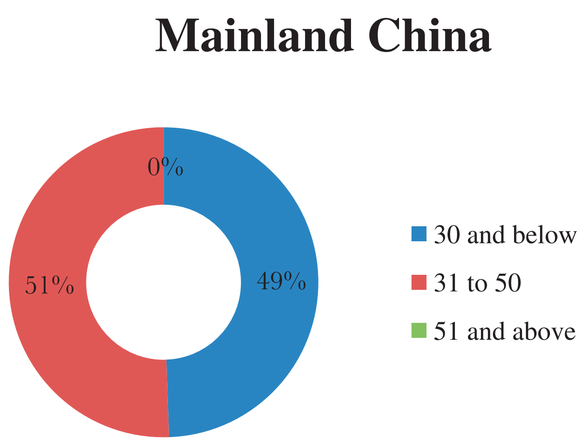
Aspect B1: Employment (continued)

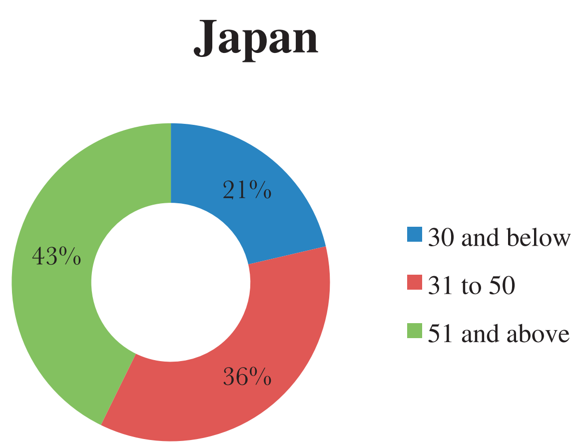
During the year, a total of 309 employees left our offices in Japan and Mainland China, of those 178 were employed in China and 131 were employed in Japan. There were 137 male employees compared to 172 female employees who left the offices in Japan and Mainland China. The employee turnover rate remains low during the year, ranging from 1% to 6% with an average of approximately 3% per month. The turnover of workforce by gender in the Group's two major geographic locations in Japan and Mainland China are depicted below:





During the year, 137 employees who left our offices in Japan and Mainland China was from aged 31 to 50, 116 employees was from aged 30 and below, whereas 56 employees was aged 51 and above. The turnover of workforce by age group at the Group's two major geographic locations in Japan and Mainland China are depicted below:





During the reporting period, there was no major non-compliance by the Group relating to labour practices.

Subject Area B – Social Aspects (continued)

Employment and Labour Practices (continued)

Aspect B2: Health and Safety

The Group has managed to provide a legitimate, safe and dignified working environment for its employees. The Group has an employee safety committee that is responsible for implementing the Group's internal employee safety policy, providing relevant training and education, and conducting regular inspections, and has established a system for creating records and dealing with accidents. The Group also has dedicated staff at the Manufacturing Centre to deal with employee health and safety issues.

The risk to the health and safety of employees at the Manufacturing Centre is higher than employees at other locations since they handled organic solvents, dust, and other hazardous substances in the workshops during the production processes. Hence significant efforts have been made in providing protection to our employees at the Manufacturing Centre. These include the following:

- Waste liquid collection containers are installed in operating sites where organic solvents are used in treatment sites after stripping operation to reduce contact with these substances;
- Dust collectors are installed in grinding workshops to reduce the inhalation of air-borne dust;
- Fire suppression equipment including indoor and outdoor fire hydrant, automatic fire alarms, emergency power supplies and smoke detectors are installed where appropriate, and regular inspections are conducted to ensure proper working conditions;
- Regularly self-inspections are conducted on the equipment powered by LPG at least once a year to reduce potential safety hazards; and
- Employees are provided with an annual "health diagnosis" and "stress check" pursuant to the requirements of the labour regulations of Japan, and based on these assessments adjustment to their work may be made as necessary, especially those who are charged with operating machinery in order to ensure their safety.

The Group has included guidance on health and safety principles in the Group's Staff Handbook. For posts identified by the Group to have occupational hazards, inspections and health checks organized by the Group should be conducted for the appointment, service and departure of employees. For worksites identified by the Group to have occupational hazards, the Group will conduct inspections on a regular basis and equip employees with labour protection appliances required for work while purchasing targeted insurance.

During the reporting period, only one minor injury case was recorded in March 2018 which caused 1.5 related lost days due to such work injury. The Group did not experience any major non-compliance relating to health and safety laws and regulations.

Subject Area B – Social Aspects (continued)

Employment and Labour Practices (continued)

Aspect B3: Development and Training

The Group recognizes the importance of the continuity and development of professional knowledge and skills, and has established policies in relation to staff development and training. The Group provides internal and external training opportunities to various levels of employees, including the management, sales and marketing, operations and back office supporting staff.

To ensure the maintenance of the iconic status of our brand and our craftsmanship heritage, the Group provides diversified training to our employees, including induction training, job qualification training, professional knowledge and business skills training, integrated management training and advanced training, etc.

Summary of training in the Group Headquarters, Manufacturing Centre, and Stores in Japan and Mainland China is presented as below:

	Training headcount	Number of employees*	Total training hours	Average training hours
By gender				
Male	3,582	531	2,946	5.55
Female	2,905	248	1,900	7.66
Total	6,487	779	4,846	6.22
By hierarchy				
Senior Management	48	14	65	4.46
Middle Management	2,258	194	2,109	10.87
General Executives	4,181	571	2,672	4.68
Total	6,487	779	4,846	6.22

* As at year end

In addition, the Group has established targeted training programs for employees in different business segments, such as establishing a multi-skilled worker training program and an apprentice program for employees in Sakata Campus, to promote the development of employees and make it possible for senior craftsmen to pass their experience to the younger generation. The Group has also established an internal golf club fitter certification program for sales staff of self-operating stores.

Subject Area B – Social Aspects (continued)

Employment and Labour Practices (continued)

Aspect B4: Labour Standards

The Group attaches great importance to and strictly abides by all applicable laws and regulations of places in which it operates.

Child and forced labor are considered unacceptable at Honma. The Group has established strict recruitment procedures, including selection examination, physical examination and interview. Those intended to be hired are required to submit identity documents such as their identity cards or personal number cards for screening by administrative and human resources departments before they are employed.

In the Japanese business division of the Group, the Group is required to sign written agreements with employees who are required to work outside the required hours stipulated by the Labour Standards Act for submission to the Commissioner for Labour Standards Supervision Department. Collecting deposits in any illegal manner from employees, seizure of identity documents and physical punishment of employees prohibited as well.

Moreover, the Group respects and protects the rights of employees to have rest and leave days, and provides appropriate leave benefits, including annual leave, sick leave, marriage leave, maternity leave and casual leave.

During the reporting period, the Group did not have any material non-compliance case in relation to labour laws and regulations.

Operation Practices

Aspect B5: Supply Chain Management

The Group has maintained good practices to build up positive relationships with its suppliers. The Group has established the relevant policies and systems regarding supply chain management, including the relevant procedures and screening criteria for the selection of suppliers, and will review and re-evaluate such procedures on a regular basis.

The Group has 679 suppliers who were authorised to provide goods/services to the Group globally. They are mainly located in Japan, Taiwan, China, Hong Kong and the United States. According to the development strategies of the Group, we outsource non-material components to strategic supplier partners. Suppliers of the Group include bill of material (BOM) suppliers, providing raw materials such as club heads and carbon fiber sheets and original equipment manufacturer (OEM) suppliers, providing golf clubs, golf balls and apparel accessories.

The Group has always maintained good practices in the selection and evaluation of suppliers. In the selection process of suppliers, the Group will conduct screening assessment of suppliers by considering operation management, production equipment, product quality and other aspects of the suppliers. In the process of cooperating with suppliers, the Group will also arrange quality control staff to visit each plant of the suppliers regularly to examine the production process to check whether the production process of the supplier has complied with the specific requirements of the Group to ensure the quality and standard of the products procured by the Group.

Subject Area B – Social Aspects (continued)

Operation Practices (continued)

Aspect B6: Product Responsibility

Product Quality Management

The Group has established a comprehensive product quality management system which covers the production process and the production process of the supplier partners, the specific measures are as follows:

- For production processes in Japan, tests are conducted on all carbon fibre shafts to ensure each shaft has complied with the Group's production standards in strength, flexibility, weight distribution and vibration frequency;
- For production processes at supplier partners, the Group's quality control staff will examine all delivered goods to ensure the components have complied with our production standards on quality and aesthetics;
- In the assembly process of finished products in Japan, we conduct a series of tests, including strike durability test and torsion test on finished products, to ensure the quality of finished products.

After-sales management of products

The Group has established standard procedures for handling complaints. For customer complaints, our customer service team will handle each complaint seriously and investigate into the relevant reasons for all complaints. According to our policies, retail customers are allowed to return defective products. If we discover that we should be responsible for any product defect, we will replace such defective product with a brand new product or repair the product free of charge. And we will formulate preventive measures afterwards and share the relevant information widely within the Group to avoid the occurrence of similar issues in future.

Since we have strictly implemented the quality control policies, during the reporting period, we have not received any returned products or any material complaints from consumers, nor recalled any products due to safety and health issues.

Protection of intellectual property

The Group takes appropriate action to protect intellectual property rights. The Group has a number of patents, trademarks and other intellectual property relating to the manufacturing and sales of golf clubs and other golf related products. The Group protects intellectual property by complying with the use of patents, trademarks and other intellectual property laws through the signing of confidentiality agreements between employees and third-parties.

In addition, all R&D staff of the Group have signed confidentiality and proprietary information agreements with the Group. Such agreements address the problems of protecting intellectual property and require our employees to transfer all inventions, designs and technologies developed within their employment periods at the Group.

During the reporting period, the Group was not involved in any material litigation or claims on intellectual property, nor sued by any third parties for infringement of intellectual property.

Subject Area B – Social Aspects (continued)

Operation Practices (continued)

Aspect B6: Product Responsibility (continued)

Protection of customer information

The Group is committed to complying with relevant laws and regulations on customer data protection and privacy. The Group considers that privacy and security of information are critical operating principles. The Group has implemented comprehensive information privacy and information security programs to protect personal privacy. We are committed to complying with all relevant laws and regulations, including but not limited to the Personal Information Protection Law of Japan.

The personal information of customers is used by the Group for the purposes of providing after sales service, introducing new products and businesses, etc. The Group must obtain consent from customers before collecting and using the personal information of customers.

During the reporting period, the Group did not discover any serious violation of relevant laws and regulations which would have a material effect on the Group.

Aspect B7: Anti-corruption

The Group is committed to adhering to the highest ethical standards and maintaining a corporate culture of integrity and justice for preventing, detecting and reporting all types of fraud, including corruption. We have established effective anti-corruption procedures, including declaration of interests, whistle-blowing, internal audits, etc.

To avoid any potential or actual conflicts between employees' acts or relationships with the interest of the Group or with their duties, all employees must sign a declaration of interest. Any unreported changes, once detected, will be subject to serious disciplinary action and possibly dismissal by the Group.

If an employee considers that personal or corporate interest has been infringed upon, or has discovered any bribery, extortion, fraud, money laundering, corruption acts, or has discovered the acts of others have violated various regulations of the Group, he/she may report the unethical or illegal acts in his/her name or anonymously through our complaint mailbox. The relevant responsible department will then conduct an investigation into the reported case and provide handling opinions on a timely basis; an internal audit will be conducted on reported case with tracking trails. If a material complaint is established and has been confirmed after investigation, which has caused harm or losses to employees, or has caused material losses or adverse effects on the Group, the Group will terminate the labour contract relationship with such offender or dismiss such person under serious disciplinary action. The Company reserves the right to hold the offender accountable for legal liabilities, and in serious cases, the offender may be transferred to judicial authorities for legal liabilities pursuant to the law.

During the reporting period, the Group did not commence or conclude any corruption litigation cases against the issuer or its employees.

Subject Area B – Social Aspects (continued)

Community

Aspect B8: Community Investment

Acting as a responsible corporate citizen, the Group has been active in considering the interests of and engaging with the communities in which it operates, encouraging its employees to be involved in various types of activities inside as well as outside of their communities, such as:

- At a charity golf tournament held in November 2017 in Shenzhen, China, the Group has donated a pair of golf clubs autographed by the famous Chinese professional golfers Wenchong Liang and Shanshan Feng for a fundraising auction which raised RMB300,000.
- In Japan, the Group supports the fostering of youth golf sports in the local community by encouraging the use of our golf facilities, free of charge at our research centre, and has sponsored the local community in Sakata in various festivals and public events through donations of approximately JPY 220,000.
- Our "Park Golf Collection" golf clubs are made from persimmon wood. In the effort to make contribution to afforestation, since 2010 the Group donates portion of the sales of Park golf clubs to the sapling plantation fund of the Republic of Guinea. During the year the Group has made a donation of approximately JPY 1.1 million to the fund.
- During the reporting period, the Group donated 9 golf clubs in support of the college golf courses organized by the Japanese Golf Goods Association.
- With a view to encouraging the development of golf in the youth of the community, the Group has opened the golf training court of the Sakata Campus, providing the driving range free of charge to young players on weekends.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

EY 安永

Independent auditor's report
To the shareholders of Honma Golf Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Honma Golf Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 91 to 164, which comprise the consolidated statement of financial position as at 31 March 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Employee defined benefit plan	
The Group operates a funded defined benefit plan for all of its qualified employees in Japan. Under the plan, the employees are entitled to retirement benefits on attainment of a retirement age of 60. As at 31 March 2018, the balance of the net defined benefit plan liabilities was JPY1,276 million. The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. Management engaged an external actuary to determine the present value of the defined benefit obligations. This matter was significant to our audit because the carrying amount of the net defined benefit plan liabilities was material to the financial statements and the valuation process was complex and involved significant judgements. The Group's disclosures about the employee defined benefit plan are included in notes 2.4, 3 and 28 to the financial statements, which explain the accounting policy, major judgements and estimations management exercised in the assessment and the movements in the net defined benefit plan liabilities.	Among our audit procedures, we considered the objectivity, independence and expertise of the external actuary. We involved our internal actuarial specialists to assist us in evaluating the actuarial methodology and the actuarial result, reviewing the expense determination and actuarial gain/loss, assessing the underlying assumptions, which included comparing assumed mortality rates to national and industry averages, comparing the assumed discount rate to the redemption yield of Japanese AA corporate bonds based on the expected term of the benefit obligations as at the valuation date, and assessing the assumption for salary increases and the withdrawal rate against the Group's historical trend and expected future outlook. We also checked the census data used against the underlying data held by the Group and scheme administrators, and assessed the adequacy of the disclosures of the valuation of defined pension obligations in the financial statements.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability of deferred tax assets	
As at 31 March 2018, the Group recorded net deferred tax assets amounting to JPY920 million in the financial statements resulting from temporary differences and unused tax losses. The Group recognised these deferred tax assets to the extent that it was probable that future taxable profits would allow the deferred tax assets to be recovered. Assessing future taxable profits was complex and required significant management estimates, in particular on the assumptions about the expected future market and economic conditions. The significant accounting judgements and estimates and disclosures about deferred tax assets are included in notes 3 and 19 to the financial statements.	Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group to determine the expected future taxable profits per tax jurisdiction. We evaluated management's assumptions in determining the future available taxable profits, specifically the forecasted revenue and operating profit ratio, by comparing with historical data. Furthermore, we checked whether the information used was derived from the Group's forecast that has been subject to internal reviews and was approved by management and was internally consistent with historical data where available. We also focused on the adequacy of the disclosures in the financial statements regarding deferred tax assets.
Inventory provision	
The total inventories and related inventory provision as of 31 March 2018 amounted to JPY7,224 million and JPY417 million, respectively. The Group considers inventory provision on a semi-annual basis by assessing the inventories' net realisable values. The determination as to whether the inventories were impaired required a high level of management judgement and estimates, whereby the Group considers specific factors including the ageing of the inventories, the subsequent or estimated selling prices, and the forecasted market demand. This matter was significant to our audit because the carrying amount of inventories was material to the financial statements and the significant judgement and estimates were used in assessing the net realisable values of inventories. The significant accounting judgements and estimates and disclosures about inventories and inventory provision are included in notes 3 and 20 to the financial statements.	Our audit procedures included reviewing the basis for the calculation of the net realisable values of inventories, assessing the consistency of the provisioning policy applied and the rationale for the recording of inventory write-down. We also tested the underlying data used by management to identify and quantify obsolete and slow-moving inventories, including testing the ageing calculation, comparing management's estimation against historical usage, recalculating the provision for a sample of inventories and reviewing subsequent developments sales or usage after the balance sheet date.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises 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 on the other information that we obtained prior to the date of this auditor's report, 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 the directors 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 IFRSs issued by the IASB and the disclosure requirements of 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, 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.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is LEUNG, Wai Lap Philip.

Ernst & Young
Certified Public Accountants
Hong Kong

28 May 2018

Consolidated Statement of Profit or Loss

Year ended 31 March 2018

	Notes	2018 JPY'000	2017 JPY'000
		Year ended 31 March	
REVENUE	5	**26,296,159**	24,242,435
Cost of sales	9	**(10,318,713)**	(9,694,062)
Gross profit		**15,977,446**	14,548,373
Other income and gains	5	**50,005**	1,178,475
Selling and distribution costs		**(8,410,223)**	(8,511,354)
Administrative expenses		**(1,522,235)**	(1,581,675)
Other expenses, net	6	**(837,672)**	(89,993)
Finance costs	7	**(21,872)**	(22,225)
Finance income	8	**138,816**	42,204
PROFIT BEFORE TAX	9	**5,374,265**	5,563,805
Income tax expense	12	**(1,441,054)**	(611,136)
PROFIT FOR THE YEAR		**3,933,211**	4,952,669
Attributable to:			
Owners of the parent		**3,934,291**	4,569,948
Non-controlling interests		**(1,080)**	382,721
		3,933,211	4,952,669
Earnings per share attributable to ordinary equity holders of the parent (expressed JPY per share)	14		
Basic and diluted			
– For profit for the year		**6.46**	8.47

Consolidated Statement of Comprehensive Income

Year ended 31 March 2018

		Year ended 31 March	
		2018	2017
	Notes	**JPY'000**	JPY'000
PROFIT FOR THE YEAR		**3,933,211**	4,952,669
OTHER COMPREHENSIVE INCOME			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments		**(234)**	4,083
Income tax effect	19	**72**	(1,260)
		(162)	2,823
Exchange differences on translation of foreign operations		**(4,418)**	(88,531)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(4,580)**	(85,708)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains on the defined benefit plans	28	**129,214**	122,581
Income tax effect	19	**(38,488)**	36,548
		90,726	159,129
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**90,726**	159,129
OTHER COMPREHENSIVE INCOME FOR THE YEAR,NET OF TAX		**86,146**	73,421
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,019,357**	5,026,090
Attributable to:			
Owners of the parent		**4,020,437**	4,643,369
Non-controlling interests		**(1,080)**	382,721
		4,019,357	5,026,090

Consolidated Statement of Financial Position

At 31 March 2018

	Notes	At 31 March 2018 JPY'000	2017 JPY'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,918,773**	2,015,445
Freehold land	16	**1,940,789**	1,940,789
Intangible assets	17	**406,722**	342,212
Other non-current assets	18	**651,954**	724,432
Deferred tax assets	19	**920,242**	1,356,814
Total non-current assets		**5,838,480**	6,379,692
CURRENT ASSETS			
Inventories	20	**6,806,995**	6,292,898
Trade and bills receivables	21	**8,790,023**	5,097,647
Prepayments, deposits and other receivables	22	**602,740**	443,543
Due from a related party	35(b)	**7,851**	7,508
Cash and cash equivalents	23	**14,147,319**	12,712,506
Total current assets		**30,354,928**	24,554,102
CURRENT LIABILITIES			
Trade payables	24	**997,546**	699,601
Other payables and accruals	25	**1,737,833**	1,361,176
Interest-bearing bank borrowings	26	**2,500,000**	291,287
Due to related parties	35(b)	**6,656**	7,803
Income tax payable		**1,121,239**	627,995
Total current liabilities		**6,363,274**	2,987,862
NET CURRENT ASSETS		**23,991,654**	21,566,240
TOTAL ASSETS LESS CURRENT LIABILITIES		**29,830,134**	27,945,932

Consolidated Statement of Financial Position

At 31 March 2018

	Notes	At 31 March 2018 JPY'000	2017 JPY'000
NON-CURRENT LIABILITIES			
Net employee defined benefit liabilities	28	**1,275,525**	1,656,540
Deferred tax liabilities	19	**489,218**	476,596
Other non-current liabilities	27	**60,478**	83,518
Total non-current liabilities		**1,825,221**	2,216,654
NET ASSETS		**28,004,913**	25,729,278
EQUITY			
Equity attributable to holders of the parent			
Share capital	29	**154**	154
Reserves	31	**28,049,880**	25,773,165
		28,050,034	25,773,319
Non-controlling interests		**(45,121)**	(44,041)
Total equity		**28,004,913**	25,729,278

Liu Jianguo
Director

Zuo Jun
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2018

		Attributable to owners of the parent									
	Notes	Share capital JPY'000 Note 29	Surplus reserve JPY'000 Note 31(i) *	Available-for-sale investment revaluation reserve JPY'000 Note 31(ii) *	Exchange translation reserve JPY'000 Note 31(iii)*	Share premium JPY'000 *	Equity-settled share-based payment reserve JPY'000 Note 30*	Retained profits JPY'000 *	Total JPY'000	Non-controlling interests JPY'000	Total equity JPY'000
At 31 March 2016 and 1 April 2016		100	1,000,929	1,948	237,006	–	128,323	4,585,753	5,954,059	(426,762)	5,527,297
Profit for the year		–	–	–	–	–	–	4,569,948	4,569,948	382,721	4,952,669
Other comprehensive income for the year:											
Change in fair value of available-for-sale investments, net of tax		–	–	2,823	–	–	–	–	2,823	–	2,823
Exchange differences on translation of foreign operations		–	–	–	(88,531)	–	–	–	(88,531)	–	(88,531)
Remeasurement gains on defined benefit plans		–	–	–	–	–	–	159,129	159,129	–	159,129
Total comprehensive income for the year		–	–	2,823	(88,531)	–	–	4,729,077	4,643,369	382,721	5,026,090
Capitalisation of the distributable reserves		20	–	–	–	–	–	(20)	–	–	–
Issue of shares		34	–	–	–	17,476,523	–	–	17,476,557	–	17,476,557
Share issue expenses		–	–	–	–	(678,234)	–	–	(678,234)	–	(678,234)
Equity-settled share-based payment expenses	30	–	–	–	–	–	227,995	–	227,995	–	227,995
Dividends declared	13	–	–	–	–	–	–	(1,995,000)	(1,995,000)	–	(1,995,000)
Waiver of payables to the immediate holding company		–	–	–	–	–	–	144,573	144,573	–	144,573
Transferred from retained profits		–	9,291	–	–	–	–	(9,291)	–	–	–

Consolidated Statement of Changes in Equity

Year ended 31 March 2018

		Attributable to owners of the parent									
	Notes	Share capital JPY'000 Note 29	Surplus reserve JPY'000 Note 31(i) *	Available-for-sale investment revaluation reserve JPY'000 Note 31(ii) *	Exchange translation reserve JPY'000 Note 31(iii)*	Share premium JPY'000 *	Equity-settled share-based payment reserve JPY'000 Note 30*	Retained profits JPY'000 *	Total JPY'000	Non-controlling interests JPY'000	Total equity JPY'000
At 31 March 2017 and 1 April 2017		154	1,010,220	4,771	148,475	16,798,289	356,318	7,455,092	25,773,319	(44,041)	25,729,278
Profit/(loss) for the year		–	–	–	–	–	–	3,934,291	3,934,291	(1,080)	3,933,211
Other comprehensive income for the year:											
Change in fair value of available-for-sale investments, net of tax		–	–	(162)	–	–	–	–	(162)	–	(162)
Exchange differences on translation of foreign operations		–	–	–	(4,418)	–	–	–	(4,418)	–	(4,418)
Remeasurement gains on defined benefit plans		–	–	–	–	–	–	90,726	90,726	–	90,726
Total comprehensive income for the year		–	–	(162)	(4,418)	–	–	4,025,017	4,020,437	(1,080)	4,019,357
Equity-settled share-based payment expenses	30	–	–	–	–	–	80,261	–	80,261	–	80,261
Dividends declared	13	–	–	–	–	–	–	(1,823,983)	(1,823,983)	–	(1,823,983)
Transferred from retained profits		–	27,503	–	–	–	–	(27,503)	–	–	–
At 31 March 2018		154	1,037,723	4,609	144,057	16,798,289	436,579	9,628,623	28,050,034	(45,121)	28,004,913

* These reserve amounts comprise the consolidated reserves of JPY28,049,880,000 (2017: JPY 25,773,165,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 March 2018

	Notes	2018 JPY'000	2017 JPY'000
		Year ended 31 March	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**5,374,265**	5,563,805
Adjustments for:			
Provision for impairment of property, plant and equipment	15	**–**	33,907
Write-down/(reversal) of inventories to net realisable value	9	**64,373**	(75,871)
Impairment of trade receivables	21	**53,909**	88
Net losses on disposal of property, plant and equipment and intangible assets	9	**72,622**	5,951
Depreciation	15	**280,873**	311,305
Amortisation of intangible assets	17	**84,004**	55,687
Defined benefit plan expenses/(gains)	28	**99,183**	(119,326)
Equity-settled share-based payment expenses	30	**80,261**	227,995
Foreign exchange loss/gains		**538,810**	(936,231)
Finance costs	7	**21,872**	22,225
Finance income	8	**(138,816)**	(42,204)
		6,531,356	5,047,331
(Increase) /decrease in inventories		**(578,470)**	1,172,303
Increase in trade and bills receivables		**(3,746,285)**	(1,521,090)
(Increase) /decrease in prepayments, deposits and other receivables		**(159,197)**	226,489
(Increase) /decrease in an amount due from a related party		**(343)**	12,729
Decrease/(increase) in loans and other receivables classified as other non-current assets		**75,566**	(39,374)
Increase/(decrease) in trade payables		**297,945**	(682,606)
Increase in other payables and accruals		**312,788**	115,538
Decrease in amounts due to related parties		**(1,147)**	(1,801)
Decrease in other non-current liabilities		**(23,040)**	(24,197)
Payment of the defined benefit obligations		**(349,813)**	(78,660)
Contributions in plan assets		**(1,171)**	(121,772)
Decrease in pledged deposits		**–**	121,676
Cash generated from operating activities		**2,358,189**	4,226,566
Interest received		**135,494**	38,524
Interest paid		**(21,872)**	(22,225)
Japan income tax paid		**(227,451)**	(251,126)
Overseas income tax paid		**(309,581)**	(272,656)
Net cash flows generated from operating activities		**1,934,779**	3,719,083

continued/

Consolidated Statement of Cash Flows

Year ended 31 March 2018

	Notes	Year ended 31 March 2018 JPY'000	2017 JPY'000
Net cash flows generated from operating activities		**1,934,779**	3,719,083
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		**(391,944)**	(635,156)
Proceeds from disposal of items of property, plant and equipment and intangible assets		**51,350**	14,543
Decrease in an amount due from a related party		**—**	775,055
Net cash flows (used in)/generated from investing activities		**(340,594)**	154,442
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank borrowings		**24,588,216**	3,500,000
Borrowings provided by a related party		**—**	879,440
Proceed from issue of shares		**—**	17,476,557
Share issue expenses		**—**	(678,234)
Repayment of bank borrowings		**(22,379,503)**	(4,943,582)
Repayment of borrowings from a related party		**—**	(8,105,019)
Dividends paid		**(1,823,983)**	(1,995,000)
Net cash flows generated from financing activities		**384,730**	6,134,162
Net increase in cash and cash equivalents		**1,978,915**	10,007,687
Cash and cash equivalents at the beginning of year		**12,712,506**	1,825,809
Effect of foreign exchange rate changes, net		**(544,102)**	879,010
Cash and cash equivalents at the end of year		**14,147,319**	12,712,506
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the consolidated statement of financial position	23	**14,147,319**	12,712,506

1. Corporate and group information

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 7 October 2013. The registered office address of the Company is at the offices of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. Shares of the Company were listed (the "**Listing**") on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 October 2016 (the "**Listing Date**").

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the manufacture and sale of golf related products.

In the opinion of the directors, the holding company of the Company is Kouunn Holdings Limited. The ultimate shareholder of the Company is Mr. Liu Jianguo ("**Mr. Liu**").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration	Place of operation	Nominal value of issued ordinary shares/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
Seiyou Holdings Limited	British Virgin Islands ("**BVI**") 25 October 2013	BVI	USD1,000	100%	—	Investment holding
Honma Holdings Group Limited	Hong Kong 18 November 2013	Hong Kong	USD10	—	100%	Investment holding and trading
World Power International Trading(Shanghai) Co., Ltd. *	People's Republic of China ("**PRC**") 27 December 2013	PRC	RMB 10,000,000	—	100%	Trading
Hong Kong Honma Golf Company Limited	Hong Kong 2 April 1996	Hong Kong	HKD 28,782,200	—	100%	Trading
Honma Golf (Macau) Co., Ltd.	Macau 29 May 2012	Macau	MOP 100,000	—	100%	Trading
Honma Golf Co., Ltd. ("**Honma Japan**")	Japan 18 February 1959	Japan	JPY 500,000,000	—	100%	Manufacture and sale of golf related products

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Name	Place and date of incorporation/ registration	Place of operation	Nominal value of issued ordinary shares/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
Honma Golf Stock Company Limited	Taiwan 10 June 1996	Taiwan	NTD 68,000,000	—	100%	Trading
Honma Golf (Thailand) Company Limited ("**Honma Thailand**")**	Thailand 28 May 1997	Thailand	THB 2,000,000	—	48.99%	Trading
Honma Golf US Ltd.	United States 28 November 2016	United States	USD 100	—	100%	Trading
Honma Golf Europe LLC	Switzerland 9 February 2017	Switzerland	CHF 20,000	—	100%	Trading

Notes:

* World Power International Trading (Shanghai) Co., Ltd. is registered as a wholly-foreign-owned enterprise under PRC law.

** Honma Thailand is accounted for as a subsidiary of the Group even though the Group has only a 48.99% equity interest in this company because the Group has the power to control the board of directors and to govern the financial and operating policies of Honma Thailand. The Group holds 48.99% of the total shares of Honma Thailand, which are ordinary shares. The rest of the shares of Honma Thailand, being 51.01% of the total shares, are preference shares. Each preference share only entitles one fifth of the voting right as compared to each ordinary share. As a result, the Group is entitled to appoint all directors to the board of directors of Honma Thailand.

Honma Thailand is in the process of liquidation since January 2017 and the process has not been completed by the date of this reporting.

2.1 Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board (the "**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. These financial statements are presented in Japanese Yen ("**JPY**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 March 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in accounting policies and disclosures

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 39 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2.3 Issued but not yet effective international financial reporting standards

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture4*
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2]

[1] Effective for annual periods beginning on or after 1 January 2018

[2] Effective for annual periods beginning on or after 1 January 2019

[3] Effective for annual periods beginning on or after 1 January 2021

[4] No mandatory effective date yet determined but available for adoption

2.3 Issued but not yet effective international financial reporting standards (continued)

Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 March 2019. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 April 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 April 2018. During the year ended 31 March 2018, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expects that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Unlisted equity shares as available for sale will be measured at fair value through profit or loss as the investments are intended to be held for the foreseeable future.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has determined that, due to the good historical collectability of its accounts receivable and receivables due from third-party game distribution platforms and payment channels and other receivables, the provision for impairment will be nil upon the initial adoption of the standard.

2.3 Issued but not yet effective international financial reporting standards (continued)

(b) Impairment (continued)

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group has assessed the impact of this standard and expects that the standard will not have a significant impact, when applied, on the consolidated financial statements of the Group, except for additional disclosures to be included.

IFRS 16, issued in January 2016, replaces IAS 17 Leases, IFRIC-Int 4 Determining whether an Arrangement contains a Lease, SIC-Int 15 Operating Leases - Incentives and SIC-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 on from 1 April 2019. The Group and is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 33 to the financial statements, at 31 March 2018, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately JPY 1,197,460,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short-term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

2.3 Issued but not yet effective international financial reporting standards (continued)

(b) Impairment (continued)

So far, the Group considered that the other issued but not yet effective IFRSs may result in changes in accounting policies and the Group is in the process of assessing the impact of these new and revised standards on the Group's results and financial position.

2.4 Summary of significant accounting policies

Fair value measurement

The Group measures its equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 Summary of significant accounting policies (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group, or of a parent of the Group;

or

2.4 Summary of significant accounting policies (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Category	Annual rate
Building	2% to 10%
Machinery	6% to 11%
Leasehold improvement	Shorter of the lease terms and 16.7% to 50%
Motor vehicles	14% to 50%
Office equipment	5% to 50%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents equipment under installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

2.4 Summary of significant accounting policies (continued)

Intangible assets (other than goodwill) (continued)

Intangible assets are amortised on the straight-line basis over the following useful economic lives:

Licences	10 years
Software	5 years
Telephone use right	infinite life

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Freehold land

Land is stated at actual cost on initial recognition less accumulated impairment. The Group's land is in Japan, which is freehold and not depreciated. The Group's land is tested for impairment annually as at 31 March and when circumstances indicate that the carrying value may be impaired.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating lease are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale investments in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Available-for-sale investments

For available-for-sale investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Available-for-sale investments (continued)

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, interest-bearing bank borrowings, amounts due to related parties, other payables and accruals and other non-current liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

2.4 Summary of significant accounting policies (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labor, other direct costs and related production overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

2.4 Summary of significant accounting policies (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred taxes assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the services have been rendered and it is probable that the economic benefits will flow to the Group and the relevant fees can be measured reliably;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

2.4 Summary of significant accounting policies (continued)

Share-based payments

Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted by using income approach (discount cash flow method, in particular). Further details of which are given in note 30 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other employee benefits

Pension scheme

Subsidiaries of the Group incorporated in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China, etc, are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 Summary of significant accounting policies (continued)

Other employee benefits (continued)

Defined benefit plans

Subsidiaries of the Group incorporated in Japan and Taiwan operate defined benefit pension plans which require contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amount included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in the statement of profit or loss at the earlier of

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales", "selling and distribution costs" and "administrative expenses" in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 Summary of significant accounting policies (continued)

Foreign currencies

These financial statements are presented in JPY, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas operating subsidiaries other than subsidiaries in Japan are currencies other than the JPY. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into JPY at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statements of cash flows, the cash flows of overseas subsidiaries are translated into JPY at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into JPY at the weighted average exchange rates for the year.

3. Significant accounting judgement, estimates and assumptions

The preparation of the Group's financial statements requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3. Significant accounting judgement, estimates and assumptions (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The key assumptions and inputs used in estimating future taxable profits include forecasted revenue and operating profit ratio, etc. The carrying value of deferred tax assets was JPY 920,242,000 as at 31 March 2018 (2017: JPY1,356,814,000). Further details are disclosed in note 19 to the financial statements.

Defined benefit plans

The cost of the defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, salary increase rate, mortality rate and turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Salary increase rate is based on expected future inflation rates for the respective countries. The turnover rate is based on historical analysis of withdrawal rate. The carrying values of net employee defined benefit liabilities were JPY1,275,525,000 as at 31 March 2018 (2017: JPY1,656,540,000). Further details are disclosed in note 28 to the financial statements.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in market conditions. Management reassesses these estimates at each reporting date after considering specific factors such as ageing of the inventories, the subsequent or estimated selling price and forecasted market demand. The carrying value of inventories was JPY6,806,995,000 as at 31 March 2018 (2017: JPY6,292,898,000). Further details are disclosed in note 20 to the financial statements.

4. Operating segment information

For management purposes, the Group is organised into business units based on their products and has only one reportable operating segment: the manufacture and sale of golf related products and the rendering of services relating to such products. Management monitors the operating results of its business units as a whole for the purpose of making decisions about resource allocation and performance assessment. Accordingly, no further operating segment information is presented.

Geographic information

(a) Revenue from external customers

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Japan	**13,640,542**	12,950,336
Korea	**4,240,280**	3,391,232
China (including Hong Kong and Macau)	**4,598,348**	4,451,910
North America	**1,167,873**	636,080
Europe	**659,370**	499,592
Rest of the world	**1,989,746**	2,313,285
	26,296,159	24,242,435

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Japan	**3,839,628**	4,077,323
Other Asia Pacific countries	**378,738**	220,100
North America	**43,744**	611
Europe	**4,174**	412
	4,266,284	4,298,446

The non-current asset information above is based on the locations of the assets and excludes other non-current assets and deferred tax assets.

Information about major customers

Revenue of approximately JPY 7,189,237,000 was derived from two major customers (2017: JPY3,029,982,000 was derived from a major customer), including sales to a group of entities which are known to be under common control with that customer.

5. Revenue, other income and gains

Revenue represents the net invoiced value of goods sold and services rendered, after allowances for returns and trade discounts during the year.

An analysis of revenue and other income and gains is as follows:

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Revenue		
Sale of goods	**26,154,517**	24,074,663
Rendering of services	**141,642**	167,772
Total	**26,296,159**	24,242,435

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Other income and gains		
Foreign exchange gains, net	**–**	1,023,788
Government grants	**–**	12,363
Rental income	**–**	11,512
Others	**50,005**	130,812
Total	**50,005**	1,178,475

6. Other expenses, net

		Year ended 31 March	
		2018	2017
	Note	**JPY'000**	JPY'000
Employee termination expenses		**220,763**	48,529
Impairment of property, plant and equipment recognised	15	**—**	33,907
Net losses on disposal of items of land and property, plant and equipment		**72,622**	5,951
Foreign exchange losses, net		**524,236**	—
Others		**20,051**	1,606
Total		**837,672**	89,993

7. Finance costs

An analysis of the Group's finance costs is as follows:

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Interest on bank borrowings	**21,872**	22,225

8. Finance income

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Accretion income from loans and other receivables	**3,322**	3,680
Interest income	**135,494**	38,524
Total	**138,816**	42,204

Loans and other receivables mainly refer to the security deposits paid under lease agreements for shops and the head office (note 18).

9. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

		Year ended 31 March	
		2,018	2017
	Notes	**JPY'000**	JPY'000
Cost of inventories sold		**10,263,620**	9,640,557
Cost of service provided		**55,093**	53,505
Depreciation	15	**280,873**	311,305
Amortisation of intangible assets	17	**84,004**	55,687
Research and development costs		**350,619**	526,047
Provision for impairment of property, plant and equipment	15	**—**	33,907
Provision for impairment of trade receivables	21	**53,909**	88
Minimum lease payments under operating leases		**1,239,790**	1,328,682
Auditors' remuneration		**79,784**	97,682
Employee benefit expense:			
Wages and salaries		**4,088,596**	4,097,550
Pension and social security costs		**275,073**	197,514
Defined benefit plan expenses/(gains)	28	**99,183**	(119,326)
– Current year service cost		**99,183**	162,060
– Past year service cost		**—**	(281,386)
Employee benefits and other benefits		**738,738**	788,480
Equity-settled share-based payment expenses	30	**80,261**	227,995
Foreign exchange losses/(gains), net	5/6	**524,236**	(1,023,788)
Write-down/(reversal) of inventories to net realisable value		**64,373**	(75,871)
Net losses on disposal of items of land and property, plant and equipment	6	**72,622**	5,951

10. Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Fees	**18,520**	8,382
Other emoluments:		
Salaries, allowances and benefits in kind	**51,802**	58,885
Performance related bonuses	**—**	1,645
Equity-settled share-based payment expenses	**17,596**	47,403
Pension scheme contributions	**4,873**	4,970
	74,271	112,903
	92,791	121,285

During the years ended 31 March 2017 and 2016, certain directors were granted Restricted Stock Units ("**RSUs**"), in respect of their services to the Group, under the share-based payment scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair values of such RSUs, which have been recognised in the statement of profit or loss over the vesting period, were determined as at the date of grant and the amounts included in the financial statements for the current year are included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Mr. Lu Pochin Christopher	**8,440**	3,810
Mr. Xu Hui	**5,040**	2,286
Mr. Wang Jianguo	**5,040**	2,286
	18,520	8,382

10. Directors' and chief executive's remuneration (continued)

(b) Executive directors

	Salaries, allowances and benefits in kind* JPY'000	Performance related bonuses JPY'000	Equity-settled share-based payment expenses JPY'000	Pension scheme contributions JPY'000	Total remuneration JPY'000
Year ended 31 March 2018					
Executive directors:					
Mr. Liu	17,012	–	4,520	255	21,787
Mr. Yasuki Ito	14,129	–	5,913	1,556	21,598
Mr. Yuji Murai	11,083	–	4,148	1,568	16,799
Mr. Zuojun	9,578	–	3,015	1,494	14,087
	51,802	–	17,596	4,873	74,271

	Salaries, allowances and benefits in kind* JPY'000	Performance related bonuses JPY'000	Equity-settled share-based payment expenses JPY'000	Pension scheme contributions JPY'000	Total remuneration JPY'000
Year ended 31 March 2017					
Executive directors:					
Mr. Liu	16,819	–	12,018	272	29,109
Mr. Yasuki Ito	19,025	–	16,225	1,636	36,886
Mr. Yuji Murai	11,577	1,645	11,145	1,702	26,069
Mr. Zuojun	11,464	–	8,015	1,360	20,839
	58,885	1,645	47,403	4,970	112,903

* The benefits in kind include contributions made for executive directors' social security and medical insurance paid by the Group.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

11. Five highest paid employees

The five highest paid employees of the Group during the year included no directors (2017: three), details of whose remuneration are set out in note 10 above. Details of the total remuneration of the remaining five (2017: two) highest paid employees who are neither a director nor the chief executive of the Group are as follows:

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Salaries, allowances and benefits in kind	**123,236**	31,988
Performance related bonuses	**—**	790
Equity-settled share-based payment expenses	**—**	20,318
Pension scheme contributions	**10,062**	1,706
	133,298	54,802

The number of the non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees Year ended 31 March	
	2018	2017
Nil to HK$1,000,000	**—**	—
HK$1,000,001 to HK$1,500,000	**—**	1
HK$1,500,001 to HK$2,000,000	**5**	1
	5	2

12. Income tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company and the Company's subsidiary incorporated in BVI are not subject to corporate income tax ("**CIT**") as they do not have a place of business (other than a registered office) or carry on any business in the Cayman Islands and BVI.

The subsidiaries of the Company incorporated in Hong Kong are subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year (2017: 16.5%).

Pursuant to the rules and regulations of Japan, the subsidiary incorporated in Japan is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the effective statutory tax rates for these taxes were 30.86% for the year (2017: 30.86%).

The subsidiary of the Company registered in the Mainland China is subject to PRC enterprise income tax on the taxable income as reported in its PRC statutory accounts adjusted in accordance with relevant PRC income tax laws based on a statutory rate of 25% (2017: 25%).

According to the Macau Complementary Tax ("**MCT**") Law, taxable profits below Macau Pataca ("**MOP**") 300,000 are exempted from tax, and taxable profits over MOP300,000 are subject to the rate of 12% for the year (2017: 12%).

The subsidiaries incorporated in Taiwan and Thailand are subject to income tax at the rates of 17% and 20% on the assessable profits (2017: 17% and 20%).

The Company's subsidiary incorporated and operating in the United States was subject to federal corporation income tax at a rate of 30.75% during the year (2017: 34%), as well as state tax at approximately 8.28% (2017: 8.28%).

The Company's subsidiary incorporated and operating in the Switzerland was subject to federal corporation income tax at a rate of 8.5% during the year (2017: 8.5%), as well as cantonal and communal tax between 2% and 5% (2017:2% ~ 5%).

(a) Tax in the statement of profit or loss represents:

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Current income tax - Japan	**140,373**	378,727
Current income tax - elsewhere	**696,487**	464,581
Withholding tax on dividends declared	**193,416**	105,000
Deferred tax (note19)	**410,778**	(337,172)
	1,441,054	611,136

12. Income tax (continued)

A reconciliation of the tax charge applicable to profit before tax at the statutory rate for Japan to the tax charge at the effective tax rate is as follows:

	Year ended 31 March			
	2018		2017	
	JPY'000	**%**	JPY'000	%
Profit before tax	**5,374,265**		5,563,805	
Tax at the statutory tax rate (30.86% for the year ended 31 March 2018, and 30.86% for the year ended 31 March 2017)	**1,658,498**	**30.86**	1,716,990	30.86
Different tax rates or tax basis for entities outside Japan	**(440,394)**	**(8.19)**	17,497	0.31
Tax effect of non-deductible expenses	**37,178**	**0.69**	44,085	0.79
Tax effect of non-taxable income	**(35,665)**	**(0.66)**	(364,048)	(6.54)
Effect of withholding tax on the distributable profits of the Group's subsidiaries in the PRC and Japan	**154,610**	**2.88**	169,479	3.05
Impact of unrecognised tax losses and Itemporary differences	**66,827**	**1.24**	(972,867)	(17.49)
Tax charge at the Group's effective rate	**1,441,054**	**26.82**	611,136	10.98

13. Dividends

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Proposed final – JPY 3.23 (2017:JPY 3.00) per ordinary share	**1,967,232**	1,827,150
Dividends declared by the Company	**1,823,983**	1,995,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Pursuant to the shareholders' meeting on 15 September 2017, the Company declared JPY1,823,983,000 dividends to its shareholders and the dividends have been paid in October 2017.

14. Earnings per share attributable to ordinary equity holders of the parent

The calculations of basic and diluted earnings per share are based on the profit for the year attributable to ordinary equity holders of the parent and weighted average number of ordinary shares in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 March 2018 and 2017 in respect of a dilution as the Group had no potentially ordinary dilutive shares in issue during the years ended 31 March 2018 and 2017.

The following reflects the income and the share data used in the basic earnings per share computation:

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**3,934,291**	4,569,948

	Number of shares	
	2018	2017
	('000)	('000)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**609,050**	539,668

The number of ordinary shares outstanding before the sub-division and the capitalisation is adjusted for the proportionate change in the number of ordinary shares outstanding as if the sub-division and the capitalisation had occurred at the beginning of the earliest period presented.

15. Property, plant and equipment

	Building JPY'000	Machinery JPY'000	Leasehold improvement JPY'000	Motor vehicles JPY'000	Office equipment JPY'000	Construction in progress JPY'000	Total JPY'000
31 March 2018							
Cost:							
At 1 April 2017	6,709,694	1,908,470	1,437,309	52,304	1,300,560	1,920	11,410,257
Additions	–	12,338	43,087	10,279	64,883	148,051	278,638
Transfer from construction in progress	66,893	1,617	1,165	–	47,533	(117,208)	–
Disposals	(270,537)	(234)	(75,936)	–	(21,595)	(26,990)	(395,292)
Exchange realignment	–	(161)	(1,240)	(41)	(941)	(139)	(2,522)
At 31 March 2018	6,506,050	1,922,030	1,404,385	62,542	1,390,440	5,634	11,291,081
Accumulated depreciation:							
At 1 April 2017	5,517,587	1,458,523	779,134	44,514	1,016,567	–	8,816,325
Depreciation provided during the year	93,828	68,283	14,504	3,327	100,931	–	280,873
Disposals	(156,761)	(127)	(54,460)	–	(16,216)	–	(227,564)
Exchange realignment	–	(34)	(2,551)	(3)	(788)	–	(3,376)
At 31 March 2018	5,454,654	1,526,645	736,627	47,838	1,100,494	–	8,866,258
Accumulated impairment:							
At 1 April 2017	155,157	1,868	316,717	198	104,547	–	578,487
Disposals	(68,843)	–	(1,215)	–	(2,379)	–	(72,437)
At 31 March 2018	86,314	1,868	315,502	198	102,168	–	506,050
Net book value:							
At 31 March 2018	965,082	393,517	352,256	14,506	187,778	5,634	1,918,773

15. Property, plant and equipment (continued)

	Building JPY'000	Machinery JPY'000	Leasehold improvement JPY'000	Motor vehicles JPY'000	Office equipment JPY'000	Construction in progress JPY'000	Total JPY'000
31 March 2017							
Cost:							
At 1 April 2016	7,227,356	1,835,198	1,473,379	56,590	1,275,251	7,700	11,875,474
Additions	820	52,969	78,549	540	47,370	188,758	369,006
Transfer from construction in progress	76,400	53,124	—	—	65,014	(194,538)	—
Disposals	(594,882)	(31,497)	(105,356)	(4,505)	(85,215)	—	(821,455)
Exchange realignment	—	(1,324)	(9,263)	(321)	(1,860)	—	(12,768)
At 31 March 2017	6,709,694	1,908,470	1,437,309	52,304	1,300,560	1,920	11,410,257
Accumulated depreciation:							
At 1 April 2016	5,947,327	1,413,060	821,979	42,132	985,358	—	9,209,856
Depreciation provided during the year	98,284	68,141	44,766	7,209	92,905	—	311,305
Disposals	(528,024)	(21,955)	(81,136)	(4,505)	(60,332)	—	(695,952)
Exchange realignment	—	(723)	(6,475)	(322)	(1,364)	—	(8,884)
At 31 March 2017	5,517,587	1,458,523	779,134	44,514	1,016,567	—	8,816,325
Accumulated impairment:							
At 1 April 2016	222,019	1,868	307,202	176	118,875	—	650,140
Impairment provided during the year	—	—	27,491	22	6,394	—	33,907
Disposals	(66,862)	—	(17,976)	—	(20,722)	—	(105,560)
At 31 March 2017	155,157	1,868	316,717	198	104,547	—	578,487
Net book value:							
At 31 March 2017	1,036,950	448,079	341,458	7,592	179,446	1,920	2,015,445

For the year ended 31 March 2018, no impairment of property, plant and equipment has been provided. For the year ended 31 March 2017, a specific impairment of JPY33,907,000 was provided for three self-operated stores which were planned to be closed.

16. Freehold land

The carrying amount of the Group's freehold land is analysed as follows:

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Cost:		
As at 1 April	**1,940,789**	1,940,789
Disposal	**–**	–
As at 31 March	**1,940,789**	1,940,789
Impairment:		
As at 1 April	**–**	–
Disposal	**–**	–
As at 31 March	**–**	–
Net book value:		
As at 31 March	**1,940,789**	1,940,789

The freehold land is owned by Honma Japan which is located in Japan.

17. Intangible assets

31 March 2018

	Licences JPY'000	Software JPY'000	Telephone use right JPY'000	Total JPY'000
Cost at 1 April 2017, net of accumulated accumulated amortisation and impairment	**4,206**	**332,036**	**5,970**	**342,212**
Additions	**—**	**177,175**	**—**	**177,175**
Disposal	**—**	**(28,681)**	**—**	**(28,681)**
Amortisation provided during the year	**(478)**	**(83,526)**	**—**	**(84,004)**
Exchange realignment	**—**	**20**	**—**	**20**
At 31 March 2018	**3,728**	**397,024**	**5,970**	**406,722**
At 31 March 2018:				
Cost	**6,220**	**1,166,713**	**41,694**	**1,214,627**
Accumulated amortisation	**(2,492)**	**(769,689)**	**—**	**(772,181)**
Impairment	**—**	**—**	**(35,724)**	**(35,724)**
Net carrying amount	**3,728**	**397,024**	**5,970**	**406,722**

31 March 2017

	Licences JPY'000	Software JPY'000	Telephone use right JPY'000	Total JPY'000
Cost at 1 April 2016, net of accumulated accumulated amortisation and impairment	4,729	139,408	5,970	150,107
Additions	—	248,448	—	248,448
Disposal	—	(551)	—	(551)
Amortisation provided during the year	(523)	(55,164)	—	(55,687)
Exchange realignment	—	(105)	—	(105)
At 31 March 2017	4,206	332,036	5,970	342,212
At 31 March 2017:				
Cost	6,220	1,018,399	41,694	1,066,313
Accumulated amortisation	(2,014)	(686,363)	—	(688,377)
Impairment	—	—	(35,724)	(35,724)
Net carrying amount	4,206	332,036	5,970	342,212

18. Other non-current assets

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Available-for-sale investments		
Unlisted equity investments, at fair value	**100**	100
Listed equity investments, at fair value	**19,454**	19,688
	19,554	19,788
Loans and other receivables		
Rental deposits	**516,191**	656,514
	516,191	656,514
Long-term prepaid expenses	**116,209**	48,130
	651,954	724,432

Available-for-sale investments represented investments on stocks and government bonds in Japan. Fair values of these listed investments were determined by reference to published price quotations in an active market.

Loans and other receivables mainly refer to the security deposits paid under lease agreements for shops and the head office.

19. Deferred tax

Deferred tax assets

	Unrealised profit JPY'000	Tax losses JPY'000	Impairment of inventories JPY'000	Accrued payroll JPY'000	Defined benefit plan JPY'000	Bad debt JPY'000	Others JPY'000	Total JPY'000
At 31 March 2016 and 1 April 2016	40,696	710,171	17,556	37,307	–	–	100,591	906,321
Deferred tax credited to other comprehensive income during the year	–	–	–	–	36,548	–	–	36,548
Deferred tax (charged)/credited to the statement of profit or loss during the year	(22,361)	(371,880)	63,197	(24,951)	463,421	325,882	(19,363)	413,945
At 31 March 2017 and 1 April 2017	18,335	338,291	80,753	12,356	499,969	325,882	81,228	1,356,814
Deferred tax charged to other comprehensive income during the year	–	–	–	–	(38,488)	–	–	(38,488)
Deferred tax credited/(charged) to the statement of profit or loss during the year	87,794	(85,386)	(72,193)	(2,413)	(76,435)	(325,882)	76,431	(398,084)
At 31 March 2018	106,129	252,905	8,560	9,943	385,046	–	157,659	920,242

19. Deferred tax (continued)

Deferred tax liabilities

	Fair value of available-for sale investments JPY'000	Depreciation allowance in excess of related depreciation JPY'000	Withholding tax JPY'000	Total JPY'000
At 31 March 2016 and 1 April 2016	3,528	60,490	334,545	398,563
Deferred tax charged to other comprehensive income during the year	1,260	—	—	1,260
Deferred tax charged to the statement of profit or loss during the year	—	12,294	64,479	76,773
At 31 March 2017 and 1 April 2017	4,788	72,784	399,024	476,596
Deferred tax credited to other comprehensive income during the year	(72)	—	—	(72)
Deferred tax charged/(credited) to the statement of profit or loss during the year	—	51,500	(38,806)	12,694
At 31 March 2018	4,716	124,284	360,218	489,218

Deferred tax assets have not been recognised in respect of the following items:

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Tax losses	**629,898**	520,920
Deductible temporary differences	**1,448,800**	1,793,493
Total	**2,078,698**	2,314,413

19. Deferred tax (continued)

Deferred tax assets (continued)

As of 31 March 2018, the Group had tax losses of JPY 1,499,818,000 (2017: JPY1,617,132,000), that are available for offsetting against future taxable profits of the companies in which the losses arose, subject to the rules of the tax jurisdictions in which the Group operates. Deferred tax assets have not been recognised in respect of certain tax losses and deductible temporary differences mentioned above as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Unused tax losses arising from its subsidiary in Japan would expire in six years for offsetting against future taxable profits. Unused tax losses arising from its subsidiary in Taiwan would expire in four years for offsetting against future taxable profits. Unused tax losses arising from its subsidiary in Hong Kong are available indefinitely against future taxable profits.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. In addition, pursuant to the tax law in Japan, a 20.24% withholding tax is levied on dividends declared to foreign investors from the enterprises established in Japan. A 5% withholding tax is levied on dividends declared to Hong Kong investors from enterprises established in Japan pursuant to the tax treaty between Japan and Hong Kong. What's more, pursuant to the tax law in Taiwan, a 20% withholding tax is levied on dividends declared to foreign investors from the enterprises established in Taiwan. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008 and by the subsidiary established in Japan and Taiwan.

As at 31 March 2018 and 2017, there were no significant unrecognised deferred tax liabilities for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted due to the availability of double taxation relief.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

20. Inventories

	At 31 March 2018 JPY'000	At 31 March 2017 JPY'000
Raw materials	**2,776,492**	962,601
Work in progress	**818,854**	1,173,860
Finished goods	**3,628,450**	4,508,865
	7,223,796	6,645,326
Less: provision	**(416,801)**	(352,428)
	6,806,995	6,292,898

21. Trade and bills receivables

	At 31 March 2018 JPY'000	At 31 March 2017 JPY'000
Trade receivables	**8,502,340**	4,943,330
Bills receivable	**342,212**	154,937
	8,844,552	5,098,267
Less: provision	**(54,529)**	(620)
	8,790,023	5,097,647

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	At 31 March 2018 JPY'000	At 31 March 2017 JPY'000
Within 1 month	**6,109,132**	3,711,842
1 to 3 months	**1,334,466**	662,132
3 to 12 months	**939,841**	563,115
Over 1 year	**64,372**	5,621
	8,447,811	4,942,710

21. Trade and bills receivables (continued)

The Group's trading terms with its customers are mainly on credit. The credit period is ranging from 30 to 140 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

The movements in provision for impairment of trade receivables are as follows:

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Opening balance	**620**	532
Addition	**54,529**	620
Reversal	**(620)**	(532)
Ending balance	**54,529**	620

Included in the above provision for impairment of trade receivables was a provision for individually impaired trade receivables of JPY54,529,000 (2017: JPY620,000) with carrying amounts before provision of JPY54,529,000 as at 31 March 2018 (31 March 2017: JPY620,000).

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Neither past due nor impaired	**5,077,318**	4,262,208
Less than 3 months past due	**2,977,025**	662,671
Over 3 months but within 1 year past due	**329,096**	12,375
Over 1 year past due	**64,372**	5,456
	8,447,811	4,942,710

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The bills receivable were due within 4 months. No bills receivable were discounted or endorsed as at 31 March 2018 and 2017.

22. Prepayments, deposits and other receivables

	At 31 March 2018 JPY'000	2017 JPY'000
Prepaid rental expenses	**65,489**	96,260
Prepaid expenses	**86,518**	87,243
Deductible input value added tax and prepaid corporate income tax	**33,354**	—
Advances to suppliers	**247,612**	205,213
Rental deposits	**134,988**	51,972
Other receivables	**34,779**	2,855
	602,740	443,543

None of the above assets is either past due or impaired. In the opinion of the directors, no provision was required as at 31 March 2018 (2017: Nil). The carrying amounts of the prepayments, deposits and other receivables approximate to their fair values.

23. Cash and cash equivalents and pledged deposits

	At 31 March 2018 JPY'000	2017 JPY'000
Cash and bank balances	**14,147,319**	12,712,506
Denominated in JPY	**2,853,881**	1,318,345
Denominated in USD	**9,949,248**	9,394,861
Denominated in HKD	**367,710**	649,481
Denominated in TWD	**157,251**	336,970
Denominated in RMB	**448,809**	820,018
Denominated in other currencies	**370,420**	192,831
	14,147,319	12,712,506

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

At 31 March 2018, no short-term time deposits were pledged to secure bills payable (2017: Nil).

24. Trade Payables

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Trade payables	**997,546**	699,601

The aging of trade payables as at 31 March 2018 and 2017 is as follows:

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Within 3 months	**988,212**	681,991
Over 3 months	**9,334**	17,610
	997,546	699,601

The trade payables are non-interest-bearing and normally settled on terms of two to four months.

25. Other payables and accruals

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Payables for purchase of property, plant and equipment	**97,932**	34,063
Advances from customers	**152,204**	145,129
Staff payroll and welfare payables	**343,208**	253,311
Other tax payables	**96,302**	330,270
Other payables and accruals	**1,048,187**	598,403
	1,737,833	1,361,176

Financial liabilities included in the above balances are non-interest-bearing and have no significant balance with aging over one year.

26. Interest-bearing bank borrowings

	At 31 March 2018 JPY'000	At 31 March 2017 JPY'000
Current		
Bank loans - unsecured	**2,500,000**	291,287
Analysed into:		
Bank loans repayable:		
Within one year	**2,500,000**	291,287

The Group's bank borrowings bore effective interest rates as follows:

	At 31 March 2018	At 31 March 2017
Effective interest rates	**0.33%-0.50%**	0.33%-0.83%

At 31 March 2018 and 2017, there were no properties pledged to secure bank borrowings granted to the Group.

27. Other non-current liabilities

	At 31 March 2018 JPY'000	At 31 March 2017 JPY'000
Asset retirement obligations	**52,100**	57,891
Other long-term payables	**7,243**	11,392
Rental deposits received as lessor	**1,135**	14,235
	60,478	83,518

27. Other non-current liabilities (continued)

The movements for asset retirement obligations are as follows:

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Beginning balance	**57,891**	75,179
Additions	**3,580**	1,605
Utilised	**(9,848)**	(19,303)
Change in discount rate	**477**	410
Ending balance	**52,100**	57,891

The Group makes provision for rehabilitation costs expected to arise on the closure of shops. The provision is determined based on the assessments of the cost per square metre to rehabilitate the shops. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

28. Employee defined benefit plans

Net employee defined benefit liabilities:

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Retirement benefit plans	**1,275,525**	1,656,540

The Group operates funded defined benefit plans for all its qualified employees in Japan and Taiwan. Under the plans, the employees are entitled to retirement benefits on attainment of a retirement age of 60.

The Group's defined benefit plans are post-employment benefit plans, which requires contributions to be made to a separately administered fund. The plans have the legal form of a foundation and it is administrated by independent trustees with the assets held separately from those of the Group. The trustees are responsible for the determination of the investment strategy of the plan.

The trustees review the level of funding in the plan by the end of each reporting period. Such a review includes the asset-liability matching strategy and investment risk management policy. This includes employing the use of annuities and longevity swaps to manage the risks. The trustees decide the contributions based on the results of the annual review.

The plans are exposed to interest rate risk, the risk of changes in the life expectancy for pensioners and equity market risk.

Honma Japan partly shifted from defined benefit corporate pension plans to defined contribution pension plans in January 2017.

28. Employee defined benefit plans (continued)

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligation were carried out on 31 March 2018 by Mizuho Trust & Banking Co., Ltd. and on 31 March 2018 by Professional Actuary Management Consulting Co., which are members of the actuarial society of Japan and Taiwan, using the projected unit credit actuarial valuation method.

The total expenses recognised in the consolidated statement of profit or loss in respect of the plans are as follows:

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Current service cost	**92,851**	154,937
Past service cost	**—**	(281,386)
Interest cost	**6,332**	7,123
Net benefit expenses/(gains)	**99,183**	(119,326)
Recognised in cost of sales	**52,245**	(50,868)
Recognised in selling and distribution costs	**31,780**	(43,520)
Recognised in administrative expenses	**15,158**	(24,938)
	99,183	(119,326)

28. Employee defined benefit plans (continued)

The following tables summarise the components of net benefit expenses recognised in the statement of profit or loss and the funded status and amounts recognised in the statement of financial position for the plans:

Changes for the year ended 31 March 2018 in the defined benefit obligation and fair value of plan assets:

	1 April 2017 JPY'000	Current service cost JPY'000	Net interest JPY'000	Sub-total included in profit or loss JPY'000 (Note 9)	Benefits paid JPY'000	Return on plan assets JPY'000	Actuarial changes arising from changes in financial assumptions JPY'000	Experience adjustments JPY'000	Sub-total included in other comprehensive income JPY'000	Contributions by the employer JPY'000	31 March 2018 JPY'000
Defined benefit obligation	4,007,717	92,851	15,528	108,379	(680,059)	–	11,589	6,405	17,994	–	3,454,031
Fair value of plan assets	(2,351,177)	–	(9,196)	(9,196)	330,246	(147,208)	–	–	(147,208)	(1,171)	(2,178,506)
Benefit liability	1,656,540	92,851	6,332	99,183	(349,813)	(147,208)	11,589	6,405	(129,214)	(1,171)	1,275,525

Changes for the year ended 31 March 2017 in the defined benefit obligation and fair value of plan assets:

	1 April 2016 JPY'000	Current service cost JPY'000	Past service cost JPY'000	Net interest JPY'000	Sub-total included in profit or loss JPY'000 (Note 9)	Benefits paid JPY'000	Return on plan assets JPY'000	Actuarial changes arising from changes in financial assumptions JPY'000	Experience adjustments JPY'000	Sub-total included in other comprehensive income JPY'000	Contributions by the employer JPY'000	31 March 2017 JPY'000
Defined benefit obligation	4,249,284	154,937	(281,386)	15,079	(111,370)	(138,883)	–	(7,191)	15,877	8,686	–	4,007,717
Fair value of plan assets	(2,150,405)	–	–	(7,956)	(7,956)	60,223	(131,267)	–	–	(131,267)	(121,772)	(2,351,177)
Benefit liability	2,098,879	154,937	(281,386)	7,123	(119,326)	(78,660)	(131,267)	(7,191)	15,877	(122,581)	(121,772)	1,656,540

28. Employee defined benefit plans (continued)

The major categories of the fair value of the total plan assets are as follows:

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Stocks	**1,102,106**	1,200,304
Bonds	**884,460**	948,646
General account of life insurance companies	**131,550**	137,756
Others	**60,390**	64,471
Total	**2,178,506**	2,351,177

The principal actuaries assumptions used in determining the defined benefit obligations for the retirement benefit plans are shown below:

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Method of allocating projected retirement benefits	**Projected unit credit method**	Projected unit credit method
Discount rate	**0.34%**	0.38%
Salary increase rate (aged based, on average)	**1.80%**	1.80%
Turnover rate (aged based, on average)	**2.20%**	2.20%
Mortality (Mortality Table published by Ministry of Health, Labour and Welfare dated on)	**26 March 2015**	26 March 2015

A quantitative sensitivity analysis for the significant assumption is as shown below:

		Increase/(decrease) in defined benefit obligations At 31 March	
		2018	2017
Assumption	*Change in assumption*	**JPY'000**	JPY'000
Discount rate	Increase by 0.5%	**(153,567)**	(180,651)
	Decrease by 0.5%	**153,577**	181,303

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

28. Employee defined benefit plans (continued)

The average durations of the defined benefit plan obligations as at 31 March 2018 and 2017 were 8.6 years and 9 years, respectively.

The actuarial valuation showed that the market value of plan assets was JPY2,178,506,000 and JPY2,351,177,000 as at 31 March 2018 and 2017 and represented 63% and 59% of the defined benefit obligations that had accrued to qualified employees. The deficiency of JPY1,275,525,000 and JPY1,656,540,000 as at 31 March 2018 and 2017, are expected to be cleared over the remaining service period.

29. Share capital

	At 31 March	
	2018	2017
Issued capital (As of 31 March 2018: 20,000,000,000 authorised shares of USD0.0000025 each, 609,050,000 ordinary shares in issue; As of 31 March 2017: 20,000,000,000 authorised shares of USD0.0000025 each, 609,050,000 ordinary shares in issue) USD	**1,523**	1,523
Equivalent to JPY	**154,000**	154,000

As of the date of incorporation in the Cayman Islands on 7 October 2013, the Company had an authorised share capital of USD50,000, divided into 50,000 shares with par value of USD1.00 each with issued capital of USD1,000.

On 18 September 2016, the Company sub-divided each of its issued and unissued shares with par value of USD1.00 each into 400,000 shares with par value of USD0.0000025 each, such that following the sub-division, the issued share capital of the Company was USD1,000 divided into 400,000,000 shares with par value of USD0.0000025 each and the authorised share capital of the Company was USD50,000 divided into 20,000,000,000 shares with par value USD0.0000025 each.

On 19 September 2016, the Company allotted and issued a total of 75,059,000 shares with par value of USD0.0000025 each by way of capitalisation of the distributable reserves of the Company at the amount of USD187.6 (equivalent to JPY20,000). Immediately following the allotment, the issued share capital of the Company was USD1,187.6, divided into 475,059,000 shares with par value of USD0.0000025 each.

In connection with the Listing of the shares on the Main Board of the Stock Exchange on 6 October 2016, 133,991,000 shares of USD0.0000025 each were issued at a price of HKD10 per share at a total cash consideration of HKD1,339,910,000 (equivalent to approximately JPY17,476,557,000), which has been credited to the Company's share capital after deduction of an listing expense of JPY 678,234,439.

30. Share-based payment

By a resolution of the board of directors on 20 October 2015 and 31 May 2016, the Group granted 17,554,550 shares represented by RSUs and 952,250 shares represented by RSUs, respectively for the purpose of providing incentives and rewards to eligible participants who will contribute to the success of the Group's operations in future years. All the RSUs granted were based on the Company's and individual's performance.

The vesting schedule of the RSUs is 40% on the date on which the shares of the Company are listed on the Stock Exchange of Hong Kong Limited, 30% after 12 months from the Listing Date and 30% after 24 months from the Listing Date.

During the year ended 31 March 2018, agreed by employees who accepted the grant of the above RSUs, 286,042 shares represented by RSUs were cancelled and the vesting schedule of above RSUs was modified to 40% on the date on which the shares of the Company are listed on the Stock Exchange of Hong Kong Limited, 30% on 30 April 2018 or the date on which the Company publishes its annual result for the fiscal year ending 31 March 2018 (whichever is earlier) and 30% on 30 April 2019 or the date on which the Company publishes its annual result for the fiscal year ending 31 March 2019 (whichever is earlier), which accounted as cancellation and modification of share-based payment.

During the year ended 31 March 2018, the Group granted 318,396 shares represented by RSUs, which has been approved by the board of directors, for the purpose of providing incentives and rewards to eligible participants who will contribute to the success of the Group's operations in future years. All the RSUs granted were based on the Company's and individual's performance. The vesting schedule of the RSUs is 50% on 30 April 2018 or the date on which the Company publishes its annual result for the fiscal year ending 31 March 2018 (whichever is earlier) and 50% on 30 April 2019 or the date on which the Company publishes its annual result for the fiscal year ending 31 March 2019 (whichever is earlier).

The following RSUs were outstanding during the year:

	Year ended 31 March	
	2018 Shares represented by RSUs	2017 Shares represented by RSUs
At the beginning of the year	**10,303,410**	16,602,300
Granted during the year	**318,396**	952,250
Forfeited during the year	**(988,276)**	(242,060)
Cancelled during the year	**(286,042)**	—
Exercised during the year	**—**	(7,009,080)
At the end of the year	**9,347,488**	10,303,410

30. Share-based payment (continued)

The fair value of the RSUs granted during the year ended 31 March 2018 was JPY36,297,000 (JPY114 per share). The Group recognised RSU expenses of JPY80,261,000 during the year ended 31 March 2018. The Group recognised RSU expenses of JPY227,995,000 during the year ended 31 March 2017.

31. Reserves

(i) Surplus reserve

Pursuant to the related countries' regulation and board meetings, the Group made appropriation to reserve fund based on net profits.

(ii) Available-for-sale investment revaluation reserve

This is the valuation difference in the fair value of available-for-sale investments measured at fair value through other comprehensive income.

(iii) Exchange translation reserve

This refers to the foreign currency translation differences that occurred when consolidating the financial statements of foreign subsidiaries prepared in foreign currencies.

(iv) Merger reserve

The merger reserve of the Group represents the capital contributions from the then equity holders of the Group's subsidiaries.

32. Contingent liabilities

As at 31 March 2018, the Group had no significant contingent liabilities.

33. Operating lease commitments

(a) As lessor

The Group sublets retail shops, under operating lease arrangements, with a lease term of 16 to 19 years. The terms of the leases generally also require the tenant to provide for the periodic rent adjustments according to the then prevailing market conditions.

The Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Within one year	**–**	9,250

33. Operating lease commitments (continued)

(b) As lessee

The Group leases certain of its office properties and shops under operating lease arrangements. Leases are negotiated for terms ranging from one to six years and rentals are fixed for the lease periods.

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Within one year	**700,660**	1,026,349
After one year but within five years	**492,791**	769,283
Over five years	**4,009**	38,961
	1,197,460	1,834,593

34. Commitments

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following capital commitments at the end of the reporting period:

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Contracted, but not provided for:		
Intangible assets	**–**	82,069

35. Related party transactions and balances

The related parties of the Group include:

Related parties	Relationship
Mr. Liu	Ultimate Shareholder
Kouunn Holdings Limited	Immediate holding company of the Company
Honma Golf (Shanghai) Company Limited	Company controlled by the Ultimate Shareholder
Shanghai POVOS Enterprise (Group) Co., Ltd.	Company controlled by the Ultimate Shareholder

(a) Transactions with related parties

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Sales of products		
Honma Golf (Shanghai) Company Limited	**–**	1,226

The sales of goods to the related party were made according to the prices and terms agreed between the parties.

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Rental expense charged by a related party		
Shanghai POVOS Enterprise (Group) Co., Ltd.*	**29,077**	26,266

The rental expense charged by the related party was paid according to the prices and terms agreed between the parties.

35. Related party transactions and balances (continued)

(a) Transactions with related parties (continued)

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Collection of borrowings provided to a related party		
Honma Golf (Shanghai) Company Limited	**–**	775,055

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Borrowings provided by a related party		
Kouunn Holdings Limited	**–**	879,440

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Repayment of borrowings to a related party		
Kouunn Holdings Limited	**–**	8,105,019

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Expenses paid on behalf of the Group		
Mr. Liu	**–**	130

* The related party transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

35. Related party transactions and balances (continued)

(b) Balances with related parties

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Due from a related party		
Honma Golf (Shanghai) Company Limited	**7,851**	7,508

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Due to related parties		
Mr. Liu	**–**	1,763
Shanghai POVOS Enterprise (Group) Co.,Ltd.	**6,656**	6,040
	6,656	7,803

Amounts due from and due to related parties were interest-free and unsecured.

The credit periods granted to related parties are mainly 3 months. For amounts due from related parties, as at 31 March 2018, balances arising from operating activities in trade nature were JPY7,851,000 (2017: JPY7,508,000) and a balance with non-trade nature was Nil (2017: Nil). The balances of amounts due from related parties as at 31 March 2018 aged from one year to two years (2017: 3 months to one year) and no impairment (2017: Nil) was recognised as it was reasonably assured that these balances can be collected.

For amounts due to related parties, a balance arising from operating activities as at 31 March 2018 was JPY6,656,000 (2017: JPY 7,803,000) with aging within one year (2017: one year). Amounts due to related parties have no fixed terms of repayment.

(c) Compensation of key management personnel of the Group:

	Year ended 31 March	
	2018	2017
	JPY'000	JPY'000
Short-term employee benefits	**91,855**	105,937
Equity-settled share-based payment expenses	**27,990**	75,467
Pension scheme contributions	**7,923**	8,387
Total compensation paid to key management personnel	**127,768**	189,791

Further details of directors' emoluments are included in note 10 to the financial statements.

36. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 March 2018

Financial assets

	Loans and receivables JPY'000	Available-for-sale financial assets JPY'000	Total JPY'000
Trade and bills receivables	8,790,023	—	8,790,023
Cash and cash equivalents	14,147,319	—	14,147,319
Financial assets included in prepayments, deposits and other receivables	169,767	—	169,767
Due from a related party	7,851	—	7,851
Other non-current assets	516,191	19,554	535,745
Total	23,631,151	19,554	23,650,705

Financial liabilities

	Financial liabilities at amortised cost JPY'000
Trade payables	997,546
Due to related parties	6,656
Interest-bearing bank borrowings	2,500,000
Financial liabilities included in other payables and accruals	1,146,119
Other non-current liabilities	1,135
Total	4,651,456

36. Financial instruments by category (continued)

31 March 2017

Financial assets

	Loans and receivables JPY'000	Available-for-sale financial assets JPY'000	Total JPY'000
Trade and bills receivables	5,097,647	—	5,097,647
Cash and cash equivalents	12,712,506	—	12,712,506
Financial assets included in prepayments, deposits and other receivables	54,827	—	54,827
Due from a related party	7,508	—	7,508
Other non-current assets	656,514	19,788	676,302
Total	18,529,002	19,788	18,548,790

Financial liabilities

	Financial liabilities at amortised cost JPY'000
Trade payables	699,601
Due to related parties	7,803
Interest-bearing bank borrowings	291,287
Financial liabilities included in other payables and accruals	632,446
Other non-current liabilities	14,235
Total	1,645,372

37. Fair value and fair value hierarchy of financial instruments

Financial assets and liabilities not presented at their fair values on the statement of financial position mainly represent cash and cash equivalents, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, an amount due from a related party, trade payables, interest-bearing bank borrowings, amounts due to related parties and financial liabilities included in other payables and accruals. Their fair values approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of rental deposits paid as lessee included in other non-current assets and rental deposits received as lessor included in other non-current liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed to approximate to their carrying amounts.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale investments require the directors to make estimates about the expected future cash flows from future proceeds when the investments are realised and the fair values have been estimated to be the principal plus estimated interest income. The directors believe that the estimated fair values which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of each of the reporting period.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the board of directors. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the vice president responsible for finance. The valuation process and results are discussed with the board of directors once a year for annual financial reporting.

37. Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The Group did not have any financial liability measured at fair value as at 31 March 2018 (2017: Nil).

Assets measured at fair value:

31 March 2018

	Level 1	**Level 2**	**Level 3**	**Total**
	JPY'000	**JPY'000**	**JPY'000**	**JPY'000**
Available-for-sale investments	**19,454**	**—**	**100**	**19,554**

31 March 2017

	Level 1	Level 2	Level 3	Total
	JPY'000	JPY'000	JPY'000	JPY'000
Available-for-sale investments	19,688	—	100	19,788

During the years ended 31 March 2018 and 2017, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

38. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing bank borrowings, trade payables, amounts due to related parties, and financial liabilities included in other payables and accruals. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and short-term deposits, which arose directly from its operations. The main risks faced by the Group are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board of directors reviews and agrees policies for managing each of the risks which are summarised below:

Interest rate risk

The Group's exposure to risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ decrease in interest rate	(Decrease)/ increase in profit before tax JPY'000	(Decrease)/ increase in profit before tax as percentage of profit before tax %
Year ended 31 March 2018	**+1%/-1%**	**(8,700)/8,700**	**(0.16)/0.16**
Year ended 31 March 2017	+1%/-1%	(1,913)/1,913	(0.03)/0.03

38. Financial risk management objectives and policies (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 31.3% (2017: 33.7%) of the Group's sales for the year were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 52.2% (2017: 47.2%) of costs for the year were denominated in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in rate of foreign currency %	**Increase/ (decrease) in profit before tax JPY'000**
Year ended 31 March 2018		
If USD strengthens against JPY	**5**	**509,475**
If USD weakens against JPY	**-5**	**(509,475)**
Year ended 31 March 2017		
If USD strengthens against JPY	5	481,830
If USD weakens against JPY	-5	(481,830)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise bank balances, an amount due from a related party, financial assets included in prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 21 to the financial statements.

38. Financial risk management objectives and policies (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing loans and borrowings.

The maturity profile of the Group's financial liabilities as at 31 March 2018 and 2017, based on contractual undiscounted payments, is as follows:

31 March 2018

	On demand JPY'000	Less 1 year JPY'000	Over 1 year JPY'000	Total JPY'000
Trade payables	—	997,546	—	997,546
Financial liabilities included in other payables and accruals	1,146,119	—	—	1,146,119
Interest-bearing bank borrowings	—	2,500,695	—	2,500,695
Other non-current liabilities	1,135	—	—	1,135
Due to related parties	6,656	—	—	6,656
	1,153,910	3,498,241	—	4,652,151

31 March 2017

	On demand JPY'000	Less 1 year JPY'000	Over 1 year JPY'000	Total JPY'000
Trade payables	—	699,601	—	699,601
Financial liabilities included in other payables and accruals	632,446	—	—	632,446
Interest-bearing bank borrowings	—	291,386	—	291,386
Other non-current liabilities	14,235	—	—	14,235
Due to related parties	7,803	—	—	7,803
	654,484	990,987	—	1,645,471

38. Financial risk management objectives and policies (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy debt to equity ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2018 and 2017.

The Group monitors capital, which is the total equity, using a debt to equity ratio, which is interest-bearing bank borrowings divided by total equity. The debt to equity ratios as at the end of the reporting periods were as follows:

	At 31 March	
	2018	2017
	JPY'000	JPY'000
Interest-bearing bank borrowings	**2,500,000**	291,287
Total equity	**28,004,913**	25,729,278
Debt to equity ratio	**9%**	1%

39. Note to the consolidated statement of cash flows

Changes in liabilities arising from financing activities are as follows:

	Interest-bearing bank borrowings JPY'000	**Dividend payable included in other payables JPY'000**
At 1 April 2017	291,287	—
Changes from financing cash flows	2,208,713	(1,823,983)
2017 final dividend payable	—	1,823,983
At 31 March 2018	2,500,000	—

40. Event After The Reporting Period

On 28 May 2018, the directors proposed a final dividend of JPY 3.23 per ordinary share totalling approximately JPY 1,967,231,500 for the year ended 31 March 2018, representing approximately 50% of the Group's distributable profit for the year ended 31 March 2018, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (note 13).

41. Statement of financial position of the company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	At 31 March	
	2018	2017
	JPY'000	JPY'000
NON-CURRENT ASSET		
Investment in a subsidiary	**436,679**	356,418
Total non-current assets	**436,679**	356,418
CURRENT ASSETS		
Cash and cash equivalents	**4,439,519**	667,328
Prepayments deposits and other receivables	**8,079**	4,713
Due from subsidiaries	**16,823,398**	17,258,925
Total current assets	**21,270,996**	17,930,966
CURRENT LIABILITIES		
Other payables and accruals	**71,984**	36,886
Due to a subsidiary	**4,246,751**	—
Due to related parties	**—**	1,619
Total current liabilities	**4,318,735**	38,505
NET CURRENT ASSETS	**16,952,261**	17,892,461
TOTAL ASSETS LESS CURRENT LIABILITIES	**17,388,940**	18,248,879
NET ASSETS	**17,388,940**	18,248,879
EQUITY		
Share capital	**154**	154
Reserves (note)	**17,388,786**	18,248,725
Total equity	**17,388,940**	18,248,879

41. Statement of financial position of the company (continued)

Note:

A summary of the Company's reserves is as follows:

	Equity settled share-based payment reserve JPY'000	(Accumulated losses)/ Retained profits JPY'000	Share premium JPY'000	Other reserve JPY'000	Total JPY'000
Balance at 31 March 2016	128,323	(109,482)	—	—	18,841
Total comprehensive income for the year	—	3,054,047	—	—	3,054,047
Dividends declared	—	(1,995,000)	—	—	(1,995,000)
Transfer from retained profits	—	(20)	—	—	(20)
Issue of shares	—	—	17,476,523	—	17,476,523
Share issue expenses	—	—	(678,234)	—	(678,234)
Equity-settled share-based payment expenses	227,995	—	—	—	227,995
Waiver of payables to the immediate holding company	—	144,573	—	—	144,573
Balance at 31 March 2017	356,318	1,094,118	16,798,289	—	18,248,725
Total comprehensive income for the year	**—**	**883,783**	**—**	**—**	**883,783**
Dividends declared	**—**	**(1,823,983)**	**—**	**—**	**(1,823,983)**
Equity-settled share-based payment expenses	**80,261**	**—**	**—**	**—**	**80,261**
Balance at 31 March 2018	**436,579**	**153,918**	**16,798,289**	**—**	**17,388,786**

42. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 28 May 2018.

HONMA