HONMA GOLF LIMITED

本間高爾夫有限公司

Stock Code：6858

2018/19

INTERIM 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 directors

Mr. Yang Xiaoping (楊小平)[1]
Mr. Ho Ping-hsien Robert (何平僊)[2]

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)[3]
Ms. Sham Ying Man (岑影文)[4]

Notes:

(1) Appointed with effect from 28 May 2018
(2) Appointed with effect from 20 November 2018
(3) Resigned with effect from 20 November 2018
(4) Appointed with effect from 20 November 2018
(5) Resigned with effect from 20 November 2018
(6) Appointed with effect from 20 November 2018

Authorized representatives

Mr. Zuo Jun (左軍)
Ms. Cheng Pik Yuk (鄭碧玉, alias: Patsy Cheng)[5]
Ms. Sham Ying Man (岑影文)[6]

Auditor

Ernst & Young
Certified Public Accountants

Company's website

www.honma.hk

Stock code

6858

Registered office in Cayman Islands

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

Headquarter in Japan

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Tokyo, Japan

Shanghai Office

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Principal place of business In Hong Kong

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183 Queen's Road East
Hong Kong

The Cayman Islands principal share registrar and transfer agent

Maples Fund Services (Cayman) Limited
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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

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. Honma Golf Limited (the "**Company**", and together with its subsidiaries, 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, apparel, accessories and other related products. The Group's products are sold in approximately 50 countries worldwide, primarily in Asia and also across North America, Europe and other regions.

On 6 October 2016, the Group completed the listing of its ordinary shares ("**Shares**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

For the six months ended 30 September 2018, the Group continued to implement its growth strategies, including, among others:

- ***Product first company thriving on the unique combination of traditional Japanese craftsmanship and modern technology and innovation***. The Group continued to drive sales growth across all markets following the successful launch of BERES 06, the fifth generation of BERES family of golf clubs and an iconic product that appeals to the super premium consumer segment, namely Segment 2 (as defined below) and BeZeal 535, the second generation of the BeZeal product family that attracts consumers in Segment 5 (as defined below), who are typically younger and entry level golfers. Sales of these two products grew by 22.9% and 18.1%, respectively, from the six months ended 30 September 2017. As a result, revenue from golf clubs rose by 8.1% from the six months ended 30 September 2017. For the year ending 31 March 2019, the Group's main product launch will be TW747, the next generation of the TOUR WORLD product family designed for avid golfers in Segment 6 (as defined below). TW747 will be launched with a visible improvement in the cosmetics, technology and performance as compared to the previous generation and has already received overwhelming reception from retailers during pre-book.

- ***Continuously penetrating deeper into the Group's home and new markets by partnering with quality third-party retailers and wholesalers***. Revenue from third-party retailers and wholesalers increased by 27.3% and revenue contribution increased by 10.5% to 74.6% of our total revenue. Notwithstanding the continued negative impact from channel mix, revenue from the Group's home markets, namely Japan, Korea and China, increased by 4.5% from the six months ended 30 September 2017 and contributed to 81.4% of its total revenue. Revenue from the U.S. and Europe started to exhibit steady and upward trajectory following last year's reorganisation of the Group's sales and distribution footprint in both markets. For the six months ended 30 September 2018, revenue from the U.S. and European market grew by 6.9% and 171.3%, respectively. Revenue from U.S. and Europe contributed to 9.6% of the Group's revenue, up by JPY331.0 million from JPY768.7 million.

Business review and outlook (continued)

Overview (continued)

- ***Golf balls leading the re-creation of the non-club product categories***. The Group re-designed its ball product portfolio resonating its club line up after having realised a meaningful share of voice in Japan and China. As a result and following the implementation of dedicated ball sales and distribution strategy in its home markets, revenue from golf balls grew by 48.2% from the six months ended 30 September 2017, maintaining the growth trajectory of the last four years. In July 2018, the Group hosted a debut trade show for its 2019 Spring/Summer apparel collection, and saw its pre-book quantities doubled the average pre-book quantity in recent seasons. Revenue from apparel and accessories rose by 4.7% from the six months ended 30 September 2017. The Spring/Summer 2019 apparel collection will be launched from January 2019.

- ***Re-defining the Honma brand to capture the unique opportunity to lead in both premium and premium performance category of golf clubs***. Since listing, the Group started a series of actions to re-define the Honma brand in the performance category while remaining true to its traditional process, artisanship and premium brand positioning. During the six months ended 30 September 2018, the Group secured a top-notch international golfer as its global brand ambassador whose tenure will start in January 2019. In parallel, the Group is in the process of creating a streamlined tour team with professional players relevant to each market plus a network of local green grass players and social influencers to create a coherent communication strategy among target consumers. The Group has also rebuilt its website to create one consistent and vibrant brand image across all markets that are vital to the implementation of the various growth initiatives. The Group is also working on creating a consumer centric e-commerce and customer relationship management ("CRM") system and e-commerce capabilities to relate better to the younger consumers and to continuously improve consumer experience. In this year, the Group has also become the title sponsor of Hong Kong Open which is one of the most important tournament in Asian golf and part of the European PGA Tour since 2001.

- ***New 360 Degree Brand Experience Built into One Distribution Model***. The Group retained a leading design agency in Asia to re-design its retail space in order to provide the ultimate brand experience and customisable consumer journey across all markets, including new markets such as U.S. and Europe. In parallel, the Group is implementing a new distribution model to control and own consumer data and consumer experience, on the basis of the revamped digital platform, where its present and future self-operated stores will act as hub, its shop in shop at third-party retailers and golf courses as spoke. The Group expects to open its first new store in Japan in the three months ending 31 March 2019 followed by roll-outs in other markets including U.S.

- ***Continued capital expenditure investment and lean process improvement***. In the six months ended 30 September 2018, the Group continued capital expenditure investment in its campus located in Sakata, Yamagata prefecture of Japan (the "Sakata Campus") while improving its manufacturing processes in order to increase its annual manufacturing capability. It is expected that the annual production capacity in the Sakata Campus will step up more than 50% by summer 2019 following such investment and improvement.

Management Discussion and Analysis

Business review and outlook (continued)

Overview (continued)

Driven by the various growth initiatives, the Group continued to deliver solid revenue growth during the six months ended 30 September 2018. The Group's revenue increased by 9.3% from JPY10.5 billion for the six months ended 30 September 2017 to JPY11.5 billion for the six months ended 30 September 2018. On a constant currency basis, the Group's revenue grew by 9.5% from the six months ended 30 September 2017 to the six months ended 30 September 2018.

During the six months ended 30 September 2018, the Group continued to optimise its retail footprint and closed 17 stores in China which are mainly apparel dedicated stores, as part of the distribution footprint re-design.

To better serve avid and younger golf enthusiasts, certain self-operated stores offer fitting centres equipped with high-speed cameras and precision software to capture relevant swing data. As at 30 September 2018, the Group had six fitting centres.

As at 30 September 2018, the Group had approximately 3,615 POSs. The Group's POSs consist of (a) POS of third-party retailers ("Retailers") and (b) POS of 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 30 September 2018, the Group's products were sold at 1,399 POSs of 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's net operating profit increased by 15.4% from JPY1,235.0 million for the six months ended 30 September 2017 to JPY1,425.1 million for the six months ended 30 September 2018. For a reconciliation of net operating profit to net profit, see "Management Discussion and Analysis — Non-IFRS Financial Measure — Net Operating Profit." The Group aspires to continue expanding its profit for the full year ending 31 March 2019 by, among others, improving sales of TW747, penetrating deeper into its home and new markets and accelerating the sales growth of its non-club product categories.

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 Be ZEAL, 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. Be ZEAL 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.

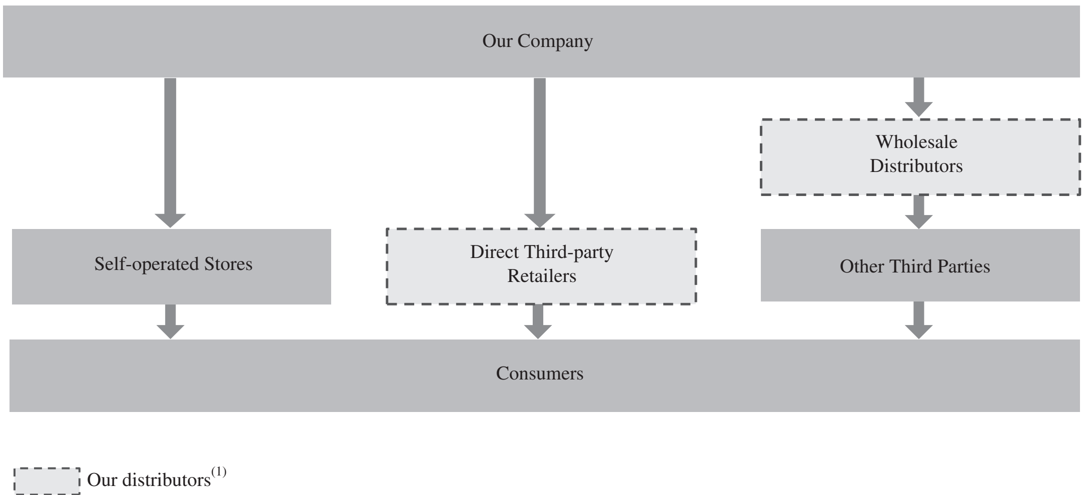
The Group designs technologically advanced golf clubs and constantly strives to deliver effortless shots dreamed by every golfer. By leveraging its superior research and development capabilities, the Group manages its product life cycle to continually generate customer interest, ensure its product offerings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

Business review and outlook (continued)

Overview (continued)

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 POSs 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 as well as a platform to maintain and enhance its brand image. As of 30 September 2018, the Group had 68 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 six months ended 30 September 2018.

	Six months ended 30 September 2018			
	Period start	Opened	Closed	Period end
Japan	32	—	—	32
China (including Hong Kong and Macau)	48	1	17	32
Rest of Asia	4	—	—	4
Total	84	1	17	68

Business review and outlook (continued)

Overview (continued)

Sales and Distribution Network (continued)

During the six months ended 30 September 2018, the Group continued to optimise its retail footprint and closed 17 stores in China which are mainly apparel dedicated stores, as part of the distribution footprint re-design.

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 of 30 September 2018, the Group had six fitting centres.

As at 30 September 2018, the Group had approximately 3,615 POSs. The Group's POSs consist of (a) POS of third-party retailers ("Retailers") and (b) POS of 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 30 September 2018, the Group's products were sold at 1,399 POSs of 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 255 craftsmen, 24 of whom are master craftsmen with more than 32 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.

The Group keeps investing in Sakata Campus by improving its manufacturing processes in order to raise its annual manufacturing capability. It is expected that the annual manufacturing capability in Sakata Campus will grow by more than 50% by summer 2019 following such investment and improvement.

Business review and outlook (continued)

Overview (continued)

Employees

As of 30 September 2018, the Group had 853 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 JPY2,459.2 million for the six months ended 30 September 2018.

The Group adopted its restricted share unit ("**RSU**") scheme in October 2015 to incentivise its directors ("**Director(s)**"), management and eligible employees. The Group recognised RSU expenses of JPY25.4 million during the six months ended 30 September 2018, including JPY2.3 million for manufacturing personnel, JPY13.1 million for sales and marketing personnel and JPY10.0 million for administrative personnel.

Outlook

Business Outlook

For the six months 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 to pursue the following:

- ***Continue investing in the Honma brand to create a consistent brand image across different markets and to capture the unique opportunity to lead in both premium and premium performance golf club segments.*** The Group will continue its effort to create a strong, tiered professional endorsement team centered by the top-notch international golfer it just secured as its global brand ambassador. Multiple marketing assets are being created and activated to re-introduce Honma, to highlight its premium craftsmanship and to establish the global brand ambassador as the key athlete for Honma in both premium and premium performance segments. There will also be a series of marketing campaigns in all major markets to re-introduce the Honma brand from January 2019.

Business review and outlook (continued)

Outlook (continued)

Business Outlook (continued)

- ***Update and upgrade the Group's marketing strategies, digital platform and assets to drive HONMA brand and products awareness.*** With a refined brand and brand values, the Group plans to continuous updating and upgrading its marketing assets to drive brand and product awareness globally. The Group is in the progress of retaining a group of local and green grass players and social influencers relevant to the respective markets to create a coherent communication strategy among target consumers. The Group has also rebuilt its website to create one consistent and vibrant brand image across all markets that are vital to the implementation of the various growth initiatives. In this year, the Group has also become the title sponsor of Hong Kong Open which is one of the most important tournament in Asian golf and part of the European PGA Tour since 2001.

- ***Provide new generation of retail experience based on an improved digital platform to create 360 degree brand experience.*** The Group plans to upgrade its retail experience based on the renewed HONMA brand image. The Group retained a leading design agency in Asia to re-design its retail space in order to provide the ultimate brand experience and customisable consumer journey across all markets, including the U.S. and European market. 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. In parallel, the Group is implementing a new distribution model, on the basis of the revamped digital platform, where its present and future self-operated stores will act as hub, its shop in shop at third party retailers and golf courses as spoke to control and own consumer data and consumer experience. The Group also intend to improve its e-commerce capabilities by establish an additional consumer centric e-commerce and CRM system across all markets to gain direct access to consumer data and to have better control over customer experience.

- ***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 in-roads 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 has successfully launched BeZeal 535, the second generation of the BeZeal product family that attracts consumers in Segment 5, who are typically younger and entry level golfers. For the year ending 31 March 2019, the Group's main product launch will feature TW747, the next generation of the TOUR WORLD product family. TW747 will be launched with a visible improvement in the cosmetics, technology and performance as compared to the previous generation and already received overwhelming reception from retailers during pre-book. The Group will actively drive market share gains in these consumers segments through high-performance mid-end product offerings design that meets the evolving playing preferences of these consumers.

Business review and outlook (continued)

Outlook (continued)

Business Outlook (continued)

- ***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 has already established a strong presence in its home markets of Japan, Korea and China (including Hong Kong and Macau), the Group believes that there are significant rooms 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 and deepening its distribution network 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 the Group achieved in both markets for the six months ended 30 September 2018, the Group will accelerate growth into these markets by, among others, (i) strengthening its sales teams, marketing teams and senior management teams in these markets, (ii) stepping up marketing activities to drive brand and product awareness among top notch world players, (iii) rolling out Honma experience centers and shop-in-shops to selected locations and (iv) identifying and pursuing attractive and complementary acquisition opportunities.

- ***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 JPY193.1 million and JPY174.5 million for the six months ended 30 September 2017 and 2018, respectively. All of the Group's golf clubs are developed at the Sakata Campus by its research and development personnel and master craftsmen. The research and development team continuously incorporate innovations in ergonomics and material sciences in its designs and collaborate closely with professional golf players to optimise product performance. In December 2017 and January 2018, the Group launched the following two new products: (i) BERES 06, the fifth generation of BERES family of golf clubs, which targets consumers in Segment 2 and (ii) BeZeal 535, the second generation of the BeZeal product family that attracts consumers in Segment 5, who are typically younger and entry level golfers. The activation of these two new product categories drove market share gains in the high growth consumer segments in home and new markets. The sales of these two products grew by 22.9% and 18.1%, respectively, from the six months ended 30 September 2017.

- ***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 all markets to drive continued improvement in operational efficiency.

Business review and outlook (continued)

Outlook (continued)

Business Outlook (continued)

- ***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, which is 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. In 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 periods indicated, together with the change (expressed in percentages) from the six months ended 30 September 2017 to the six months ended 30 September 2018.

	Six months ended 30 September				Period-to-Period Change
	2018		2017		
	JPY	%	JPY	%	%
	(In thousands, except for percentages and per share data)				
Consolidated Statement of Profit or Loss (unaudited)					
Revenue	**11,503,203**	**100.0**	10,521,806	100.0	9.3
Cost of sales	**(4,707,098)**	**(40.9)**	(4,340,410)	(41.3)	8.4
Gross profit	**6,796,105**	**59.1**	6,181,396	58.7	9.9
Other income and gains	**762,586**	**6.6**	140,354	1.3	443.3
Selling and distribution expenses	**(4,024,775)**	**(35.0)**	(3,943,688)	(37.5)	2.1
Administrative expenses	**(791,420)**	**(6.9)**	(717,730)	(6.8)	10.3
Other expense	**(8,732)**	**(0.1)**	(253,431)	(2.4)	(96.6)
Finance costs	**(5,422)**	**–**	(18,061)	(0.2)	(70.0)
Finance income	**36,600**	**0.3**	72,707	0.7	(49.7)
Profit before tax	**2,764,942**	**24.0**	1,461,547	13.9	89.2
Income tax expense	**(630,464)**	**(5.5)**	(351,219)	(3.3)	79.5
Net profit	**2,134,478**	**18.6**	1,110,328	10.6	92.2
Earnings per share attributable to ordinary equity holders of the parent:					
Basic and diluted					
– For profit for the period (JPY)	**3.50**		1.82		92.3
Non-IFRS Financial Measures					
Adjusted SG&A[1]	**4,793,056**	**41.7**	4,618,506	43.9	3.8
Operating profit[2]	**2,036,456**	**17.7**	1,620,130	15.4	25.7
Net operating profit[3]	**1,425,084**	**12.4**	1,234,988	11.7	15.4

Financial review (continued)

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 — 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 — 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 RSU expenses and (iv) 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 — Non-IFRS Financial Measures — Net Operating Profit."

Revenue

The Group's total revenue increased by 9.3% from JPY10,521.8 million for the six months ended 30 September 2017 to JPY11,503.2 million for the six months ended 30 September 2018.

Constant Currency Revenue Growth

On a constant currency basis, the Group's total revenue grew by 9.5% from the six months ended 30 September 2017 to the six months ended 30 September 2018. For the purpose of calculating constant currency revenue growth, the Group has used the average exchange rate of the six months ended 30 September 2017 to translate sales recorded during the six months ended 30 September 2018, to the extent the original currency for such sales is not 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.

Financial review (continued)

Revenue (continued)

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 by product groups in absolute amounts and as percentages of the Group's total revenue for the periods indicated.

	For the six months ended 30 September				Period-to-Period Change	
	2018		2017		on as reported basis	on constant currency basis[1]
	JPY	%	JPY	%	%	%
	(In thousands, except for percentages)					
Golf clubs:						
BERES	**4,566,333**	**48.7**	3,716,990	42.9	22.9	23.2
TOUR WORLD	**1,569,729**	**16.8**	2,548,503	29.4	(38.4)	(38.3)
Be ZEAL	**1,207,104**	**12.9**	1,022,246	11.8	18.1	18.2
Others	**2,026,329**	**21.6**	1,378,544	15.9	47.0	0.0%
Specialised models[2]	**1,857,799**	**19.8**	1,150,955	13.3	61.4	61.6
Putters	**168,530**	**1.8**	227,589	2.6	(25.9)	(25.8)
Golf clubs subtotal	**9,369,496**	**81.5**	8,666,283	82.4	8.1	8.3
Golf Balls	**649,657**	**5.6**	438,226	4.2	48.2	48.4
Bags, apparels and other accessories[3]	**1,484,049**	**12.9**	1,417,297	13.4	4.7	4.8
Total	**11,503,203**	**100.0**	10,521,806	100	9.3	9.5

Notes:

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

(2) Consist of golf clubs that are produced for specific geographic regions or events.

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

Financial review (continued)

Revenue (continued)

Revenue by Product Groups (continued)

Golf clubs represent the majority of the Group's business, and albeit continued channel gravitation from retail to wholesale, the Group recorded solid revenue growth in golf clubs during the six months ended 30 September 2018. Revenue for golf clubs increased by 8.1% from JPY8,666.3 million for the six months ended 30 September 2017 to JPY9,369.5 million for the six months ended 30 September 2018. On a constant currency basis, revenue for golf clubs grew by 8.3% from the six months ended 30 September 2017 to the six months ended 30 September 2018. Growth in golf clubs was primarily attributable to the robust growth in the sales of BERES 06, the fifth generation of BERES family of golf clubs and an iconic product that appeals to the super premium consumer segment, and BeZeal 535, the second generation of the BeZeal product family that attracts consumers in Segment 5, who are typically younger and entry level golfers. The sales of these two products grew by 22.9% and 18.1%, respectively, from the six months ended 30 September 2017.

Revenue for golf balls increased significantly by 48.2% from JPY438.2 million for the six months ended 30 September 2017 to JPY649.7 million for the six months ended 30 September 2018. On a constant currency basis, revenue for golf balls grew by 48.4% from the six months ended 30 September 2017 to the six months ended 30 September 2018. The growth in golf balls was driven by the Group's continued effort to optimise its product portfolio and the implementation of new go-to-market strategy in Japan and China.

Revenue for bags, apparels and other accessories increased by 4.7% from JPY1,417.3 million for the six months ended 30 September 2017 to JPY1,484.0 million for the six months ended 30 September 2018. On a constant currency basis, revenue for these complementary product lines increased by 4.8% from the six months ended 30 September 2017 to the six months ended 30 September 2018. The increase was primarily attributed to the Group's continued decision and efforts to nurture its non-club business to become a golf lifestyle company. In July 2018, the Group hosted a debut trade show for its 2019 Spring/Summer apparel collection, with its pre-book quantities doubled the average pre-book quantity in recent seasons.

Financial review (continued)

Revenue (continued)

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 for regions by absolute amounts and as percentages of total revenue for the periods indicated.

	For the six months ended 30 September				Period-to-Period Change	
	2018		2017		on as reported basis	on constant currency basis[1]
	JPY	%	JPY	%	%	%
	(In thousands, except for percentages)					
Japan	**5,869,281**	**51.0**	5,680,039	54.0	3.3	3.3
Korea	**1,760,641**	**15.3**	1,314,180	12.5	34.0	34.0
China (including Hong Kong and Macau)	**1,735,258**	**15.1**	1,967,028	18.7	(11.8)	(11.4)
North America	**641,034**	**5.6**	599,611	5.7	6.9	7.6
Europe	**458,606**	**4.0**	169,064	1.6	171.3	175.9
Rest of the World	**1,038,383**	**9.0**	791,884	7.5	31.1	31.5
Total	**11,503,203**	**100**	10,521,806	100	9.3	9.5

Note:

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

Revenue for Japan, Korea and China (including Hong Kong and Macau) collectively accounted for 81.4% of the Group's total revenue for the six months ended 30 September 2018, which collectively formed the Group's home markets. Sales in the Group's home markets were the primary driver of revenue growth during the six months ended 30 September 2018.

Financial review (continued)

Revenue (continued)

Revenue by Geography (continued)

Revenue from Japan increased by 3.3% from JPY5,680.0 million for the six months ended 30 September 2017 to JPY5,869.3 million for the six months ended 30 September 2018.Sales from third-party retailers and wholesalers grew by 17.0% thanks to the Group's continued partnership with quality third-party retailers and wholesalers to reach out for avid and younger golfers. Sales from self-operated stores declined by 17.7% following closure of 2 stores.

Revenue from Korea increased by 34.0% from JPY1,314.2 million for the six months ended 30 September 2017 to JPY1,760.6 million for the six months ended 30 September 2018. The Group succeeded continuously increasing its market share in Korea on the base of Honma's brand equity, 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 China (including Hong Kong and Macau) decreased by 11.8% from JPY1,967.0 million for the six months ended 30 September 2017 to JPY1,735.3 million for the six months ended 30 September 2018. On a constant currency basis, revenue for China (including Hong Kong and Macau) decreased by 11.4% from the six months ended 30 September 2017 to the six months ended 30 September 2018. The decrease was primarily caused by a reshuffling of the apparel distribution network where 17 stores got closed.

Revenue from North America increased by 6.9% from JPY599.6 million for the six months ended 30 September 2017 to JPY641.0 million for the six months ended 30 September 2018. On a constant currency basis, revenue for North America increased by 7.6% from the six months ended 30 September 2017 to the six months ended 30 September 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 significantly by 171.3% from JPY169.1 million for the six months ended 30 September 2017 to JPY458.6 million for the six months ended 30 September 2018. On a constant currency basis, revenue from Europe increased by 175.9% from the six months ended 30 September 2017 to the six months ended 30 September 2018. The increase was primarily due to the reorganisation of the Group's distribution channels and continued marketing activities to promote brand and products awareness.

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 third-party retailers and wholesalers. The Group's third-party retailers and wholesalers 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 POSs in absolute amounts and as percentages of total revenue for the periods indicated.

	For the six months ended 30 September				Period-to-Period Change	
	2018		2017		on as reported basis	on constant currency basis[1]
	JPY	**%**	JPY	%	%	%
	(In thousands, except for percentages)					
Self-operated stores	**2,919,574**	**25.4**	3,779,743	35.9	(22.8)	(22.6)
3rd party retailers and wholesalers	**8,583,629**	**74.6**	6,742,063	64.1	27.3	27.6
Total	**11,503,203**	**100.0**	10,521,806	100.0	9.3	9.5

Note:

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

Revenue from self-operated stores decreased by 22.8% from JPY3,779.7 million for the six months ended 30 September 2017 to JPY2,919.6 million for the six months ended 30 September 2018. The decrease was primarily due to closures of 18 self-operated stores as the Group stepped up its collaboration with major retailers to engage with avid and younger golfers across the globe. Revenue from sales to third-party retailers and wholesalers increased by 27.3% from JPY6,742.1 million for the six months ended 30 September 2017 to JPY8,583.6 million for the six months ended 30 September 2018. Going forward, the Group expects that sales from third-party retailers and wholesalers will continue to increase at higher pace than self-operated stores.

Financial review (continued)

Revenue (continued)

Cost of Sales

Cost of sales increased by 8.4% from JPY4,340.4 million for the six months ended 30 September 2017 to JPY4,707.1 million for the six months ended 30 September 2018, which was primarily due to a increased in raw materials and finished goods purchased from suppliers resultant from 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 periods indicated.

	Six months ended 30 September			
	2018		2017	
	JPY	%	JPY	%
	(In thousands, except for percentages)			
Raw materials	2,505,683	53.2	2,282,713	52.4
Employee benefits	666,933	14.2	693,298	16.0
Manufacturing overhead[1]	296,256	6.3	228,007	5.4
Finished goods purchased from suppliers	1,238,226	26.3	1,136,392	26.2
Total	4,707,098	100.0	4,340,410	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 9.9% from JPY6,181.4 million for the six months ended 30 September 2017 to JPY6,796.1 million for the six months ended 30 September 2018. Gross profit margin increased from 58.7% for the six months ended 30 September 2017 to 59.1% for the six months ended 30 September 2018.

Financial review (continued)

Gross Profit and Gross Profit Margin (continued)

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 periods indicated.

	Six months ended 30 September			
	2018		2017	
	JPY	%	JPY	%
	(In thousands, except for percentages)			
Golf clubs:				
BERES	**3,166,144**	**69.3**	2,462,226	66.2
TOUR WORLD	**702,602**	**44.8**	1,444,460	56.7
Be ZEAL	**579,060**	**48.0**	628,513	61.5
Others	**1,334,320**	**65.8**	807,969	58.6
Specialised models[1]	**1,249,294**	**67.2**	671,378	58.3
Putters	**85,026**	**50.5**	136,591	60.0
Golf clubs subtotal	**5,782,126**	**61.7**	5,343,168	61.7
Golf Balls	**325,319**	**50.1**	224,368	51.2
Bags, apparels and other accessories[2]	**688,660**	**46.4**	613,860	43.3
Total	**6,796,105**	**59.1**	6,181,396	58.7

Notes:

(1) Consist of golf clubs that are produced for specific geographic regions or events.

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

Gross profit for golf clubs increased by 8.2% from JPY5,343.2 million for the six months ended 30 September 2017 to JPY5,782.1 million for the six months ended 30 September 2018. Gross profit margin for golf clubs remained stable at 61.7% for the six months ended 30 September 2017 and 2018.

Gross profit for golf balls increased by 45.0% from JPY224.4 million for the six months ended 30 September 2017 to JPY325.3 million for the six months ended 30 September 2018. Gross profit margin for golf balls slightly decreased from 51.2% for the six months ended 30 September 2017 to 50.1% for the six months ended 30 September 2018, primarily due to accelerated sales growth from third-party retailers and wholesalers in Japan and China.

Gross profit for bags, apparels and other accessories increased by 12.2% from JPY613.9 million for the six months ended 30 September 2017 to JPY688.7 million for the six months ended 30 September 2018. Gross profit margin for bags, apparels and other accessories increased from 43.3% for the six months ended 30 September 2017 to 46.4% for the six months ended 30 September 2018. The increases were due to continued strengthening of the Group's sourcing platforms in Japan and China and improved vendor management.

Financial review (continued)

Other Income and Gains

Other income and gains significantly increased from JPY140.4 million for the six months ended 30 September 2017 to JPY762.6 million for the six months ended 30 September 2018. The increase was primarily due to currency revaluation profits of JPY715.5 million for the six months ended 30 September 2018.

Selling and Distribution Expenses

Selling and distribution expenses slightly increased by 2.1% from JPY3,943.7 million for the six months ended 30 September 2017 to JPY4,024.8 million for the six months ended 30 September 2018, primarily due to increase in distribution costs. Selling and distribution expenses as a percentage of revenue decreased from 37.5% for the six months ended 30 September 2017 to 35.0% for the six months ended 30 September 2018, primarily due to economies of scale and positive channel and product mix impacts. 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 periods indicated.

	Six months ended 30 September			
	2018		2017	
	JPY	%	JPY	%
	(In thousands, except for percentages)			
Employee benefits	**1,513,372**	**37.6**	1,531,057	38.8
Advertising and promotion expenses	**1,135,424**	**28.2**	1,164,665	29.5
Rental fees	**653,503**	**16.2**	694,367	17.6
Others[1]	**722,476**	**18.0**	553,599	14.1
Total	**4,024,775**	**100.0**	3,943,688	100.0

Note:

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

Administrative Expenses

Administrative expenses increased by 10.3% from JPY717.7 million for the six months ended 30 September 2017 to JPY791.4 million for the six months ended 30 September 2018, primarily due to the increase in SAP amortisation expenses. The Group launched SAP in July 2017.

Other Expenses or Income

Other expenses decreased by 96.6% from JPY253.4 million for the six months ended 30 September 2017 to JPY8.7million for the six months ended 30 September 2018, absent one-off impact from headcount streamlining.

Financial review (continued)

Finance Costs

Finance costs decreased by 70.0% from JPY18.1 million for the six months ended 30 September 2017 to JPY5.4 million for the six months ended 30 September 2018. The decrease was primarily due to a decrease in the Group's average bank borrowings in the six months ended 30 September 2018.

Finance Income

Finance income decreased by 49.7% from JPY72.7 million for the six months ended 30 September 2017 to JPY36.6 million for the six months ended 30 September 2018, primarily due to the decrease in average bank deposit and the decline in bank interest rates.

Profit Before Tax

As a result of the foregoing, profit before tax increased significantly by 89.2% from JPY1,461.5 million for the six months ended 30 September 2017 to JPY2,764.9 million for the six months ended 30 September 2018.

Income Tax Expense

Income tax expense increased by 79.5% from JPY351.2 million for the six months ended 30 September 2017 to JPY630.5 million for the six months ended 30 September 2018, primarily due to an increase in the Group's taxable income. The Group's effective tax rate decreased from 24.0% for the six months ended 30 September 2017 to 22.8% for the six months ended 30 September 2018.

Net Profit

As a result of the foregoing, net profit increased significantly by 92.2% from JPY1,110.3 million for the six months ended 30 September 2017 to JPY2,134.5 million for the six months ended 30 September 2018. Net profit margin increased from 10.6% for the six months ended 30 September 2017 to 18.6% for the six months ended 30 September 2018.

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.

Financial review (continued)

Non-IFRS Financial Measures (continued)

Adjusted SG&A

The Group derives adjusted SG&A from the sum of (a) selling and distribution expenses and (b) administrative expenses by 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 periods indicated.

	For the six months ended 30 September	
	2018	2017
	(In JPY thousands)	
Selling and distribution expenses	**4,024,775**	3,943,688
Administrative expenses	**791,420**	717,730
Adjustment for:		
RSU expenses in relation to sales and marketing staff and administrative staff	**(23,139)**	(42,912)
Adjusted SG&A	**4,793,056**	4,618,506

Operating Profit

The Group derives operating profit from profit before tax by (i) subtracting other income and gains, (ii) adding other expenses, and (iii) 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 periods indicated.

	For the six months ended 30 September	
	2018	2017
	(In JPY thousands)	
Profit before tax	**2,764,942**	1,461,547
Adjustment for:		
Other income and gains	**(762,586)**	(140,354)
Other expenses	**8,732**	253,431
RSU expenses	**25,368**	45,506
Operating profit	**2,036,456**	1,620,130

Financial review (continued)

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 RSU expenses and (iv) 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 periods indicated.

	For the six months ended 30 September	
	2018	2017
	(In JPY thousands)	
Net profit	**2,134,478**	1,110,328
Adjustment for:		
Other income and gains	**(762,586)**	(140,354)
Other expenses	**8,732**	253,431
RSU expenses	**25,368**	45,506
Impact on tax	**19,092**	(33,923)
Net operating profit	**1,425,084**	1,234,988

Working Capital Management

	For the twelve-months ended	
	30 September	31 March
	2018	2017
Inventories turnover days[1]	**248**	232
Trade and bills receivables turnover days[2]	**63**	96
Trade and bills payables turnover days[3]	**35**	30

Note:

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

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

Financial review (continued)

Compared to the year ended 31 March 2018, trade and bills receivables turnovers days decreased and trade and bills payables turnover days increased for the twelve months ended 30 September 2018. The changes were primarily due to decrease in trade and bills receivables and increase in trade and bills payables from 31 March 2018 to 30 September 2018 which is due to the Group's continued efforts in improving working capital management. The Group aims to continuously deliver reduction in its inventories.

Inventories

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

	As of 30 September 2018	As of 31 March 2018
	(In JPY thousands)	
Raw materials	**3,650,345**	2,776,492
Work in progress	**822,275**	818,854
Finished goods	**4,666,876**	3,628,450
Less: provision	**(528,151)**	(416,801)
Total	**8,611,345**	6,806,995

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

	As of 30 September 2018	As of 31 March 2018
	(In JPY thousands)	
Within 1 year	**3,457,106**	3,713,065
1 year to 2 years	**2,709,702**	1,608,077
2 to 3 years	**1,232,008**	888,229
3 to 4 years	**779,928**	236,740
Over 4 years	**432,601**	360,884
Total	**8,611,345**	6,806,995

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.

Financial review (continued)

Liquidity and Capital Resources

During the six months ended 30 September 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 of 30 September 2018, the Group had JPY18,443.9 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 on 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 of 30 September 2018.

Indebtedness

As of 30 September 2018, the Group's interest-bearing borrowings amounted to JPY3,000.0 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 of 30 September 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 of 31 March 2018 and 30 September 2018, the Group's gearing ratio was 8.9% and 10.6%, respectively.

Capital Expenditures

The Group's capital expenditures for the six months ended 30 September 2018 amounted to JPY185.1 million, which was used primarily to purchase, plant machinery and equipments and leasehold improvement. In the six months ended 30 September 2017, the Group financed its capital expenditures primarily with cash generated from operations and net proceeds received from the global offering.

Contingent Liabilities

As at 30 September 2018, the Group did not have any significant contingent liabilities.

Financial review (continued)

Material Acquisitions and Future Plans for Major Investment

During the six months ended 30 September 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.

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	Percentage of used amount as of 30 September 2018	Percentage of unused balance as of 30 September 2018
	(%)	*(In JPY millions)*	*(%)*	*(%)*
Potential strategic acquisitions	29.4	4,939	—	29.4
Sales and marketing activities in North America and Europe	15.1	2,536	13.8	1.3
Sales and marketing activities in home markets of Japan, Korea and China (including Hong Kong and Macau)	15.1	2,536	14.8	0.3
Capital expenditures	13.0	2,184	5.8	7.2
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	10.1	—
Total	100.0	16,798	61.6	38.4

Note:

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

As of 30 September 2018, the unused balance of the proceeds from the global offering of approximately JPY6,450.4 million are currently deposited with creditworthy banks with no recent history of default.

Financial review (continued)

Events after the Reporting Period

There is no material subsequent event undertaken by the Group after 30 September 2018.

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: JPY110.0. 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.

Other Information

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

As at 30 September 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") were as follows:

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	457,552(L)	0.08%
Mr. Murai Yuji (4)	Beneficial owner	366,456(L)	0.06%
Mr. Zuo Jun (5)	Beneficial owner	254,020(L)	0.04%

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 666,575 Shares and was interested in 285,675 restricted share units (the "**RSU**"s) granted to him under the RSU Scheme entitling him to receive 285,675 Shares upon vesting.

(3) Mr. Ito Yasuki directly held 228,856 Shares and was interested in 228,696 RSUs granted to him under the RSU Scheme entitling him to receive 228,696 Shares upon vesting.

(4) Mr. Murai Yuji directly held 183,468 Shares and was interested in 182,988 RSUs granted to him under the RSU Scheme entitling him to receive 182,988 Shares upon vesting.

(5) Mr. Zuo Jun directly held 254,020 Shares.

(6) The calculation is based on the total number of 609,050,000 Shares in issue as at 30 September 2018.

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

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 30 September 2018, none of the Directors nor 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 30 September 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 Compnay 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)(6)	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%

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares (continued)

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 was interested.

(4) Fosun Industrial Holdings Limited (復星產業控股有限公司) was a wholly-owned subsidiary of Fosun International Limited ("**FIL**"). FIL was 71.53% held by Fosun Holdings Limited ("**FHL**"). Fosun International Holdings Ltd. ("**FIHL**") was the beneficial owner of all issued shares in FHL and was 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) were 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. was interested in the 103,000,000 Shares held by Yuanta Commercial Bank Co., Ltd., which it controlled 100%. Yuanta Commercial Bank Co., Ltd. had 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 had a security interest in 120,497,315 Shares pledged by Kouunn Holdings Limited in its favour.

(7) These Shares were held by Chia Tai Primrose Holdings Limited (正大平樂控股有限公司) which was 100% controlled by Chia Tai Giant Far Limited (正大鉅發有限公司) ("**CGTF**"). CGTF was 100% controlled by CT Bright Group Company Limited (正大光明集團有限公司) ("**CTBG**"). CTBG was 100% controlled by CPG Overseas Company Limited which was 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 30 September 2018.

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 incentivise Directors, senior management and employees of the Group (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 of Directors of 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 years from the date of the first grant of the RSUs, being 20 October 2015. As of 30 September 2018, the remaining life of the RSU Scheme is approximately seven years and one month. 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 Taisai Holdings Ltd. (the "**RSU Nominee**"), a company indirectly wholly-owned by the RSU Trustee, which, as of 30 September 2018, held (as the RSU Nominee) 4,231,718 Shares underlying the RSUs granted under the RSU Scheme for the benefit of RSU Eligible Persons pursuant to the RSU Scheme.

As of 30 September 2018, RSUs representing 4,231,718 underlying Shares have been granted to 128 participants in the RSU Scheme pursuant to the RSU Scheme. 4 of the participants in the RSU Scheme are Directors, 3 are directors of the Company's subsidiaries, 2 of the participants in the RSU Scheme are members of the senior management of the Company and 2 are executive managers of the subsidiaries of the Company.

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

Restricted Share Unit Scheme (continued)

Details of the RSUs granted under the RSU Scheme at the beginning and end of, and movements in the RSUs during, the six months ended 30 September 2018 are set out below:

Name of grantee of RSU	Position held with the Group	Number of Shares represented by RSUs at 1 April 2018	date of grant	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Number of Shares represented by RSUs at 30 September 2018
Director of the Company								
Liu Jianguo	Chairman of the Board, President and Executive Director	571,350	3 November 2015	–	285,675	–	–	285,675
Ito Yasuki	Executive Director, Chief Marketing Officer and President of Japan Operations	571,740	20 October 2015 31 May 2016	–	228,696	–	114,348	228,696
Murai Yuji	Executive Director and Chief Sales Officer	457,470	20 October 2015 31 May 2016	–	182,988	–	91,494	182,988
Zuo Jun	Executive Director, Chief Administrative Officer and President of China Operations	381,030	3 November 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 2018	date of grant	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Number of Shares represented by RSUs at 30 September 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[1], 3 directors and 2 other executive managers of the subsidiaries of the Company		2,547,604	20 October 2015 3 November 2015 31 May 2016	–	1,273,802	–	76,284	1,197,518
Other employees of the Group								
117 other employees of the Group		4,818,294	20 October 2015 3 November 2015	–	2,409,147	–	72,306	2,336,841
Total		9,347,488	20 October 2015 3 November 2015 31 May 2016	–	4,380,308	381,030	354,432	4,231,718

Note:

(1) One of the grantee who was a senior managemont of the Company retired by the end of September 2018.

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

Restricted Share Unit Scheme (continued)

No exercise price is required for the exercise of the RSUs granted to the participants under the RSU Scheme as referred to in the above. The 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 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; and

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

Post-IPO Share Option Scheme

On 18 September 2016, the 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 have 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 years after the adoption date, being 18 September 2016 to 17 September 2026, to grant options to any Eligible Person as the Board in its absolute discretion selects. 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 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.

No options granted under the Post-IPO Share Option Scheme may be exercised more than 10 years after the date of grant. Subject to the terms of grant of any option, an option granted may be exercised at any time during the option period and in accordance with the vesting schedule and other terms specified in the offer. 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 30 September 2018, no option had been granted or agreed to be granted by the Company pursuant to the Post-IPO Share Option Scheme.

Charge on assets

There was no charge on the Group's assets as at 30 September 2018.

Purchase, sale or redemption of listed securities

During the six months ended 30 September 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Interim dividend

The Board has declared the payment of an interim dividend of JPY1.75 per share for the six months ended 30 September 2018 to its shareholders whose names appear on the Register of Members of the Company on Wednesday, 12 December 2018. The interim dividend will be paid on Friday, 28 December 2018. No interim dividend was paid by the Company to its shareholders for the last corresponding period.

The interim dividend has been declared in JPY and will be 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.

To ascertain the Shareholders' entitlement to the interim dividend, the register of members of the Company will be closed for one day on Wednesday, 12 December 2018. No transfer of shares of the Company will be registered on the aforementioned book-close date. To qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 11 December 2018 for registration.

Compliance with the corporate governance code

The Company's corporate governance practices are based on 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 "**Listing Rules**"). During the six months ended 30 September 2018, the Company has complied with all applicable code provisions as set out in the CG Code save for the deviation from code provision A.2.1.

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. 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.

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

Other Information

Model code for securities transactions by directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Company's own code of conduct regarding directors' securities transactions throughout the six months ended 30 September 2018.

Audit committee

The Company established the audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. As at the date of this interim report, the Audit Committee comprises three independent non-executive Directors, namely Mr. Lu Pochin Christopher, Mr. Wang Jianguo and Mr. Xu Hui. Mr. Lu Pochin Christopher is the chairman of the Audit Committee.

The Audit Committee has reviewed and discussed the unaudited interim results for the six months ended 30 September 2018 and this interim report.

Changes in directors' biographical details under rule 13.51B(1) of the Listing Rules

Changes in Directors' biographical details which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are as follows:

1. Mr. Yang Xiaoping (楊小平) has been appointed as a non-executive director of the Company with effect from 28 May 2018.

2. The salary and contractual annual performance bonus for Mr. Ito Yasuki (伊藤康樹), executive director of the Company, under the service agreement were changed to JPY11,999,952 per annum and JPY7,999,968 per annum respectively.

3. The salary and contractual annual performance bonus for Mr. Murai Yuji (邨井勇二), executive director of the Company, under the service agreement were changed to JPY10,999,992 per annum and JPY4,714,282 per annum respectively.

4. Mr. Lu Pochin Christopher (盧伯卿), an independent non-executive director of the Company, resigned as an independent non-executive director of Pantronics Holdings Limited (桐成控股有限公司), the shares of which are listed on the Stock Exchange (stock code: 1611), with effect from 11 October 2018.

5. Mr. Wang Jianguo (汪建國), an independent non-executive director of the Company, obtained a Ph.D. in Business Administration in Global Finance from Arizona State University, U.S.A. in May 2018.

6. Mr. Ho Ping-hsien, Robert (何平僊) has been appointed as a non-executive director of the Company with effect from 20 November 2018.

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 Company's Announcement of Offer Price and Allotment Results dated 5 October 2016. Up to 30 September 2018, the Company utilised approximately 61.6%, or JPY10,348.0 million of the net proceeds from the global offering. For details on the percentage of used amount and unused balance of each intended use of proceeds as of 30 September 2018, see "Management Discussion and Analysis — Financial Review — Use of Proceeds from the Global Offering."

As of 30 September 2018, the unused balance of the proceeds from the global offering of approximately JPY6,450.4 million are currently deposited with creditworthy banks with no recent history of default. In the rest of 2018 and the upcoming years, the Group will continue to utilise the net proceeds from the global offering for purposes consistent with those set out in the section headed "Net Proceeds from the Global Offering" in the Company's Announcement of Offer Price and Allotment Results dated 5 October 2016.

Report on Review of Interim Condensed Consolidated Financial Statements

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

EY 安永

To the board of directors of Honma Golf Limited
(Incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the accompanying interim condensed consolidated financial information set out on pages 44 to 76 which comprises the interim condensed consolidated statement of financial position of Honma Golf Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 September 2018 and the interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants

Hong Kong
20 November 2018

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 September 2018

	Notes	FOR THE SIX MONTHS ENDED 30 SEPTEMBER	
		2018	2017
		(Unaudited)	(Unaudited)
		(JPY'000)	(JPY'000)
Revenue	4	**11,503,203**	10,521,806
Cost of sales		**(4,707,098)**	(4,340,410)
Gross profit		**6,796,105**	6,181,396
Other income and gains	4	**762,586**	140,354
Selling and distribution expenses		**(4,024,775)**	(3,943,688)
Administrative expenses		**(791,420)**	(717,730)
Other expenses		**(8,732)**	(253,431)
Finance costs	5	**(5,422)**	(18,061)
Finance income		**36,600**	72,707
PROFIT BEFORE TAX	6	**2,764,942**	1,461,547
Income tax expense	7	**(630,464)**	(351,219)
PROFIT FOR THE YEAR		**2,134,478**	1,110,328
Attributable to:			
Owners of the parent		**2,134,365**	1,111,393
Non-controlling interests		**113**	(1,065)
		2,134,478	1,110,328
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	8		
Basic and diluted			
– For profit for the period (JPY)		**3.50**	1.82

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2018

	Notes	FOR THE SIX MONTHS ENDED 30 SEPTEMBER	
		2018	2017
		(Unaudited)	(Unaudited)
		(JPY'000)	(JPY'000)
PROFIT FOR THE PERIOD		**2,134,478**	1,110,328
OTHER COMPREHENSIVE INCOME			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments		**–**	1,313
Income tax effect	7	**–**	(405)
		–	908
Exchange differences on translation of foreign operations		**(4,404)**	27,693
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(4,404)**	28,601
Other comprehensive income not to be reclassified to profit in subsequent periods:			
Remeasurement gains on the defined benefit plan	17	**138,255**	128,673
Income tax effect		**(42,334)**	(39,400)
		95,921	89,273
Gain on equity instruments at fair value through other comprehensive income		**312**	—
Income tax effect	7	**(96)**	—
		216	—
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**96,137**	89,273

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2018

	Notes	FOR THE SIX MONTHS ENDED 30 SEPTEMBER	
		2018	2017
		(Unaudited)	(Unaudited)
		(JPY'000)	(JPY'000)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**91,733**	117,874
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**2,226,211**	1,228,202
Attributable to:			
Owners of the parent		**2,226,098**	1,229,267
Non-controlling interests		**113**	(1,065)
		2,226,211	1,228,202

Interim Condensed Consolidated Statement of Financial Position

30 September 2018

	Notes	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**1,838,389**	1,918,773
Freehold land	11	**1,940,789**	1,940,789
Intangible assets		**357,520**	406,722
Other non-current assets		**529,950**	651,954
Deferred tax assets		**844,775**	920,242
Total non-current assets		**5,511,423**	5,838,480
CURRENT ASSETS			
Inventories	12	**8,611,345**	6,806,995
Trade and bills receivables	13	**5,382,487**	8,790,023
Prepayments, deposits and other receivables		**993,485**	602,740
Due from a related party	21(c)	**7,639**	7,851
Cash and cash equivalents	14	**18,443,899**	14,147,319
Total current assets		**33,438,855**	30,354,928
CURRENT LIABILITIES			
Trade payables	15	**1,433,163**	997,546
Other payables and accruals		**3,179,925**	1,737,833
Interest-bearing bank borrowings	16	**3,000,000**	2,500,000
Due to a related party	21(c)	**21,491**	6,656
Income tax payable		**1,493,641**	1,121,239
Total current liabilities		**9,128,220**	6,363,274
NET CURRENT ASSETS		**24,310,635**	23,991,654
TOTAL ASSETS LESS CURRENT LIABILITIES		**29,822,058**	29,830,134

Interim Condensed Consolidated Statement of Financial Position

30 September 2018

	Notes	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
NON-CURRENT LIABILITIES			
Net employee defined benefit liabilities	17	**1,141,797**	1,275,525
Deferred tax liabilities		**336,388**	489,218
Other non-current liabilities		**54,613**	60,478
Total non-current liabilities		**1,532,798**	1,825,221
Net assets		**28,289,260**	28,004,913
EQUITY			
Equity attributable to owners of the parent			
Share capital	18	**154**	154
Reserves		**28,334,114**	28,049,880
		28,334,268	28,050,034
Non-controlling interests		**(45,008)**	(45,121)
Total equity		**28,289,260**	28,004,913

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2018

	Attributable to owners of the parent										
	Share capital (JPY'000) Note 18	Surplus reserve (JPY'000) *	Available-for-sale investment revaluation reserve (JPY'000) *	Exchange translation reserve (JPY'000) *	Equity-settled share-based payment fund (JPY'000) Note 19*	Fair value reserve (JPY'000) *	Share Premium (JPY'000) *	Retained profits (JPY'000) *	Total (JPY'000)	Non-controlling interests (JPY'000)	Total equity (JPY'000)
At 1 April 2018	154	1,037,723	4,609	144,057	436,579	–	16,798,289	9,628,623	28,050,034	(45,121)	28,004,913
Impact of adopting IFRS 9 (note 2.2)	–	–	(4,609)	–	–	4,609	–	–	–	–	–
At 1 April 2018 as restated	154	1,037,723	–	144,057	436,579	4,609	16,798,289	9,628,623	28,050,034	(45,121)	28,004,913
Profit for the period	–	–	–	–	–	–	–	2,134,365	2,134,365	113	2,134,478
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	–	–	–	(4,404)	–	–	–	–	(4,404)	–	(4,404)
Remeasurement gains on defined benefit plans	–	–	–	–	–	–	–	95,921	95,921	–	95,921
Gain on equity instruments at fair value through other comprehensive income, net of tax	–	–	–	–	–	216	–	–	216	–	216
Total comprehensive income for the period	–	–	–	(4,404)	–	216	–	2,230,286	2,226,098	113	2,226,211
Equity-settled share-based payment expenses	–	–	–	–	25,368	–	–	–	25,368	–	25,368
Dividends declared	–	–	–	–	–	–	–	(1,967,232)	(1,967,232)	–	(1,967,232)
At 30 September 2018 (unaudited)	154	1,037,723	–	139,653	461,947	4,825	16,798,289	9,891,677	28,334,268	(45,008)	28,289,260

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2018

	Attributable to owners of the parent										
	Share capital (JPY'000) Note 18	Surplus reserve (JPY'000) *	Available-for-sale investment revaluation reserve (JPY'000) *	Exchange translation reserve (JPY'000) *	Equity-settled share-based payment fund (JPY'000) Note 19*	Fair value reserve (JPY'000) *	Share Premium (JPY'000) *	Retained profits (JPY'000) *	Total (JPY'000)	Non-controlling interests (JPY'000)	Total equity (JPY'000)
At 1 April 2017	154	1,010,220	4,771	148,475	356,318	–	16,798,289	7,455,092	25,773,319	(44,041)	25,729,278
Profit for the period	–	–	–	–	–	–	–	1,111,393	1,111,393	(1,065)	1,110,328
Other comprehensive income for the period:											
Change in fair value of available-for-sale investments, net of tax	–	–	908	–	–	–	–	–	908	–	908
Exchange differences on translation of foreign operations	–	–	–	27,693	–	–	–	–	27,693	–	27,693
Remeasurement gains on defined benefit plans	–	–	–	–	–	–	–	89,273	89,273	–	89,273
Total comprehensive income for the period	–	–	908	27,693	–	–	–	1,200,666	1,229,267	(1,065)	1,228,202
Equity-settled share-based payment expenses	–	–	–	–	45,506	–	–	–	45,506	–	45,506
At 30 September 2017 (unaudited)	154	1,010,220	5,679	176,168	401,824	–	16,798,289	8,655,758	27,048,092	(45,106)	27,002,986

* These reserve accounts comprise the consolidated reserves of JPY28,334,114,000 as at 30 September 2018 (30 September 2017: JPY27,047,938,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2018

	Notes	FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018 (Unaudited) (JPY'000)	2017 (Unaudited) (JPY'000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,764,942**	1,461,547
Adjustments for:			
Write-down of inventories to net realizable value	6	**111,350**	87,790
Provision for/(reversal of) impairment of trade receivables	6	**8,621**	(251)
Net gains on disposal of items of property, plant and equipment	6	**(40)**	(1,080)
Net losses on disposal of intangible assets	6	**—**	28,681
Depreciation	6	**174,190**	149,076
Amortisation of intangible assets	6	**52,575**	36,642
Defined benefit plan expenses	17	**41,873**	45,995
Equity-settled share-based payment expenses	19	**25,368**	45,506
Foreign exchange gains		**(723,350)**	(99,274)
Finance costs	5	**5,422**	18,061
Finance income		**(36,600)**	(72,707)
		2,424,351	1,699,986
(Increase)/decrease in inventories		**(1,915,700)**	290,951
Decrease in trade and bills receivables		**3,398,915**	1,132,648
Increase in prepayments, deposits and other receivables		**(390,745)**	(312,897)
Decrease in an amount due from a related party		**212**	7,508
Decrease in other non-current assets		**122,316**	73,450
Increase/(decrease) in trade payables		**435,617**	(84,639)
Decrease in other payables and accruals		**(451,833)**	(14,571)
Increase in amounts due to a related party in operating activities		**14,835**	20,252
Decrease in other non-current liabilities		**(5,865)**	(19,875)
Payment of the defined benefit obligation	17	**(37,346)**	(184,479)
Cash generated from operations		**3,594,757**	2,608,334
Interest received		**36,600**	72,707
Interest paid		**(5,422)**	(18,061)
Japan income tax paid		**(15,193)**	(150,294)
Overseas income tax paid		**(354,455)**	(227,733)
Net cash flows generated from operating activities		**3,256,287**	2,284,953

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2018

	Notes	FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018 (Unaudited) (JPY'000)	2017 (Unaudited) (JPY'000)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		**(185,078)**	(201,737)
Proceeds from disposal of items of property, plant and equipment and intangible assets		**12,196**	12,815
Net cash flows used in investing activities		**(172,882)**	(188,922)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank borrowings		**28,900,000**	13,238,203
Repayment of bank borrowings		**(28,400,000)**	(12,079,490)
Net cash flows generated from financing activities		**500,000**	1,158,713
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,583,405**	3,254,744
Cash and cash equivalents at beginning of period		**14,147,319**	12,712,506
Effect of foreign exchange rate changes, net		**713,175**	124,742
CASH AND CASH EQUIVALENTS AT END OF PERIOD	14	**18,443,899**	16,091,992
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	14	**18,443,899**	16,091,992

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2018

1. Corporate 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, PO 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 were principally engaged in the manufacture and sales 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 Jian guo ("**Mr. Liu**").

2.1 Basis of preparation

The unaudited interim condensed consolidated financial information, which comprise the interim condensed consolidated statement of financial position of the Group as at 30 September 2018 and the related interim condensed consolidated statement of profit or loss, statements of comprehensive income, changes in equity and cash flows for the six months ended 30 September 2018, have been prepared in accordance with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2018.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 March 2018, except for the adoption of the following new standards and amendments effective as of 1 April 2018.

The Group has adopted the following revised IFRSs for the first time in this interim condensed consolidated financial information:

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue and related* Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption. The effect of adopting IFRS 15 is, as follows:

- The comparative information for each of the primary financial statements would be presented based on the requirements of IAS 11, IAS 18 and related Interpretations;

- As required for the interim condensed consolidated financial information, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to note 4 for the disclosure on disaggregated revenue. Disclosures for the comparative period in the notes to the financial statements would also follow the requirements of IAS 11, IAS 18 and related Interpretations. As a result, the disclosure of disaggregated revenue in note 4 would not include comparative information under IFRS 15.

2.2 Changes in accounting policies and disclosures (continued)

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has not restated comparative information for financial instruments in the scope of IFRS 9. Therefore, the comparative information is reported under IAS 39 and is not comparable to the information presented for the six months ended 30 Spetember 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained profits and accumulated other comprehensive income as of 1 April 2018.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets, including financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments and held-to-maturity investments have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets at fair value through profit or loss.

The accounting for financial liabilities remains largely the same as it was under IAS 39.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

As of 1 April 2018, the category of loans and receivables under IAS 39, including cash and cash equivalents, trade and bill receivables, financial assets included in prepayments, deposits and other receivables, due from a related party and rental deposits included in the other non-current assets, were transferred to debt instruments at amortised cost under IFRS 9. Meanwhile, available-for-sale investments included in other non-current assets under IAS 39 were transferred to equity instruments at fair value through other comprehensive income under IFRS 9.

2.2 Changes in accounting policies and disclosures (continued)

IFRS 9 Financial Instruments (continued)

Changes to the impairment calculation

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 applies 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 and bill receivables. Furthermore, the Group applies the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its financial assets included in prepayments, deposits and other receivables, due from a related party and rental deposits included in the other non-current assets within the next twelve months. Under the general approach, the Group recognises a loss allowance based on either twelve-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. The impact of adopting expected credit loss model under IFRS 9 was not significant and, therefore, the Group made no adjustment to equity as of 1 April 2018 for the changes in impairment.

All the other amendments and interpretations applied for the first time in 2018, but do not have an impact on the interim condensed consolidated financial information of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. 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 sales of golf related products and 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 resources allocation and performance assessment. Accordingly, no operating segment information is presented.

Revenues are attributed to geographic areas based on the location of customers as follows:

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	(JPY'000)	(JPY'000)
Japan	**5,869,281**	5,680,039
Korea	**1,760,641**	1,314,180
China (including Hong Kong and Macau)	**1,735,258**	1,967,028
North America	**641,034**	599,611
Europe	**458,606**	169,064
Rest of the world	**1,038,383**	791,884
	11,503,203	10,521,806

Information about major customers

For the six months ended 30 September 2018, revenue of approximately JPY1,490,443,000 was derived from sales to a single customer (six months ended 30 September 2017: JPY1,099,567,000).

4. 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 period.

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

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	(JPY'000)	(JPY'000)
Revenue		
Sale of goods	**11,458,773**	10,441,178
Rendering of services	**44,430**	80,628
Total	**11,503,203**	10,521,806
Other income and gains		
Net foreign exchange gain	**715,536**	104,373
Government grants	**13,681**	—
Gains on disposal of items of property, plant and equipment, net	**40**	1,080
Rental income	**850**	186
Others	**32,479**	34,715
	762,586	140,354

With the adoption of IFRS 15 from 1 April 2018, the disaggregation of the Group's revenue from contracts with customers, including sales of goods and rendering of services above, for the six months ended 30 September 2018 is as follows:

	For the six months ended 30 September 2018
Type of goods or service	
Sales of golf related products	**11,458,773**
Rendering of services relating to golf related products	**44,430**
Total revenue from contracts with customers	**11,503,203**
Timing of revenue recognition	
Goods transferred at a point in time	**11,458,773**
Services transferred over time	**44,430**
Total revenue from contracts with customers	**11,503,203**

The disaggregation of the Group's revenue based on the geographical region for the six months ended 30 September 2018 is included in note 3.

5. Finance costs

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	(JPY'000)	(JPY'000)
Interest on bank borrowings	**5,422**	18,061

6. Profit before tax

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

	Notes	For the six months ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
		(JPY'000)	(JPY'000)
Cost of inventories sold		**4,678,128**	4,314,551
Cost of service provided		**28,970**	25,859
Depreciation	10	**174,190**	149,076
Amortisation of intangible assets		**52,575**	36,642
Research and development costs		**174,486**	193,148
Provision for/(reversal of) impairment of trade receivables	13	**8,621**	(251)
Minimum lease payments under operating leases		**609,899**	630,195
Auditors' remuneration		**39,892**	52,085
Employee benefit expense:			
Wages and salaries		**1,887,106**	1,859,948
Pension and social security costs		**145,567**	137,452
Defined benefit plan expenses	17	**41,873**	45,995
Employee benefits		**243,359**	303,597
Other benefits		**115,925**	47,479
Equity-settled share-based payment expenses	19	**25,368**	45,506
Foreign exchange gains, net	4	**(715,536)**	(104,373)
Write-down of inventories to net realizable value		**111,350**	87,790
Net gains on disposal of items of property, plant and equipment	4	**(40)**	(1,080)
Net losses on disposal of items of intangible assets		**—**	28,861

7. Income tax expense

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.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("**BVI**"), the Group is not subject to any income tax in the Cayman Islands and BVI.

The subsidiaries 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 six months ended 30 September 2018.

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 aggregate effective statutory tax rates for these taxes were 30.62% for the six months ended 30 September 2018 (six months ended 30 September 2017: 30.86%).

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% throughout the six months ended 30 September 2018.

The subsidiaries incorporated in Taiwan and Thailand are subject to income tax at the rates of 17% and 20% on the assessable profits throughout the six months ended 30 September 2018, respectively.

The provision for the PRC corporate income tax is based on the statutory rate of 25% for the assessable profits of the Group's PRC subsidiary as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

The Company's subsidiary incorporated and operating in the United States is subject to a federal corporation income tax rate of 27.55% during the period (six months ended 30 September 2017: 34%), as well as state tax at 8.28% (six months ended 30 September 2017: 8.28%).

The major components of income tax expense of the Group are as follows:

	For the six months ended 30 September	
	2018 (Unaudited) (JPY'000)	2017 (Unaudited) (JPY'000)
Current income tax – Japan	**267,920**	20,342
Current income tax – Hong Kong	**317,930**	235,067
Current income tax – elsewhere	**—**	11,212
Withholding tax on dividend declared	**156,200**	137,100
Deferred tax	**(111,586)**	(52,502)
	630,464	351,219

8. 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 period attributable to ordinary equity holders of the parent and weighted average number of ordinary shares in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 September 2018 and 2017 in respect of a dilution as the Group had no potentially ordinary shares in issue during the those periods.

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

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	(JPY'000)	(JPY'000)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**2,134,365**	1,111,393

	Number of shares For the six months ended 30 September	
	2018	2017
	('000)	('000)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**609,050**	609,050

9. Dividends

Pursuant to the shareholders' meeting on 12 September 2018, the Company declared JPY1,967,232,000 dividends to its shareholders and the dividends have been paid on 5 October 2018.

10. Property, plant and equipment

During the six months ended on 30 September 2018, the Group acquired items of property, plant and equipment with a cost of JPY108,247,000 (six months ended 30 September 2017: JPY105,828,000). Depreciation for items of property, plant and equipment was JPY174,190,000 during the six months ended 30 September 2017: JPY149,076,000). Assets with a net book value of JPY12,156,000 were disposed of by the Group during the six months ended 30 September 2018 (six months ended 30 September 2017: JPY11,735,000), resulting in a net gain on disposal of JPY40,000 (six months ended 30 September 2017: JPY1,080,000).

11. Freehold land

The carrying amounts of the Group's freehold land is JPY1,940,789,000 as at 30 September 2018 and 31 March 2018. The freehold land, which is located in Japan, is owned by Honma Golf Co., Ltd., a limited liability company incorporated under the laws of Japan.

12. Inventories

	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
Raw materials	**3,650,345**	2,776,492
Work in progress	**822,275**	818,854
Finished goods	**4,666,876**	3,628,450
	9,139,496	7,223,796
Less: provision for inventories	**(528,151)**	(416,801)
	8,611,345	6,806,995

13. Trade and bills receivables

	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
Trade receivables	**5,051,777**	8,502,340
Bills receivable	**393,860**	342,212
	5,445,637	8,844,552
Impairment of trade receivables	**(63,150)**	(54,529)
	5,382,487	8,790,023

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.

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

	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
Within 1 month	**2,844,910**	6,109,132
Over 1 and within 3 months	**1,397,634**	1,334,466
Over 3 and within 12 months	**729,126**	939,841
Over 1 year	**16,957**	64,372
	4,988,627	8,447,811

14. Cash and cash equivalents

	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
Cash and bank balances	**18,443,899**	14,147,319

15. Trade payables

	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
Trade payables	**1,433,163**	997,546

An aged analysis of the trade payables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
Within 3 months	**1,426,555**	988,212
Over 3 months	**6,608**	9,334
	1,433,163	997,546

The trade payables are unsecured, non-interest-bearing and normally settled in 2 to 4 months.

16. Interest-bearing bank borrowings

	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
Current		
Bank loans - unsecured	**3,000,000**	2,500,000
Analysed into:		
Bank loans repayable:		
Within one year	**3,000,000**	2,500,000

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

	30 September 2018 (Unaudited)	31 March 2018 (Audited)
Effective interest rates	**0.33%-0.50%**	0.33%-0.50%

As at 30 September 2018 and 31 March 2018, there were no properties pledged to secure bank borrowings granted to the Group.

17. Employee defined benefit plans

Net employee defined benefit liability:

	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
Retirement benefit plan	**1,141,797**	1,275,525

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

The Group's defined benefit plan is a post-employment benefit plan, which requires contributions to be made to a separately administered fund. The plan has 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 contribution based on the results of the annual review.

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

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 recognized in the interim condensed consolidated statement of profit or loss in respect of the plan are as follows:

	30 September 2018 (Unaudited) (JPY'000)	30 September 2017 (Unaudited) (JPY'000)
Current service cost	**39,756**	42,915
Interest cost	**2,117**	3,080
Net benefit expenses	**41,873**	45,995
Recognised in cost of sales	**15,033**	21,743
Recognised in selling and distribution costs	**13,287**	12,006
Recognised in administrative expenses	**13,553**	12,246
	41,873	45,995

17. Employee defined benefit plans (continued)

The following tables summarize the components of net benefit expenses recognized in the interim condensed consolidated statement of profit or loss and the funded status and amounts recognized in the interim condensed consolidated statement of financial position for the plan:

Changes for the six months ended 30 September 2018 in the defined benefit obligation and fair value of plan assets:

	1 April 2018 (JPY'000)	Service cost (JPY'000)	Net interest (JPY'000)	Sub-total included in profit or loss (JPY'000) (note 6)	Benefits paid (JPY'000)	Return on plan assets (JPY'000)	Actuarial changes arising from changes in demographic assumptions (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 employer (JPY'000)	30 September 2018 (JPY'000)
Defined benefit obligation	3,454,031	39,756	5,776	45,532	(81,911)	–	–	(35,236)	–	(35,236)	–	3,382,416
Fair value of plan assets	(2,178,506)	–	(3,659)	(3,659)	44,565	(103,019)	–	–	–	(103,019)	–	(2,240,619)
Benefit liability	1,275,525	39,756	2,117	41,873	(37,346)	(103,019)	–	(35,236)	–	(138,255)	–	1,141,797

Changes for the six months ended 30 September 2017 in the defined benefit obligation and fair value of plan assets:

	1 April 2017 (JPY'000)	Service cost (JPY'000)	Net interest (JPY'000)	Sub-total included in profit or loss (JPY'000) (note 6)	Benefits paid (JPY'000)	Return on plan assets (JPY'000)	Actuarial changes arising from changes in demographic assumptions (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 employer (JPY'000)	30 September 2017 (JPY'000)
Defined benefit obligation	4,007,717	44,025	7,501	51,526	(367,459)	–	–	10,370	–	10,370	–	3,702,154
Fair value of plan assets	(2,351,177)	(1,110)	(4,421)	(5,531)	182,980	(139,043)	–	–	–	(139,043)	–	(2,312,771)
Benefit liability	1,656,540	42,915	3,080	45,995	(184,479)	(139,043)	–	10,370	–	(128,673)	–	1,389,383

17. Employee defined benefit plans (continued)

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

	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
Stocks	1,202,658	1,102,106
Bonds	848,739	884,460
General account of life insurance companies	140,568	131,550
Others	48,654	60,390
Total	2,240,619	2,178,506

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

	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
Method of allocating projected retirement benefits	Projected unit credit method	Projected unit credit method
Discount rate	0.44%	0.34%
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

17. Employee defined benefit plans (continued)

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

		Increase/(decrease) in defined benefit obligations	
Assumption	**Change in assumption**	**30 September 2018**	31 March 2018
		(Unaudited)	(Audited)
		(JPY'000)	(JPY'000)
Discount rate	Increase by 0.5%	**(153,833)**	(153,567)
	Decrease by 0.5%	**152,707**	153,567

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligation 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 assumption 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.

The average durations of the defined benefit plan obligation as at 30 September 2018 is 8.6 years (31 March 2018: 8.6 years).

The actuarial valuation showed that the market value of plan assets was JPY2,240,619,000 as at 30 September 2018 (31 March 2018: JPY2,178,506,000), and represented 66% (31 March 2018: 63%) of the defined benefit obligation that had accrued to qualifying employees. The deficiency of JPY1,141,797,000 as at 30 September 2018 (31 March 2018: JPY1,275,525,000) is expected to be cleared over the remaining service period.

18. Share capital

	30 September 2018 (Unaudited)	31 March 2018 (Audited)
Issued capital (As of 30 September 2018 and as of 31 March 2018: 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 capitalization 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 listing expense of JPY678,234,439.

19. 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).

During the period ended 30 September 2018, agreed by employees who accepted the grant of the above RSUs, 381,030 shares represented by RSUs were cancelled.

The following RSUs were outstanding during the year ended 31 March 2018 and six months ended 30 September 2018:

	Six Months ended 30 September 2018 Number of RSUs	Year ended 31 March 2018 Number of RSUs
At the beginning of the period/year	**9,347,488**	10,303,410
Granted during the period/year	**—**	318,396
Forfeited during the period/year	**(354,432)**	(988,276)
Cancelled during the period/year	**(381,030)**	(286,042)
Exercised during the period/year	**(4,380,308)**	—
At the end of the period/year	**4,231,718**	9,347,488

The Group recognized RSU expenses of JPY25,368,000 during the six months ended 30 September 2018 (six months ended 30 September 2017: JPY45,506,000).

20. Operating lease commitments

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 period.

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

	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
Within one year	**769,932**	700,660
After one year but within five years	**845,024**	492,791
Over five years	**35,149**	4,009
	1,650,105	1,197,460

21. Related party transactions and balances

(a) Name and relationship

Related parties	**Relationships**
Honma Golf (Shanghai) Company Limited	Company controlled by the Ultimate Shareholder
Shanghai POVOS Enterprise (Group) Co., Ltd.	Company controlled by the Ultimate Shareholder

(b) Related party transactions

In addition to the transactions and balances disclosed elsewhere in the interim condensed consolidated financial information, the Group had the following material transactions with related parties during the period:

	For the six months ended 30 September	
	2018 (Unaudited) (JPY'000)	2017 (Unaudited) (JPY'000)
Rental expense charged by related parties (note (i))		
Shanghai POVOS Enterprise (Group) Co., Ltd.	**14,327**	17,525

Note (i): The related party transactions in respect also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

21. Related party transactions and balances (continued)

(c) Balances with related parties

	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
Due from a related party Honma Golf (Shanghai) Company Limited	7,639	7,851
Due to a related party Shanghai POVOS Enterprise (Group) Co., Ltd.	21,491	6,656

(d) Compensation of key management personnel of the Group

	For the six months ended 30 September	
	2018 (Unaudited) (JPY'000)	2017 (Unaudited) (JPY'000)
Short term employee benefits	44,712	47,159
Pension scheme contributions	3,793	4,180
Total compensation paid to key management personnel	48,505	51,339

22. 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:

Financial assets -- loans and receivables

	31 March 2018 (Audited) (JPY'000)
Trade and bills receivables	8,790,023
Cash and cash equivalents	14,147,319
Financial assets included in prepayments, deposits and other receivables	169,767
Due from a related party	7,851
Other non-current assets	516,191
	23,631,151

Financial assets -- available-for-sale financial assets

	31 March 2018 (Audited) (JPY'000)
Available-for-sale investments	19,554

22. Financial instruments by category (continued)

Financial assets -- Debt instruments at amortised cost

	30 September 2018 (Unaudited) (JPY'000)
Trade and bills receivables	5,382,487
Cash and cash equivalents	18,443,899
Financial assets included in prepayments, deposits and other receivables	324,613
Due from a related party	7,639
Other non-current assets	393,545
	24,552,183

Financial assets -- equity instruments at fair value through other comprehensive income

	30 September 2018 (Unaudited) (JPY'000)
Equity instruments at fair value through other comprehensive income	19,866

Financial liabilities -- at amortised cost

	30 September 2018 (Unaudited) (JPY'000)	31 March 2018 (Audited) (JPY'000)
Trade payables	1,433,163	997,546
Due to a related party	21,491	6,656
Interest-bearing bank borrowings	3,000,000	2,500,000
Financial liabilities included in other payables and accruals	2,578,297	1,146,119
Other non-current liabilities	1,135	1,135
	7,034,086	4,651,456

23. Fair value and fair value hierarchy of financial instrumets

Financial assets and liabilities not presented at their fair value on the interim condensed consolidated statements 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 and bills payables, interest-bearing bank borrowings, an amount due to a related party and financial liabilities included in other payables and accruals. Their fair values are 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 be approximate to their carrying amounts.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments require the directors to make estimates about the expected future cash flows from future proceeds when the investments are realized 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 interim condensed consolidated statements 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 periods.

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 analyzes 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.

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 30 September 2018 (31 March 2018: Nil).

23. Fair value and fair value hierarchy of financial instrumets (continued)

Assets measured at fair value:

As at 30 September 2018

	Level 1 JPY'000	Level 2 JPY'000	Level 3 JPY'000	Total JPY'000
Equity instruments at fair value through other comprehensive income	**19,766**	**—**	**100**	**19,866**

As at 31 March 2018

	Level 1 JPY'000	Level 2 JPY'000	Level 3 JPY'000	Total JPY'000
Available-for-sale investments	19,454	—	100	19,554

During the six months ended 30 September 2018 and the year ended 31 March 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (six months ended 30 September: nil).

24. Event after the reporting period

On 20 November 2018, the board of directors declared the payment of an interim dividend of JPY1.75 per ordinary share totaling approximately JPY1,065,838,000 for the six months ended 30 September 2018.

25. Approval of the interim condensed consolidated financial information

The interim condensed consolidated financial information was approved and authorized for issue by the board of directors on 20 November 2018.

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