HONMA GOLF LIMITED

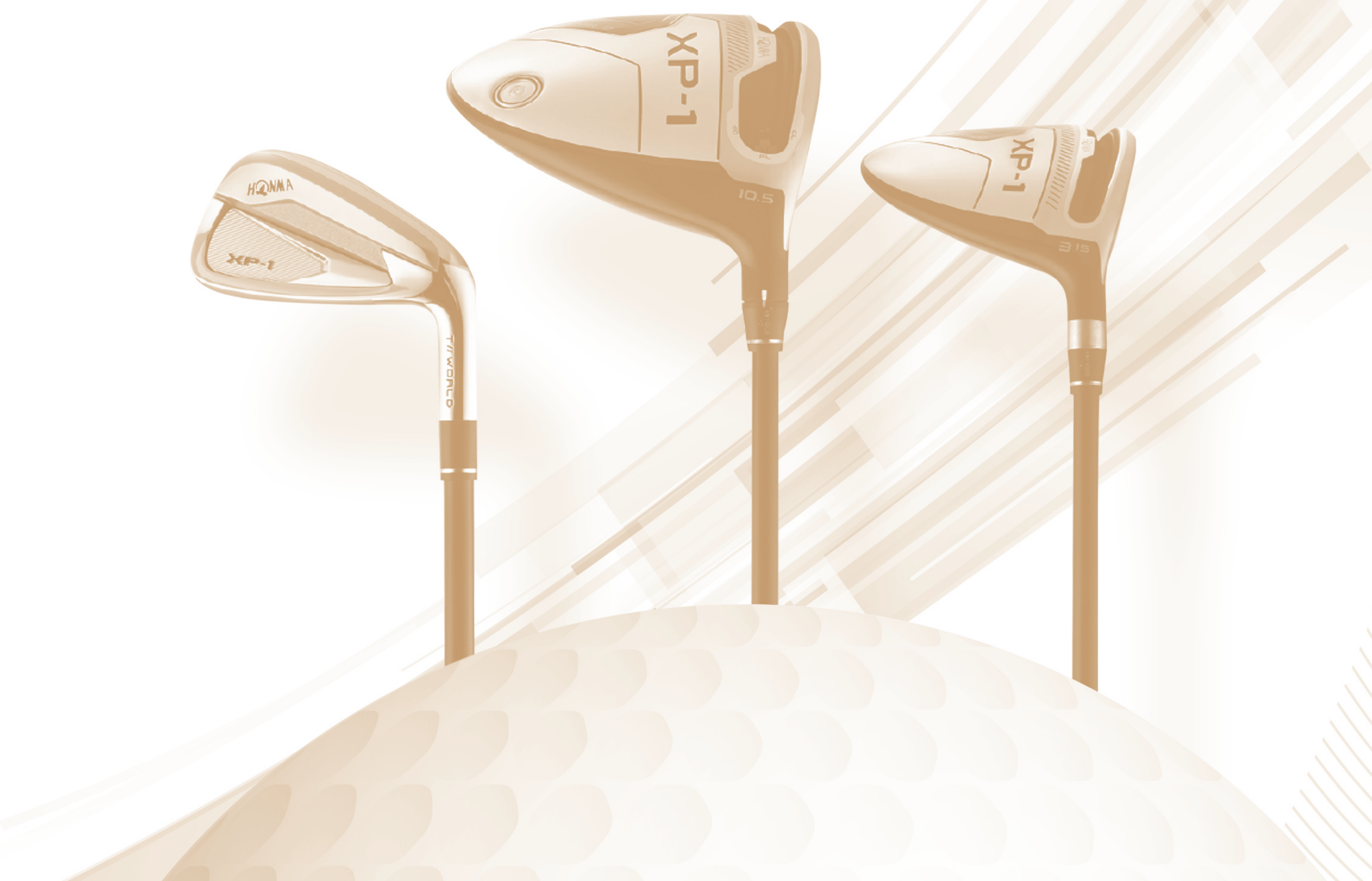
本間高爾夫有限公司

Stock Code : 6858

2019/20

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)
Mr. Ho Ping-hsien Robert (何平僊)

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. Sham Ying Man (岑影文)

Authorized representatives

Mr. Zuo Jun (左軍)
Ms. Sham Ying Man (岑影文)

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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Minatoku
Tokyo, Japan

Shanghai office

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Shanghai, PRC

Principal place of business In Hong Kong

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

The Cayman Islands principal share registrar and transfer agent

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PO Box 1093, Boundary Hall, Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

Hong Kong share registrar

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

Principal bankers

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

Management Discussion and Analysis

Management discussion and analysis overview of the company, its key business results and business outlook

Company Profile and Overview

HONMA is one of the most prestigious and iconic brands in the golf industry. Founded in 1959, the Company utilizes the latest innovative technologies and traditional Japanese craftsmanship to provide golfers across the globe with premium, high-tech and the best performing golf clubs, balls, apparels and accessories. As the only vertically integrated golf company with in-house design, development and manufacturing capabilities, a strong retail footprint in Asia and a diverse range of golf clubs and golf related products, HONMA is perfectly positioned to continually grow its business in Asia and beyond, benefitting from the return of golfers in mature golf markets such as the US and Japan and from increased participation in golf's new and under-penetrated markets such as Korea and China.

In 2019, HONMA celebrated its 60th Anniversary. To further elevate the HONMA brand and to boost the Company's global reach among golfers in super-premium and premium performance segments, HONMA stepped up its tour presence internationally and entered into a multi-year partnership with one of the world's best golfers, Justin Rose, in January 2019. Weeks after Justin Rose became HONMA's Global Brand Ambassador, he secured a convincing victory at the Farmers Insurance Open using a complete set of HONMA's TW747 clubs, which solidified Justin's grip at the top of the game and greatly improved the mind share of HONMA among golfers in North America, Europe and Japan. In late 2018, in the lead up to HONMA's 60th Anniversary, HONMA inked a deal to be the title sponsor of the 2018 HONMA Hong Kong Open, one of Asia's most prestigious tournaments and part of the European PGA Tour since 2001, which further improved HONMA's brand awareness in Asia.

Overview of Key Operating Results

In 2019, the global golf industry continued its recovery with golfers across the globe showed renewed interest and increased participation in golf as a sport. With this, the management of HONMA decided to strengthen its focus on the super-premium and premium-performance consumer segments going forward which has led to a conscious decision not to renew its Be ZEAL family products but to enrich its TOUR WORLD family clubs to include a performance enhancement series. For the six months ended 30 September 2019, this decision has led to a decrease in HONMA's net sales by 7.9% compared to the six months ended 30 September 2018. On a constant currency basis, net sales decreased by 7.0% as compared to the six months ended 30 September 2018.

Market wise, Korea and Europe continued to lead the way in terms of growth, showing an increase of 51.4% and 9.4% respectively, all on constant currency basis. Japan, being the largest market for HONMA, declined by 21.7% on constant currency basis due to a year-on-year decrease of 101.6% in revenue from Be ZEAL while sales of TOUR WORLD and golf balls in Japan did grow robustly by 13.6% and 68.6% respectively. Sales from China grew by 9.4% on a constant currency basis, fully benefiting from relaunched product collections. Japan, Korea and China combined contributed 84.0% of total sales.

Management discussion and analysis overview of the company, its key business results and business outlook (continued)

Overview Highlights of Major Achievements

In the six months ended 30 September 2019, the Company steadfastly followed its growth strategies and made, among others, the following major achievements which the Company believes will continue to bring satisfactory business advancements and results.

- ***Re-defining the HONMA brand.*** The Company took several steps to improve its global brand positioning and communication.

  To re-define the HONMA brand as a dynamic, relevant and global golf brand among internet-savvy younger golfers, the Company relaunched its global website in November 2018, its social media platforms in major markets in January 2019 and have made since then frequent updates to promote brand awareness and appeal to the younger golfers. The rapid increase of HONMA's digital communications has generated month-on-month double digit growth in the organic traffic, conversion and other digital engagement matrixes such as bounce rate, time on site, etc.

  To create an end-to-end digital ecosystem around the re-defined brand and golfers in the super-premium and premium performance segments, the Group started creating and/or revamping its customer relationship management ("**CRM**") systems and added e-commerce capabilities in key markets such as Japan, China and the US, to provide consumers with the ultimate 360-degree brand experience, to strengthen its direct to consumer distribution model and to eventually increase sales both online and offline.

  At the start of 2019, the Company announced that it had signed Justin Rose to a multi-year partnership as HONMA's Global Brand Ambassador. This important milestone generated immediate and elevated exposure and interest on HONMA in North America and Europe through Justin Rose's international influence, media coverage and social media following.

  Following the announcement, HONMA increased media coverage in most of its markets through organic and paid social media posts, along with focused coverage on golf TV channels and magazines.

  A most recent consumer survey in the US over a thousand consumer showed that the aided awareness of the HONMA brand has increased to 63% where close to half of the people being surveyed linked the brand with increased tour presence of the brand in North America.

Management discussion and analysis overview of the company, its key business results and business outlook (continued)

Overview Highlights of Major Achievements (continued)

- ***Continued executing growth strategy in North America and Europe.*** During the six months ended 30 September 2019, the upgraded US management team started executing its direct-to-consumer distribution strategy, which is unique to the North America golf market, with a clear objective to reach internet-savvy golfers and to provide the same with a 360-degree brand and product experience. In October 2019, HONMA US officially opened its flagship store in Carlsbad, California and until this date, opened 13 shop-in-shops at locations that are frequented by target consumers. The Group remained committed to open circa 30 premier shop-in-shops and between 30-50 retail hubs, on course and mobile in North America in the next 18-24 months. The said distribution footprint will overlay with HONMA's existing wholesales points of sale ("**POS**") and digital platform to allow HONMA to quickly increase its brand and product awareness while owning the entire consumer experience and relevant data.

  In Europe, HONMA continued expanding its distribution network and opened 101 new POS while closing only 6 in the six months ended 30 September 2019, hence increasing its total POS to 613 by 30 September 2019. Sales grew by 9.4% on a constant currency basis and sales of TOUR WORLD grew by 6.89 times compared to the six months ended 30 September 2018.

- ***Optimizing HONMA's club product portfolio to focus on products that best represent Japanese traditional craftsmanship and innovative technology and players in super-premium and premium performance segments.*** HONMA remains committed to applying cutting-edge technologies and artisan-style Japanese craftsmanship to the design, development and manufacturing of a comprehensive range of exquisitely crafted and performance-driven golf clubs. In the six months ended 30 September 2019, HONMA applied several of its revolutionary proprietary technologies to the design and development of its new XP series, the performance enhancement series under the TOUR WORLD club family, which is designed for avid golfers with a handicap of eight to twenty. XP-1 was launched in September 2019 and helped improve sales of the TOUR WORLD family by 73.1% compared to the six months ended 30 September 2019.

Management discussion and analysis overview of the company, its key business results and business outlook (continued)

Overview Highlights of Major Achievements (continued)

- ***Accelerating growth in balls and relaunching apparel business to create a comprehensive range of golf products for golfers in the super-premium and premium performance segments.*** HONMA engages in research, design, manufacturing and sales of golf clubs and golf-related products. Unlike its peers, HONMA's golf clubs continued to generate 76.3% of sales. On the back of continued and mid-double-digit growth in revenue from golf balls over the past three years, the Company increased its product development resources and launched balls with its own patent in order to meet the HONMA brand positioning and the play preferences and unique performance demands of its club users. Revenue from golf balls grew by 53.5% on a constant currency basis, attributable to continued growth in Japan and Korea where revenue of golf balls grew by 68.6% and 47.4% respectively as compared to the six months ended 30 September 2018.

  In January 2019, HONMA launched its apparel collection in Japan and China. The apparel collection comprises of three lines catering to the distinctive requirements of golfers in Japan, China and Korea, both on-course and off-course. The six months period ended 30 September 2019 included mostly sales from the 2019 Spring/Summer Collection. Apparel sales grew by 53.1% based on constant currency.

- ***360-degree brand experience built into new retail space and environments.*** The Group retained a few leading design agencies to renovate its retail space in order to provide ultimate brand experience and customizable consumer journey in major markets. In the six months ended 30 September 2019, the Group opened two new stores in Japan, nine in China and one in Korea, by consistently applying the new retail visual identity, design concept and consumer experience elements using advanced technology. The Group also converted multiple shop-in-shops in US, Japan and China using the same design concept so as to create and own its consumer space and experience in all of its major markets.

- ***Customer events.*** Customer events have always been key to the continued improvement in HONMA's brand and product awareness and consumer mind share. During the six months ended 30 September 2019, HONMA hosted close to two thousand five hundred customer days across its main markets, most of which were held on golf courses with dedicated fitters.

- ***Sponsoring TEAM HONMA players.*** As of 30 September 2019, TEAM HONMA consisted of 12 professional golf players. In July 2019, TEAM HONMA player Feng Shan-Shan claimed the title of Thornberry Creek LPGA Classic. We believe her image, endorsement and continued success on professional golf tournaments will continue to help drive our sales growth, especially in China.

Management discussion and analysis overview of the company, its key business results and business outlook (continued)

Product Design and Development

HONMA utilizes the latest innovative technologies and traditional Japanese craftsmanship to provide golfers across the globe with aesthetically beautiful, technology based and performance-driven golf clubs. We use our cutting-edge proprietary technology to design and manufacture golf clubs primarily for consumers in the super-premium and premium performance segments who want to hit effortless shots and drive the golf balls further.

HONMA currently offers golf clubs under three major product families: BERES, TOUR WORLD and Be ZEAL, each targeting specific consumer segments. We leverage our innovative research methods and development capabilities to manage the product life cycle to continually generate customer interest, ensure product offerings remain up to date with the latest market trends and meet the preferences of target customers.

Based on extensive market research, HONMA categorises the market into nine key segments according to the importance golfers 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**

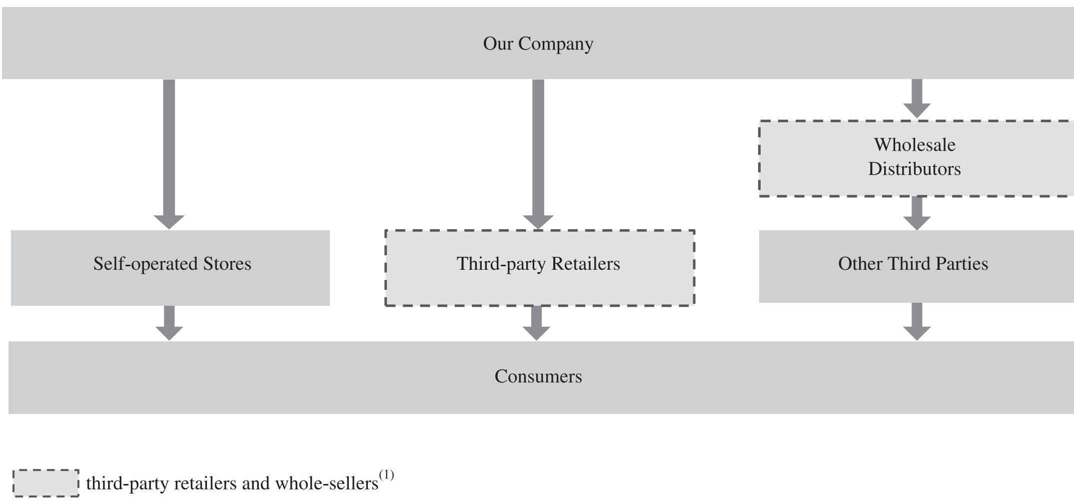
BERES golf clubs target consumers in Segment 2, which is the Group's traditional customer base and comprises affluent golfers willing to pay a premium price for golf clubs that offer excellent performance yet distinctively different from other golf clubs. TOUR WORLD golf clubs was first launched in 2011, target consumers in Segment 6, which comprises golf enthusiasts who place a higher emphasis on performance. First launched in 2015, Be ZEAL golf clubs target consumers in Segment 5, which comprises beginner golfers who are looking to improve their performance.

As part of the global brand re-definition and entry into the US and European markets, the Group made a decision to strengthen its focus on the super-premium and premium performance consumer segments going forward by enriching the TOUR WORLD offering to include a performance-enhancement series called XP, in order to fully capture its growth potentials in the premium performance segment or Segment 6 which is by far the fastest growing segments in most major golf markets.

Management discussion and analysis overview of the company, its key business results and business outlook (continued)

Sales and Distribution Network

The Group's sales and distribution network consists of HONMA-branded self-operated stores as well as third party distributors which included retailers and wholesalers. The following diagram illustrates the structure of the Group's sales and distribution network:



Note:

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

Management discussion and analysis overview of the company, its key business results and business outlook (continued)

Sales and Distribution Network (continued)

HONMA operates the largest number of self-operated stores among major golf companies. Self-operated stores provide consumers with a 360-degree experience with the HONMA brand and its products. As at 30 September 2019, the Group had 74 HONMA-branded self-operated stores, all of which were located in Asia. As part of the apparel relaunch, the Group opened 9 new self-operated stores and closed 2 stores in China, mostly relating to the relaunch of its apparel business. The Group aims to continuously upgrade the design, visual display and consumer experience of its self-operated stores to project one consistent brand image and consumer experience. The table below sets forth the numbers of self-operated stores opened and closed during the six months ended 30 September 2019:

	Six months ended 30 September 2019			
	Period start	Opened	Closed	Period end
Japan	32	2	4	30
China (including Hong Kong and Macau)	32	9	2	39
Rest of Asia	4	1	—	5
Total	68	12	6	74

To better serve avid golf enthusiasts, certain Honma-branded self-operated stores offer fitting centers equipped with high-speed cameras and precision software to capture relevant swing data. As at 30 September 2019, the Group had 6 fitting centers, including two in Japan, two in China, one in Korea and one in the US.

As at 30 September 2019, the Group had approximately 3,898 points of sales ("**POS**"), representing an increase of 283 POSs compared to the six months ended 30 September 2018. 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 2019, the Group's products were sold at 1,575 POSs of sports megastores.

Management discussion and analysis overview of the company, its key business results and business outlook (continued)

Sales and Distribution Network (continued)

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 manages its sales and distribution network on a country-by-country basis to cater for each country's 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. To optimise its sales and distribution network, the Group is constantly evaluating its existing channels and exploring new channels.

Updating E-commerce Capabilities and Creating One Digital Eco System

The Group completely rebuilt its website in November 2018 and relaunched its social media platforms in various countries in January 2019. These actions aimed to create one consistent and vibrant communication platform and brand image across all markets. The rapid expansion of digital communications generated a month-on-month double digit growth in the organic traffic, conversion and other digital brand engagement matrixes such as bounce rate, time on site, etc., since January 2019.

The Company also started revamping its customer relationship management ("**CRM**") systems in key markets such as Japan, China and the US, and is in the process of adding e-commerce capabilities to provide consumers with the ultimate 360-degree brand experience and to eventually increase online sales.

Manufacturing Processes

HONMA utilizes the latest innovative technologies and traditional Japanese craftsmanship to provide golfers across the globe with aesthetically beautiful and high-tech performance-driven golf clubs. We are the only major golf products company that utilizes professional handcrafted techniques together with significant in-house manufacturing capabilities. We conduct all key manufacturing processes for golf clubs at our campus located in Sakata, Yamagata prefecture of Japan (the "**Sakata Campus**") while outsourcing non-core processes to our well-respected suppliers. This combination of in-house and outsourced manufacturing processes enables us 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 253 craftsmen, 24 of whom are master craftsmen with more than 33 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. The Group continually invests in Sakata Campus to improve its manufacturing processes in order to raise its annual manufacturing capability. It is expected that the annual manufacturing capacity of the Group's Sakata Campus will grow by more than 50% by the end of 2019.

Management discussion and analysis overview of the company, its key business results and business outlook (continued)

Sales and Distribution Network (continued)

Employees

As at 30 September 2019, the Group had 896 employees worldwide, a majority of whom were based in Japan.

To ensure the long-term future of HONMA, the Group hires people who identify with its core values and the Group helps its employees grow by offering on job training and career progressions within Honma. For sales personnel in self-operated stores, the Group offers a number of training programs, including an internal golf club fitter certification program. Moreover, the Group has implemented a rigorous apprenticeship program at the Sakata Campus which was instrumental to the retention and continued nurturing of craftsmen in Sakata.

The Group offers competitive remuneration packages, including, among others, salaries, performance-based cash bonus and share-based compensation. The Group reviews its remuneration scheme regularly to ensure its consistency with market practice. Employee benefits expenses amounted to JPY2,610.6 million for the six months ended 30 September 2019.

The Group adopted its restricted share unit ("**RSU**") scheme in October 2015 to incentivize its directors, management and eligible employees.

Brand Marketing

Since 1959, HONMA has remained true to the traditional methods used by Japanese craftsmen to make the finest golf clubs in the world. To fully capture HONMA's unique opportunities in super-premium and premium performance consumer segments, we have started a series of actions that will help re-define and transform the HONMA brand in an age of technological innovation while maintaining our traditions.

A Stronger TEAM HONMA with Justin Rose

In early 2019, Justin Rose signed a multi-year endorsement deal to be our Global Brand Ambassador. Justin Rose is an English professional golf player and has 24 tournament wins across the PGA and European Tours to his name. During the 2018 season, he was ranked world number one for a total of 13 weeks and his reputation as a gentleman and tenacious player is the perfect fit for the HONMA brand. This endorsement agreement has already greatly increased HONMA's brand awareness in the US and Europe through Justin Rose's influence within the global golf industry, his media coverage and social media following. To coincide with the partnership, we are creating a streamlined tour team with professional players relevant to each market plus a network of local players and social media influencers to build a coherent communication strategy among target consumers.

Management discussion and analysis overview of the company, its key business results and business outlook (continued)

Outlook

Business Outlook

For the twelve months ending 31 March 2020, the Group will continue its journey to build a world-leading golf lifestyle company leveraging the legacy and strong equity of the HONMA brand, its expanding distribution network and innovative technologies and traditional Japanese craftsmanship. The Group intends to continue pursuing the following:

- ***Improve and transform HONMA brand value into customer loyalty.*** Multiple branding and marketing strategies have been executed to highlight HONMA's brand heritage and its core brand values of premium craftsmanship and performance to fully capture HONMA's unique opportunities to lead in both super-premium and premium performance segments. Signing Justin Rose as the Global Brand Ambassador has helped HONMA to communicate and to reinforce this new brand image and values to avid and passionate golfers in matured markets such as North America, Europe and Japan. Since a key part of the Group's future growth strategy will be to continuously enhance consumers' brand awareness and loyalty and to convert both into tangible purchase interest and sales revenues, HONMA plans to upgrade its offline and online retail experiences based on the updated HONMA brand image, retail and visual guidelines. In Asia, HONMA has opened its first brand experience store in downtown Tokyo, Japan in July 2019 to present HONMA's new brand experience and customizable consumer journey to consumers in HONMA's home markets. Other markets, including the US and Europe, will follow suit. All these stores will form the centrepiece of HONMA's new distribution model and will act as the hub to generate traffic to HONMA's extensive shop-in-shop at third-party retailers, golf courses and its online e-commerce platforms.

- ***Further increase the Group's market share in home markets by maintaining its leading position in the super-premium segment while making solid inroads into the fast growing premium performance segment.*** Increasing market share in HONMA's home markets, namely Japan, Korea and China will continue to be a key part of the Group's future growth strategy. While the Group already has a strong presence in its home markets of Japan, Korea and China (including Hong Kong and Macau), we believe that there is still significant room to increase our market shares in these markets, especially in the premium performance segments. The Group intends to achieve this by enriching its TOUR WORLD family to include a performance enhancement product while leveraging HONMA's improved international tour presence with Justin Rose as our Global Brand Ambassador. The Group will continuously foster stronger partnership with its retail partners while intensifying investments in sales point product promotions that are relevant to these consumer segments.

Management discussion and analysis overview of the company, its key business results and business outlook (continued)

Outlook (continued)

Business Outlook (continued)

- ***Pivoting growth in North America based on the updated product and distribution strategy.*** North America accounts for more than half of the global golf market. During the six months ended 30 September 2019, HONMA continued implementing the agreed distribution strategy and added 13 shop-in-shops to its footprint in North America. In October 2019, HONMA opened its first flagship store in Carlsbad, California which further increased HONMA's brand awareness following the signing of Justin Rose and the successful launch of TW747. The Company remains committed to open circa 30 premier shop-in-shops and between 30-50 retail hubs in North America in the next 18-24 months The said distribution network will overlay with HONMA's existing wholesales points of sale and digital platform to allow HONMA to quickly increase its brand and product awareness while owning the entire consumer experience and relevant data.

  Furthermore, the decision to expand the TOUR WORLD family to include a performance-enhancement series called XP for golfers who handicapped between 8 and 20 will greatly support HONMA's growth strategy in North America, which market has continued to rebound with the number of golfers increasingly skewed towards premium performance products. XP-1 was officially launched in October 2019 and will be a key growth enabler for North America's future sales growth.

- ***Nurturing complementary non-club product lines to provide customers with a complete golf lifestyle experience.*** On 28 January 2018, HONMA announced the formation of a strategic partnership with Itochu Corporation, one of the leading textile and trading companies in Japan to expand our apparel & accessories business, utilizing Itochu's networks and know-how in the apparel industry while maintaining a "golf total brand approach". Since then, HONMA has already launched two apparel collections, being 2019 Spring/Summer collection and 2019 Fall/Winter collection, targeting consumers in Japan, China and Korea. The Group has in parallel upgraded its apparel sales teams in all three markets and created a network of quality and long term suppliers leveraging its partnership with ITOCHU.

- ***Continue product innovation and development to cater for 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 JPY174.5 million and JPY161.5 million for the six months ended 30 September 2018 and 2019, respectively. In the six months ended 30 September 2019, the Group created a product development hub in North America, to complement its product development capabilities which used to concentrate at the Sakata Campus. The extended research and development team of HONMA thrives to incorporate innovations in ergonomics and material sciences in its designs and collaborates closely with professional golf players to optimize product performance.

Management discussion and analysis overview of the company, its key business results and business outlook (continued)

Industry Outlook

Golf is one of the world's most popular sports and continues to have an impressive global reach. Market data and research forecasts indicate that the golf industry will record continual growth over the next several years:

- ***Focus on 2020 Olympic Games and re-emergence of Tiger Woods.*** The reinstatement of golf at the 2016 Olympic Games significantly raised the profile of the sport worldwide. As we edge closer to the 2020 Tokyo Olympic Games, global attention is slowly starting to focus on Olympic qualification. With Japan hosting the 2020 Olympics, the golf markets in Japan and other parts of Asia are expected to receive a significant boost in the build-up to the Olympics. Combine this with Tiger Woods winning the Masters at Augusta in April, viewership for his final round surged 41% year-on-year[1], and the future looks bright for the golf industry.

- ***Expanding global golf market and demographics.*** The global golf market continues to grow. Recent research shows that the global golf equipment manufacturing market is expected to reach US$9,460 million by the end of 2025, growing at a CAGR of 2.6% during 2019-2025[2]. Golf has traditionally been under-penetrated in emerging markets. In recent years, however, more people in emerging markets, especially in Asia, have started to play the sport, which is primarily down to increasing disposable income, higher standards of living and greater emphasis on leisure activities.

  According to Yano's White Paper on Golf Industry, Japan was expected to see more than JPY106 billion in golf club wholesales value in 2018, referring to a 7% year-on-year increase. Golf Datatech's research report also shows that the US' overall golf market size is expanding and saw a 10% year-on-year increase in the retail sales value of irons in 2018. These promising sets of data further highlight that the global golf market is rebounding.

- ***Technological Innovation and customization[3].*** While new technology and innovation are driving advances in golf products, customization is gaining traction among more golfers who want to optimize and personalize the customer experience. New developments in clubs, balls and related products are expected to make the game more accessible, customized and exciting.

- ***Digitalization of retail channels.*** Digital retail channels such as e-commerce, mobile commerce and social commerce now address consumers' purchase preferences, which were predominantly restricted to brick and mortar stores in the past. These emerging channels play vital roles in penetrating different consumer segments.

1 https://www.reuters.com/article/us-media-cbs-woods/tiger-woods-delivers-masters-ratings-winfor-cbs-bluntedby-early-start-idUSKCN1RS20R

2 https://www.reuters.com/brandfeatures/venture-capital/article?id=86884

3 https://www.linkedin.com/pulse/7-golf-industry-trends-2019-jeff-penson

Management Discussion and Analysis

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 2018 to the six months ended 30 September 2019:

	Six months ended 30 September				Period-to-Period Change
	2019		2018		
	JPY	**%**	JPY	%	%
	(In thousands, except for percentages and per share data)				
Consolidated Statement of Profit or Loss (unaudited)					
Revenue	**10,590,973**	**100.0**	11,503,203	100.0	(7.9)
Cost of sales	**(5,330,135)**	**(50.3)**	(4,707,098)	(40.9)	13.2
Gross profit	**5,260,838**	**49.7**	6,796,105	59.1	(22.6)
Other income and gains	**36,652**	**0.3**	762,586	6.6	(95.2)
Selling and distribution expenses	**(4,627,977)**	**(43.7)**	(4,024,775)	(35.0)	15.0
Administrative expenses	**(691,916)**	**(6.5)**	(791,420)	(6.9)	(12.6)
Other expenses	**(519,534)**	**(4.9)**	(8,732)	(0.1)	5,849.8
Finance costs	**(28,476)**	**(0.3)**	(5,422)	—	425.2
Finance income	**59,680**	**0.6**	36,600	0.3	63.1
(Loss)／Profit before tax	**(510,733)**	**(4.8)**	2,764,942	24.0	(118.5)
Income tax credit／(expense)	**459,495**	**4.3**	(630,464)	(5.5)	(172.9)
Net (loss)／profit	**(51,238)**	**(0.5)**	2,134,478	18.6	(102.4)
Earnings per share attributable to ordinary equity holders of the parent:					
Basic and diluted					
– For profit for the period (JPY)	**(0.08)**		3.50		102.3
Non-IFRS Financial Measure					
Adjusted SG&A[1]	**5,320,608**	**50.2**	4,793,056	41.7	11.0
Operating (loss)/profit[2]	**(28,458)**	**(0.3)**	2,036,456	17.7	(101.4)
Net operating profit[3]	**392,072**	**3.7**	1,425,084	12.4	(72.5)

Financial review (continued)

Notes:

(1) Adjusted SG&A is derived 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. For a reconciliation of adjusted SG&A to the sum of (a) selling and distribution expenses and (b) administrative expenses, see "Management Discussion and Analysis – Financial Review – Non-IFRS Financial Measures – Adjusted SG&A."

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

Revenue

The Group's total revenue decreased by 7.9% from JPY11,503.2 million for the six months ended 30 September 2018 to JPY10,591.0 million for the six months ended 30 September 2019.

Constant Currency Revenue

On a constant currency basis, the Group's total revenue decreased by 7.0% from the six months ended 30 September 2018 to the six months ended 30 September 2019. For the purpose of calculating constant currency revenue, the Group has used the average exchange rate of the six months ended 30 September 2018 to translate sales recorded during the six months ended 30 September 2019, to the extent that the original currency for such sales is not in Japanese yen.

Constant currency revenue 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	
	2019		2018		on as reported basis	on constant currency basis[1]
	JPY	%	JPY	%	%	%
	(In thousands, except for percentages)					
Golf clubs	**8,077,227**	**76.3**	9,369,496	81.5	(13.8)	(13.0)
Golf balls	**989,945**	**9.3**	649,657	5.6	52.4	53.5
Apparels	**536,117**	**5.1**	363,446	3.2	47.5	53.1
Accessories and other related[2]	**987,684**	**9.3**	1,120,603	9.7	(11.9)	(11.5)
Total	**10,590,973**	**100.0**	11,503,203	100.0	(7.9)	(7.0)

Notes:

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

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

Financial review (continued)

Revenue (continued)

Revenue by Product Groups (continued)

Golf clubs comprise the majority of the Group's business. Revenue for golf clubs decreased by 13.8% from JPY9,369.5 million for the six months ended 30 September 2018 to JPY8,077.2 million for the six months ended 30 September 2019. On a constant currency basis, revenue for golf clubs decreased by 13.0% from the six months ended 30 September 2018 to the six months ended 30 September 2019. The decrease was mainly due to the Group's decision to focus on its BERES and TOUR WORLD club series which resulted in a year-on-year decrease of 77.9% in revenue on a constant currency basis from Be ZEAL family which was designed and developed for the entry level and occasional golfers. Despite the decrease, sales of TOUR WORLD family grew by 73.1% on a constant currency basis from the six months ended 30 September 2018, reconfirming the Group's decision last year to focus on the super-premium and premium performance segments.

Revenue for golf balls increased significantly by 52.4% from JPY649.7 million for the six months ended 30 September 2018 to JPY989.9 million for the six months ended 30 September 2019. On a constant currency basis, revenue for golf balls grew by 53.7% from the six months ended 30 September 2018 to the six months ended 30 September 2019. The continued strong growth in golf balls was driven by the Group's continued product innovation, ball portfolio optimization and channel expansion in Japan and Korea.

During the same period, HONMA launched its first two apparel collections and revenue for apparels increased significantly by 47.5% from JPY363.4 million for the six months ended 30 September 2018 to JPY536.1 million for the six months ended 30 September 2019.

Revenue for accessories and other related products decreased by 11.9% from JPY1,120.6 million for the six months ended 30 September 2018 to JPY987.7 million for the six months ended 30 September 2019. The decrease was mainly attributed to product line redesign.

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 from 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	
	2019		2018		on as reported basis	on constant currency basis[1]
	JPY	%	JPY	%	%	%
	(In thousands, except for percentages)					
Japan	**4,594,454**	**43.4**	5,869,281	51.0	(21.7)	(21.7)
Korea	**2,665,441**	**25.2**	1,760,641	15.3	51.4	51.4
China (including Hong Kong and Macau)	**1,584,299**	**15.0**	1,735,258	15.1	(8.7)	(4.0)
North America	**490,429**	**4.6**	641,034	5.6	(23.5)	(22.7)
Europe	**489,693**	**4.6**	458,606	4.0	6.8	9.4
Rest of the World	**766,657**	**7.2**	1,038,383	9.0	(26.2)	(25.3)
Total	**10,590,973**	**100.0**	11,503,203	100.0	(7.9)	(7.0)

Note:

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

Financial review (continued)

Revenue (continued)

Revenue by Geography (continued)

For the six months ended 30 September 2019, the Group continued implementing its growth strategy in its home and new markets. Revenue from Japan, Korea and China (including Hong Kong and Macau) accounted for 83.6% of the Group's total revenue for the six months ended 30 September 2019, which collectively formed the Group's home markets.

Revenue from Japan decreased by 21.7% from JPY5,869.3 million for the six months ended 30 September 2018 to JPY4,594.5 million for the six months ended 30 September 2019, as a result of a year-on-year decrease of 101.6% in revenue from Be ZEAL club series which falls outside the Group's focus segments being super-premium and premium performance segments.

Revenue from Korea increased significantly by 51.4% from JPY1,760.6 million for the six months ended 30 September 2018 to JPY2,665.4 million for the six months ended 30 September 2019. On a constant currency basis, revenue for Korea also increased by 51.4% from the six months ended 30 September 2018 to the six months ended 30 September 2019. In the six months ended 30 September 2019, the Group continuously increased its market share in Korea through intensive TV and social media campaigns to drive the mind share of HONMA brand as well as the product awareness and sales of its TOUR WORLD products. The Group has also established a strong local team to lead and drive the creation of a direct-to-consumer distribution model for its ball and apparel businesses.

Revenue from mainland China grew by 9.4% on a constant currency basis from JPY1,355.0 million for the six months ended 30 September 2018 to JPY1,482.6 million for the six months ended 30 September 2019. Based on constant currency, revenue from China (including Hong Kong and Macau) decreased 4.0% from JPY1,735.3 million for the six months ended 30 September 2018 to JPY1,665.8 million for the six months ended 30 September 2019. The decrease was primarily caused by the continued deterioration of the situation in Hong Kong. In the six months ended 30 September 2019, the Group closed two stores in China (including Hong Kong and Macau) and opened nine.

Revenue from North America decreased by 23.5% from JPY641.0 million for the six months ended 30 September 2018 to JPY490.4 million for the six months ended 30 September 2019. On a constant currency basis, revenue for North America decreased by 22.7% from the six months ended 30 September 2018 to the six months ended 30 September 2019. The decrease was primarily due to the expected launch of the new performance-enhancement club series following the Group's decision to further streamline and optimize its club portfolio by focusing on the super-premium and premium performance segments.

Revenue from Europe increased by 6.8% from JPY458.6 million for the six months ended 30 September 2018 to JPY489.7 million for the six months ended 30 September 2019. On a constant currency basis, revenue from Europe increased by 9.4% from the six months ended 30 September 2018 to the six months ended 30 September 2019. The increase was primarily due to the continued enhancement in HONMA's brand and product awareness in Europe.

Financial review (continued)

Revenue (continued)

Revenue by Sales and Distribution Channels

The Group has an extensive sales and distribution network that allows the Group to reach a broad customer base in its target markets. The Group's sales and distribution network consists of HONMA-branded self-operated stores as well as 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	
	2019		2018		on as reported basis	on constant currency basis[1]
	JPY	**%**	JPY	%	%	%
	(In thousands, except for percentages)					
Self-operated stores	**2,629,839**	**24.8**	2,919,574	25.4	(9.9)	(8.6)
3rd party retailers and wholesalers	**7,961,134**	**75.2**	8,583,629	74.6	(7.3)	(6.4)
Total	**10,590,973**	**100.0**	11,503,203	100.0	(7.9)	(7.0)

Note:

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

Revenue from self-operated stores decreased by 9.9% from JPY2,919.6 million for the six months ended 30 September 2018 to JPY2,629.8 million for the six months ended 30 September 2019. The decrease was primarily due to the closure of four stores in Japan as compared to the six months ended 30 September 2018 and a year-on-year decrease of 29.1% in revenue from Be ZEAL products, following the Group's decision to focus on the BERES and TOUR WORLD products going forward. Revenue from sales to third-party retailers and wholesalers decreased by 7.3 % from JPY8,583.6 million for the six months ended 30 September 2018 to JPY7,961.1 million for the six months ended 30 September 2019 due to similar reasons but revenue contribution increased by 0.6% to 75.2% of the Group's total revenue, as the Group continued strengthening its strategic partnership with quality retailers, existing relationships with regional retailers and wholesalers. Moreover, overall self-operated store number increased by six, primarily in China relating to the relaunch of HONMA's new apparel business. Going forward, the Group expects that sales from third-party retailers and wholesalers will increase as the Group will continue to strengthen its strategic partnership with quality third party retailers, existing relationships with regional retailers and wholesalers.

Financial review (continued)

Cost of Sales

Cost of sales increased by 13.2% from JPY4,707.1 million for the six months ended 30 September 2018 to JPY5,330.1 million for the six months ended 30 September 2019, which was primarily due to increase in raw materials and finished goods purchased from suppliers. 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			
	2019		2018	
	JPY	%	JPY	%
	(In thousands, except for percentages)			
Raw materials	**2,808,040**	**52.7**	2,505,683	53.2
Employee benefits	**603,247**	**11.3**	666,933	14.2
Manufacturing overhead[1]	**282,124**	**5.3**	296,256	6.3
Finished goods purchased from suppliers	**1,636,724**	**30.7**	1,238,226	26.3
Total	**5,330,135**	**100.0**	4,707,098	100.0

Note:

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

Financial review (continued)

Gross Profit and Gross Profit Margin

Gross profit decreased by 22.6% from JPY6,796.1 million for the six months ended 30 September 2018 to JPY5,260.8 million for the six months ended 30 September 2019. Gross profit margin decreased from 59.1% for the six months ended 30 September 2018 to 49.7% for the six months ended 30 September 2019.

Gross Profit and Gross Profit Margin by Product Groups

Gross profit for golf clubs decreased by 26.5% from JPY5,782.1 million for the six months ended 30 September 2018 to JPY4,249.7 million for the six months ended 30 September 2019. Gross profit margin for golf clubs decreased from 61.7% for the six months ended 30 September 2018 to 52.6% for the six months ended September 2019, due to negative product mix impact plus seasonal and one off impact resulting from the scheduled phase out of BERES 06, before the scheduled launch of its next generation and Be ZEAL, following the Group's decision to focus on BERES and TOUR WORLD products going forward.

Gross profit for golf balls increased by 42.9% from JPY325.3 million for the six months ended 30 September 2018 to JPY464.8 million for the six months ended 30 September 2019. Gross profit margin for golf balls decreased from 50.1% for the six months ended 30 September 2018 to 47.0 % for the six months ended 30 September 2019, as a result of continued negative channel mix impact and phase out of certain products, ahead of planned new product launches in the second half of the year.

Gross profit for apparels decreased by 14.1% from JPY194.6 million for the six months ended 30 September 2018 to JPY167.3 million for the six months ended 30 September 2019. Gross profit margin for apparels decreased from 53.6% for the six months ended 30 September 2018 to 31.2% for the six months ended 30 September 2019. The decreases were due to clearance of inventories from Spring/Summer 2019 which typically happen in the first half of the year.

Gross profit for accessories and other related products decreased by 23.3% from JPY494.0 million for the six months ended 30 September 2018 to JPY379.0 million for the six months ended 30 September 2019. Gross profit margin for accessories and other related products decreased from 44.1% for the six months ended 30 September 2018 to 38.4% for the six months ended 30 September 2019. The decreases were primarily due to clearance of inventories from past collections as the Group started to reorganize its accessory product lines.

Other Income and Gains

Other income and gains decreased from JPY762.6 million for the six months ended 30 September 2018 to JPY36.7 million for the six months ended 30 September 2019. The decrease was primarily due to the decrease in net foreign exchange gains which was JPY715.5 million for the six months period ended 30 September 2018.

Financial review (continued)

Selling and Distribution Expenses

Selling and distribution expenses increased by 15.0% from JPY4,024.8 million for the six months ended 30 September 2018 to JPY4,628.0 million for the six months ended 30 September 2019. Selling and distribution expenses as a percentage of revenue increased from 35.0% for the six months ended 30 September 2018 to 43.7% for the six months ended 30 September 2019. These increases were primarily due to increase in personnel costs, following the creation and upgrade of local management teams in North America and Korea and advertising and promotion expenses following a step up in HONMA's tour presence and other brand related marketing campaigns. 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			
	2019		2018	
	JPY	%	JPY	%
	(In thousands, except for percentages)			
Employee benefits	**1,676,928**	**36.2**	1,513,372	37.6
Advertising and promotion expenses	**1,390,689**	**30.0**	1,135,424	28.2
Rental fees	**319,496**	**6.9**	653,503	16.2
Others[1]	**1,240,864**	**26.8**	722,476	18.0
Total	**4,627,977**	**100.0**	4,024,775	100.0

Note:

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

Financial review (continued)

Administrative Expenses

Administrative expenses decreased by 12.6% from JPY791.4 million for the six months ended 30 September 2018 to JPY691.9 million for the six months ended 30 September 2019, primarily due to decrease in discretionary costs and bad debt provisions.

Other Expenses, Net

Other expenses increased from JPY8.7 million for the six months ended 30 September 2018 to JPY519.5 million for the six months ended 30 September 2019. The increase was primarily due to foreign exchange losses which amounted to JPY497.0 million for the six months period ended 30 September 2019.

Finance Costs

Finance costs increased by 425.2% from JPY5.4 million for the six months ended 30 September 2018 to JPY28.5 million for the six months ended 30 September 2019. The increase was primarily due to increases in interest on bank borrowings and interest on lease liabilities, relating to the Group's operations in Japan.

Finance Income

Finance income increased by 63.1% from JPY36.6 million for the six months ended 30 September 2018 to JPY59.7 million for the six months ended 30 September 2019, primarily due to the increase in average bank deposit.

Loss/Profit Before Tax

As a result of the foregoing, profit before tax decreased by 118.5% from JPY2,764.9 million for the six months ended 30 September 2018 to JPY510.7 million loss before tax for the six months ended 30 September 2019.

Income Tax Credit/Expense

Income tax expense decreased by 172.9% from JPY630.5 million for the six months ended 30 September 2018 to JPY459.5 million income tax credit for the six months ended 30 September 2019, primarily due to the recognition of deferred tax assets. The Group's effective tax rate increased from 22.8% for the six months ended 30 September 2018 to 90.0% for the six months ended 30 September 2019.

Net Loss/Profit

As a result of the foregoing, net profit decreased by 102.4% from JPY2,134.5 million for the six months ended 30 September 2018 to JPY51.2 million net loss for the six months ended 30 September 2019. Net profit margin decreased from 18.6% for the six months ended 30 September 2018 to 0.5% net loss margin for the six months ended 30 September 2019.

Financial review (continued)

Non-IFRS Financial Measures

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

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

Adjusted SG&A

The Group derives adjusted SG&A from the sum of (a) selling and distribution expenses and (b) administrative expenses by 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	
	2019	2018
	(In JPY thousands)	
Selling and distribution expenses	**4,627,977**	4,024,775
Administrative expenses	**691,916**	791,420
Adjustment for:		
RSU expenses in relation to sales and marketing staff and administrative staff	**715**	(23,139)
Adjusted SG&A	**5,320,608**	4,793,056

Financial review (continued)

Non-IFRS Financial Measures (continued)

Operating Loss/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	
	2019	2018
	(In JPY thousands)	
(Loss)/Profit before tax	**(510,733)**	2,764,942
Adjustment for:		
Other income and gains	**(36,652)**	(762,586)
Other expenses	**519,534**	8,732
RSU expenses	**(607)**	25,368
Operating (loss)/profit	**(28,458)**	2,036,456

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	
	2019	2018
	(In JPY thousands)	
Net (loss)/profit	**(51,238)**	2,134,478
Adjustment for:		
Other income and gains	**(36,652)**	(762,586)
Other expenses	**519,534**	8,732
RSU expenses	**(607)**	25,368
Impact on tax	**(38,965)**	19,092
Net operating profit	**392,072**	1,425,084

Financial review (continued)

Working Capital Management

	For the twelve months ended	
	30 September 2019	31 March 2019
Inventories turnover days[1]	**247**	224
Trade and bills receivables turnover days[2]	**96**	122
Trade and bills payables turnover days[3]	**57**	39

Notes:

(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.

Compared to the year ended 31 March 2019, trade and bills receivables turnovers days decreased and trade and bills payables turnover days increased for the twelve months ended 30 September 2019. The changes were primarily due to decrease in trade and bills receivables and increase in trade and bills payables from 31 March 2019 to 30 September 2019, resulting from the Group's continued efforts in working capital improvements. The Group aims to continuously deliver continued improvement in all of its working capital indicators.

Financial review (continued)

Inventories

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

	As at 30 September 2019	As at 31 March 2019
	(In JPY thousands)	
Raw materials	**2,658,007**	2,785,076
Work in progress	**989,057**	952,581
Finished goods	**5,166,996**	4,419,599
Less: provision	**(694,458)**	(579,255)
Total	**8,119,602**	7,578,001

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

	As at 30 September 2019	As at 31 March 2019
	(In JPY thousands)	
Within 1 year	**3,408,234**	4,160,006
1 year to 2 years	**2,095,915**	2,051,945
2 to 3 years	**1,397,698**	611,205
3 to 4 years	**627,403**	420,914
Over 4 years	**590,352**	333,931
Total	**8,119,602**	7,578,001

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 2019, the Group financed its operations primarily through cash from operations, net proceeds received from the global offering and proceeds from bank loans. The Group intends to finance its expansion and business operations by internal resources and through organic and sustainable growth, bank borrowings, as well as the net proceeds received from the global offering.

As at 30 September 2019, the Group had JPY10,222.1 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 at 30 September 2019.

Indebtedness

As at 30 September 2019, the Group's interest-bearing borrowings amounted to JPY5,600.0 million, all of which were denominated in Japanese yen and carry interest at variable rates. All of such borrowings were unsecured and payable within one year. The effective interest rate for the balance of the Group's interest-bearing borrowings as at 30 September 2019 ranged from 0.30% to 0.55%.

Gearing Ratio

The Group's gearing ratio is calculated by dividing (i) the sum of interest-bearing bank borrowings and lease liabilities by (ii) total equity. As at 30 September 2019, the Group's gearing ratio was 34.2% (as at 31 March 2019, the Group's gearing ratio was 13.0% or 17.6% after taking into consideration the impact of IFRS 16).

Capital Expenditures

The Group's capital expenditures for the six months ended 30 September 2019 amounted to JPY896.1 million, which was used primarily to purchase plant machinery and equipments, office equipments and leasehold improvement. In the six months ended 30 September 2019, 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 2019, the Group did not have any significant contingent liabilities.

Funding and Treasury Policy

The Group adopts a stable, conservative approach on its funding and treasury policy, aiming to maintain an optimal financial position, the most economical finance costs, and minimal financial risks. The Group regularly reviews its funding requirements to maintain adequate financial resources in order to support its current business operations as well as its future investments and expansion plans.

Financial review (continued)

Charge on assets

There was no charge on the Group's assets as at 30 September 2019.

Material Acquisitions and Future Plans for Major Investment

During the six months ended 30 September 2019, 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 of Hong Kong Limited on 6 October 2016. The net proceeds from the Company's global offering amounted to JPY16,798.0 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.

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

Financial review (continued)

Use of Proceeds from the Global Offering (continued)

Intended use of proceeds	Percentage of intended use of proceeds (%)	Intended use of proceeds from the global offering (In JPY millions)	Percentage of used amount as of 30 September 2019 (%)	Percentage of unused balance as of 30 September 2019 (%)	Expected timeframe for utilizing the remaining unused net proceeds[(2)]
Potential strategic acquisitions	29.4	4,939	—	29.4	— [(3)]
Sales and marketing activities in North America and Europe	15.1	2,536	15.1	—	N/A
Sales and marketing activities in home markets of Japan, Korea and China (including Hong Kong and Macau)	15.1	2,536	15.1	—	N/A
Capital expenditures	13.0	2,184	9.6	3.4	From 1 April 2019 to 31 March 2022
Repayment of interest-bearing bank borrowings	17.3	2,906	17.1	0.2	From 1 April 2019 to 31 March 2021
Providing funding for working capital and other general corporate purposes	10.1	1,697	10.1	—	N/A
Total	100.0	16,798	67.0	33.0	

Note:

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

(2) The expected timeline for utilizing the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

(3) As of the date of this report, we had not identified, committed to or entered into negotiations with any acquisition targets for our use of net proceeds from the global offering, hence we have no specific expected timeframe for fully utilizing such proceeds. We will continue to prudently evaluate potential acquisition targets within the golf products industry based on, among other factors, their brand recognition, geographic footprint, distribution network, product offerings, and financial condition, with a goal of identifying potential acquisition targets that best fit our growth strategies.

Financial review (continued)

Use of Proceeds from the Global Offering (continued)

As at 30 September 2019, the unused balance of the proceeds from the global offering of approximately JPY5,543.3 million are currently deposited with creditworthy banks with no recent history of default.

Events After the Reporting Period

The Board has declared the payment of an interim dividend of JPY1.64 per share, amounting to approximately a total of JPY1,000 million for the six months ended 30 September 2019 (the "**2019/2020 Interim Dividend**"), representing approximately 7.0% of the Group's distributable reserves as at 30 September 2019.

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:JPY108.824. 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.

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

As at 30 September 2019, 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 of Hong Kong Limited (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)	Founder and the sole beneficiary of a trust/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	337,552(L)	0.06%
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) Vistra Trust (Hong Kong) Limited ("**Vistra Trust**") is the Trustee of the trust established by Mr. Liu Jianguo who is also the sole beneficiary of the trust. Vistra Trust holds the entire issued share capital of Dazzling Coast Limited ("**Dazzling**"), which in turn holds the entire share capital of Prize Ray Limited ("**Prize Ray**"), which holds the entire share capital of Kouunn Holdings Limited, which beneficially owned 323,560,525 Shares. As Mr. Liu Jianguo is the founder and the sole beneficiary of the trust as well as the sole director of Kouunn Holdings Limited, 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 108,856 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 2019.

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	Founder and sole beneficiary of a trust	1,000	100%

Save as disclosed above, as at 30 September 2019, 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 2019, the following persons (other than the Directors and the chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name	Nature of interest	Number of Shares or underlying Shares Interested(1)	Approximate percentage of interest(9)
Kouunn Holdings Limited (2)(4)(6)(7)	Beneficial owner	323,560,525(L)	53.13%
Dazzling Coast Limited (4)	Interest of controlled corporation	323,560,525(L)	53.13%
Prize Ray Limited (4)	Interest of controlled corporation	323,560,525(L)	53.13%
Vistra Trust (Hong Kong) Limited (4)	Trustee	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) (5)	Beneficial owner	35,629,425(L)	5.85%
Fosun International Limited (5)	Interest of controlled corporation	35,629,425(L)	5.85%
Fosun Holdings Limited (5)	Interest of controlled corporation	35,629,425(L)	5.85%
Fosun International Holdings Ltd. (5)	Interest of controlled corporation	35,629,425(L)	5.85%
Mr. Guo Guangchang (郭廣昌) (5)	Interest of controlled corporation	35,629,425(L)	5.85%
Yuanta Financial Holding Co., Ltd. (2)(6)	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)(7)	Person having a security interest in Shares	120,497,315(L)	19.78%
Charoen Pokphand Group Company Limited (8)	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) Vistra Trust (Hong Kong) Limited ("**Vistra Trust**") is the Trustee of the trust established by Mr. Liu Jianguo who is also the sole beneficiary of the trust. Vistra Trust holds the entire issued share capital of Dazzling Coast Limited ("**Dazzling**"), which in turn holds the entire share capital of Prize Ray Limited ("**Prize Ray**"), which holds the entire share capital of Kouunn Holdings Limited, which beneficially owned 323,560,525 Shares. By virtue of the SFO, Mr. Liu, Vistra Trust, Dazzling and Prize Ray are deemed to be interested in the same parcel of Shares held by Kouunn Holdings Limited.

(5) 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).

(6) 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.

(7) 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.

(8) 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.

(9) The calculation is based on the total number of 609,050,000 Shares in issue as at 30 September 2019.

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 2019, the remaining life of the RSU Scheme is approximately six 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 2019, held (as the RSU Nominee) 4,153,328 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 2019, RSUs representing 4,153,328 underlying Shares have been granted to 120 participants in the RSU Scheme pursuant to the RSU Scheme. 3 of the participants in the RSU Scheme are Directors, 2 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 2019 are set out below:

Name of grantee of RSU	Position held with the Group	Number of Shares represented by RSUs at 1 April 2019	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 2019
Director of the Company								
Liu Jianguo	Chairman of the Board, President and Executive Director	285,675	3 November 2015	—	—	—	—	285,675
Ito Yasuki	Executive Director, Chief Marketing Officer and President of Japan Operations	133,341	20 October 2015	—	—	—	—	133,341
		95,355	31 May 2016	—	—	—	—	95,355
Murai Yuji	Executive Director and Chief Sales Officer	144,768	20 October 2015	—	—	—	—	144,768
		38,220	31 May 2016	—	—	—	—	38,220

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 2019	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 2019
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)								
2 senior management of the Company, 2 directors and 2 other executive managers of the subsidiaries of the Company[1]		243,188	20 October 2015	—	—	—	—	243,188
		762,060	3 November 2015	—	—	—	—	762,060
		152,100	31 May 2016	—	—	—	—	152,100
Other employees of the Group								
111 other employees of the Group[1]		2,122,458	20 October 2015	—	—	—	59,280	2,063,178
		76,245	3 November 2015	—	—	—	—	76,245
		159,198	6 October 2017	—	—	—	—	159,198
Total		4,212,608		—	—	—	59,280	4,153,328

Note:

(1) The difference between the number of Shares represented by RSUs at 1 April 2019 and that of as disclosed in the annual report for the year ended 31 March 2019 of the Company is due to the reclassification of one director of a subsidiary of the Company to other employees of the Group as he ceased to serve as a director of such subsidiary during the six months ended 30 September 2019.

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 during the years ended 31 March 2016 and 2017 under the RSU Scheme shall be vested in accordance with the vesting schedule as follows:

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

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

(iii) as to 30% on 31 December 2019.

Subject to the vesting conditions, the RSUs granted to the participants during the year ended 31 March 2018 under the RSU Scheme shall be vested in accordance with the vesting schedule as follows:

(i) as to 50% on 30 April 2018 or the date on which the Company publishes its annual results for the year ending 31 March 2018 (whichever is earlier); and

(ii) as to 50% on 31 December 2019.

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.

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

Post-IPO Share Option Scheme (continued)

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 2019, no option had been granted or agreed to be granted by the Company pursuant to the Post-IPO Share Option Scheme.

Purchase, sale or redemption of listed securities

During the six months ended 30 September 2019, 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 JPY1.64 per share for the six months ended 30 September 2019 amounting to approximately a total of JPY1,000 million, representing approximately 7.0% of the Group's distributable reserves as at 30 September 2019, to its shareholders whose names appear on the Register of Members of the Company on Friday, 13 December 2019. The interim dividend will be paid on Monday, 30 December 2019. On 7 August 2019, the Board declared the payment of a special dividend of JPY8.21 per share as a reward to the shareholders of the Company for their continuous support and to commemorate the 60th anniversary of the HONMA brand. The interim dividend for the six months ended 30 September 2018 amounted to JPY1,065.8 million (JPY1.75 per share).

The interim dividend has been declared in Japanese yen 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.

Pursuant to the dividend policy adopted by the Company with effect from 27 May 2019, distributions of dividends are determined at the discretion of the Board. In determining whether any distribution shall be made and the amount of dividends, the Board shall take into account the Company's results of operations, cash flow, financial conditions, statutory and regulatory restrictions, capital, future business plans and prospects, and any other conditions which the Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to compliance with the Company's constitutional documents and Companies Law of the Cayman Islands.

The Company will evaluate its dividend policy and distributions made from time to time.

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 2019, 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.

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 2019.

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 2019 and this interim report.

Other Information

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. The service agreement of each of Mr. Liu Jianguo (劉建國), Mr. Ito Yasuki (伊藤康樹), Mr. Murai Yuji (邨井勇二) and Mr. Zuo Jun (左軍), executive directors, entered with the Company expired on 17 September 2019 and extended for three years commencing from 18 September 2019.

2. The appointment of Mr. Wang Jianguo (汪建國), Mr. Lu Pochin Christopher (盧伯卿) and Mr. Xu Hui (徐輝), independent non-executive directors, expired on 17 September 2019 and extended for three years commencing from 18 September 2019.

3. The salary and contractual annual performance bonus for Mr. Ito Yasuki (伊藤康樹), executive director of the Company, were changed to JPY16,366,366 per annum and JPY5,767,650 per annum respectively.

4. The salary and contractual annual performance bonus for Mr. Murai Yuji (邨井勇二), executive director of the Company, were changed to JPY13,556,077 per annum and JPY5,767,650 per annum respectively.

5. The listing of shares of C.P. Lotus Corporation (Stock Code: 121), of which Mr. Yang Xiaoping (楊小平), non-executive director of the Company, is an executive director and the vice chairman, on the Stock Exchange has been withdrawn on 28 October 2019.

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 JPY16,798.0 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 2019, the Company utilised approximately 67.0%, or JPY11,254.7 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 2019, see "Management Discussion and Analysis — Financial Review — Use of Proceeds from the Global Offering."

As of 30 September 2019, the unused balance of the proceeds from the global offering of approximately JPY5,543.3 million are currently deposited with creditworthy banks with no recent history of default. In the rest of 2019 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

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 47 to 84 which comprises the 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 2019 and the condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended and other 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 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 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 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.

Report on Review of Interim Condensed Consolidated Financial Statements

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
29 November 2019

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 September 2019

	Notes	For the six months ended 30 September 2019 (Unaudited) (JPY'000)	For the six months ended 30 September 2018 (Unaudited) (JPY'000)
Revenue	4	**10,590,973**	11,503,203
Cost of sales		**(5,330,135)**	(4,707,098)
Gross profit		**5,260,838**	6,796,105
Other income and gains	4	**36,652**	762,586
Selling and distribution expenses		**(4,627,977)**	(4,024,775)
Administrative expenses		**(691,916)**	(791,420)
Other expenses		**(519,534)**	(8,732)
Finance costs	5	**(28,476)**	(5,422)
Finance income		**59,680**	36,600
(LOSS)/PROFIT BEFORE TAX	6	**(510,733)**	2,764,942
Income tax credit/(expense)	7	**459,495**	(630,464)
(LOSS)/PROFIT FOR THE PERIOD		**(51,238)**	2,134,478
Attributable to:			
Owners of the parent		**(51,250)**	2,134,365
Non-controlling interests		**12**	113
		(51,238)	2,134,478
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	8		
Basic and diluted			
– For (loss)/profit for the period (JPY)		**(0.08)**	3.50

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2019

	Note	FOR THE SIX MONTHS ENDED 30 SEPTEMBER	
		2019	2018
		(Unaudited)	(Unaudited)
		(JPY'000)	(JPY'000)
(LOSS)/PROFIT FOR THE PERIOD		**(51,238)**	2,134,478
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(5,621)**	(4,404)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**(5,621)**	(4,404)
Other comprehensive income that will not be reclassified to profit in subsequent periods:			
Remeasurement gains on the defined benefit plan	17	**24,272**	138,255
Income tax effect		**(8,724)**	(42,334)
		15,548	95,921
Gain on equity instruments at fair value through other comprehensive income		**2,012**	312
Income tax effect		**(53)**	(96)
		1,959	216
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**17,507**	96,137

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2019

	Note	FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019 (Unaudited) (JPY'000)	2018 (Unaudited) (JPY'000)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**11,886**	91,733
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		**(39,352)**	2,226,211
Attributable to:			
Owners of the parent		**(39,364)**	2,226,098
Non-controlling interests		**12**	113
		(39,352)	2,226,211

Interim Condensed Consolidated Statement of Financial Position

30 September 2019

	Notes	30 September 2019 (Unaudited) (JPY' 000)	31 March 2019 (Audited) (JPY' 000)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**2,611,413**	2,033,426
Right-of-use assets		**2,149,541**	–
Freehold land	11	**1,940,789**	1,940,789
Intangible assets		**333,900**	333,423
Finance lease receivables		**96,721**	–
Other non-current assets		**924,969**	754,445
Deferred tax assets		**1,768,056**	1,062,790
Total non-current assets		**9,825,389**	6,124,873
CURRENT ASSETS			
Inventories	12	**8,119,602**	7,578,001
Trade and bills receivables	13	**8,771,387**	9,787,669
Prepayments, deposits and other receivables		**1,017,179**	922,932
Finance lease receivables		**18,451**	–
Cash and cash equivalents	14	**10,222,122**	14,674,123
Total current assets		**28,148,741**	32,962,725
CURRENT LIABILITIES			
Trade payables	15	**2,417,634**	1,523,086
Other payables and accruals		**2,496,220**	1,781,690
Interest-bearing bank borrowings	16	**5,600,000**	3,800,000
Due to a related party	21(c)	**19,857**	7,144
Lease liabilities		**840,968**	–
Income tax payable		**618,247**	1,028,470
Total current liabilities		**11,992,926**	8,140,390
NET CURRENT ASSETS		**16,155,815**	24,822,335
TOTAL ASSETS LESS CURRENT LIABILITIES		**25,981,204**	30,947,208

	Notes	30 September 2019 (Unaudited) (JPY'000)	31 March 2019 (Audited) (JPY'000)
NON-CURRENT LIABILITIES			
Net employee defined benefit liabilities	17	**1,246,306**	1,297,203
Lease liabilities		**1,430,599**	–
Deferred tax liabilities		**230,157**	388,814
Other non-current liabilities		**68,756**	68,464
Total non-current liabilities		**2,975,818**	1,754,481
Net assets		**23,005,386**	29,192,727
EQUITY			
Equity attributable to owners of the parent			
Share capital	18	**154**	154
Reserves		**23,050,869**	29,238,222
		23,051,023	29,238,376
Non-controlling interests		**(45,637)**	(45,649)
Total equity		**23,005,386**	29,192,727

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2019

	Attribute to owners of the parent									
	Share capital (JPY'000) Note 18	Surplus reserve (JPY'000) *	Exchange translation reserve (JPY'000) *	Equity-settled share-based payment reserve (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 2019	154	1,038,566	141,224	467,153	963	16,798,289	10,792,027	29,238,376	(45,649)	29,192,727
Effect of adopting IFRS 16 (note 2.2)	–	–	–	–	–	–	(18,195)	(18,195)	–	(18,195)
At 1 April 2019 as restated	154	1,038,566	141,224	467,153	963	16,798,289	10,773,832	29,220,181	(45,649)	29,174,532
(Loss)/profit for the period	–	–	–	–	–	–	(51,250)	(51,250)	12	(51,238)
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	–	–	(5,621)	–	–	–	–	(5,621)	–	(5,621)
Remeasurement gains on defined benefit plans	–	–	–	–	–	–	15,548	15,548	–	15,548
Gain on equity instruments at fair value through other comprehensive income, net of tax	–	–	–	–	1,959	–	–	1,959	–	1,959
Total comprehensive loss for the period	–	–	(5,621)	–	1,959	–	(35,702)	(39,364)	12	(39,352)
Equity-settled share-based payment expenses	–	–	–	(607)	–	–	–	(607)	–	(607)
Dividends declared	–	–	–	–	–	–	(6,129,187)	(6,129,187)	–	(6,129,187)
At 30 September 2019 (unaudited)	154	1,038,566	135,603	466,546	2,922	16,798,289	4,608,943	23,051,023	(45,637)	23,005,386

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2019

	Attribute to owners of the parent									
	Share capital (JPY'000) Note 18	Surplus reserve (JPY'000) *	Exchange translation reserve (JPY'000) *	Equity-settled share-based payment reserve (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	144,057	436,579	4,609	16,798,289	9,628,623	28,050,034	(45,121)	28,050,034
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

* These reserve accounts comprise the consolidated reserves of JPY23,050,869,000 as at 30 September 2019 (30 September 2018: JPY28,334,114,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2019

	Notes	FOR THE SIX MONTHS ENDED 30 SEPTEMBER	
		2019 (Unaudited) (JPY'000)	2018 (Unaudited) (JPY'000)
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(510,733)**	2,764,942
Adjustments for:			
Write-down of inventories to net realizable value	6	**115,203**	111,350
(Reversal of)/provision for impairment of trade receivables	6	**(40,393)**	8,621
Net (losses)/gains on disposal of items of property, plant and equipment	6	**4,299**	(40)
Net losses on disposal of right-of-use assets	6	**11,790**	–
Depreciation of property, plant and equipment	6	**219,801**	174,190
Depreciation of right-of-use assets	6	**384,838**	–
Amortisation of intangible assets	6	**60,343**	52,575
Defined benefit plan expenses	17	**40,475**	41,873
Equity-settled share-based payment expenses	19	**(607)**	25,368
Foreign exchange gains		**331,161**	(723,350)
Finance costs	5	**28,476**	5,422
Finance income		**(59,680)**	(36,600)
		584,973	2,424,351
Increase in inventories		**(656,804)**	(1,915,700)
Decrease in trade and bills receivables		**1,056,675**	3,398,915
Increase in prepayments, deposits and other receivables		**(125,805)**	(390,745)
Decrease in an amount due from a related party		**–**	212
Decrease in other non-current assets		**(168,512)**	122,316
Increase in trade payables		**894,548**	435,617
Decrease in other payables and accruals		**(314,060)**	(451,833)
Increase in amounts due to a related party in operating activities		**12,713**	14,835
Increase/(decrease) in other non-current liabilities		**292**	(5,865)
Payment of the defined benefit obligation	17	**(67,100)**	(37,346)
Cash generated from operations		**1,216,920**	3,594,757
Interest received		**59,680**	36,600
Interest paid		**(28,476)**	(5,422)
Japan income tax paid		**(791,999)**	(15,193)
Overseas income tax paid		**(53,677)**	(354,455)
Net cash flows generated from operating activities		**402,448**	3,256,287

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2019

	Notes	FOR THE SIX MONTHS ENDED 30 SEPTEMBER	
		2019	2018
		(Unaudited)	(Unaudited)
		(JPY'000)	(JPY'000)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		**(896,119)**	(185,078)
Proceeds from disposal of items of property, plant and equipment and intangible assets		**19,454**	12,196
Decrease in finance lease receivables		**3,735**	–
Net cash flows used in investing activities		**(872,930)**	(172,882)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank borrowings		**35,300,000**	28,900,000
Repayment of bank borrowings		**(33,500,000)**	(28,400,000)
Principal portion of lease payments		**(388,422)**	–
Dividends paid		**(5,091,686)**	–
Net cash flows (used in)/generated from financing activities		**(3,680,108)**	500,000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(4,150,590)**	3,583,405
Cash and cash equivalents at beginning of period		**14,674,123**	14,147,319
Effect of foreign exchange rate changes, net		**(301,411)**	713,175
CASH AND CASH EQUIVALENTS AT END OF PERIOD	14	**10,222,122**	18,443,899
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	14	**10,222,122**	18,443,899

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2019

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 Jianguo ("**Mr. Liu**").

2.1 Basis of preparation

The interim condensed financial information for the six months ended 30 September 2019 has been prepared in accordance with IAS 34 Interim Financial Reporting. The 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 2019.

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 followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2019, except for the adoption of the new and revised International Financial Reporting Standards ("**IFRSs**") effective as of 1 April 2019.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of IFRS 16 are described below:

IFRS 16 replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease, SIC-Int 15 Operating Leases – Incentives and SIC-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 April 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

2.2 Changes in accounting policies and disclosures (continued)

New definition of a lease (continued)

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 April 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019.

The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate at 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 April 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application; and

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

2.2 Changes in accounting policies and disclosures (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The impacts arising from the adoption of IFRS 16 as at 1 April 2019 are as follows:

	Increase/(decrease) JPY'000 (Unaudited)
Assets	
Increase in right-of-use assets	1,330,348
Decrease in prepayments, other receivables and other assets	(31,558)
Increase in total assets	1,298,790
Liabilities	
Increase in lease liabilities	1,325,896
Decrease in other payables and accruals	(8,911)
Increase in total liabilities	1,316,985
Decrease in retained profits	(18,195)

2.2 Changes in accounting policies and disclosures (continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 March 2019 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 April 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

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	
	2019	2018
	(Unaudited)	(Unaudited)
	(JPY'000)	(JPY'000)
Japan	**4,594,454**	5,869,281
Korea	**2,665,441**	1,760,641
China (including Hong Kong and Macau)	**1,584,299**	1,735,258
North America	**490,429**	641,034
Europe	**489,693**	458,606
Rest of the world	**766,657**	1,038,383
	10,590,973	11,503,203

Information about major customers

For the six months ended 30 September 2019, revenue of approximately JPY2,277,638,604,000 was derived from sales to a single customer (six months ended 30 September 2018: JPY1,490,443,000).

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	
	2019	2018
	(Unaudited)	(Unaudited)
	(JPY'000)	(JPY'000)
Revenue		
Sale of goods	**10,535,583**	11,458,773
Rendering of services	**55,390**	44,430
Total	**10,590,973**	11,503,203
Other income and gains		
Net foreign exchange gain	**–**	715,536
Government grants	**–**	13,681
Gains on disposal of items of property, plant and equipment, net	**–**	40
Rental income	**914**	850
Others	**35,738**	32,479
	36,652	762,586

4. Revenue, other income and gains (continued)

The disaggregation of the Group's revenue from contracts with customers, including the sale of goods and rendering of services above, for the six months ended 30 September 2019 and 2018, respectively are as follows:

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	(JPY'000)	(JPY'000)
Type of goods or services		
Sale of golf related products	**10,535,583**	11,458,773
Rendering of services relating to golf related products	**55,390**	44,430
Total revenue from contracts with customers	**10,590,973**	11,503,203
Timing of revenue recognition		
Goods transferred at a point in time	**10,535,583**	11,458,773
Services transferred over time	**55,390**	44,430
Total revenue from contracts with customers	**10,590,973**	11,503,203

The disaggregation of the Group's revenue based on the geographical region for the six months ended 30 September 2019 is included in note 3.

5. Finance costs

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	(JPY'000)	(JPY'000)
Interest on bank borrowings	**11,297**	5,422
Interest on lease liabilities	**17,179**	–
	28,476	5,422

6. (Loss)/profit before tax

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

	Notes	For the six months ended 30 September	
		2019	2018
		(Unaudited)	(Unaudited)
		(JPY' 000)	(JPY' 000)
Cost of inventories sold		**5,286,239**	4,678,128
Cost of service provided		**43,896**	28,970
Depreciation of property, plant and equipment	10	**219,801**	174,190
Depreciation of right-of-use assets		**384,838**	–
Amortisation of intangible assets		**60,343**	52,575
Research and development costs		**161,452**	174,486
(Reversal of)/provision for impairment of trade receivables	13	**(40,393)**	8,621
Minimum lease payments under operating leases		**–**	609,899
Expense relating to short term leases and low-value assets		**240,693**	–
Auditors' remuneration		**40,512**	39,892
Employee benefit expense:			
Wages and salaries		**1,952,895**	1,887,106
Pension and social security costs		**202,128**	145,567
Defined benefit plan expenses	17	**40,475**	41,873
Employee benefits		**273,710**	243,359
Other benefits		**142,017**	115,925
Equity-settled share-based payment expenses	19	**(607)**	25,368
Foreign exchange losses/(gains), net	4	**496,951**	(715,536)
Write-down of inventories to net realizable value		**115,203**	111,350
Net (losses)/gains on disposal of items of property, plant and equipment	4	**4,299**	(40)
Net losses on disposal of right-of-use assets		**11,790**	–

7. Income tax

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

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 2019.

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 2019 (six months ended 30 September 2018: 30.62%).

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 2019, 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 21% during the period (six months ended 30 September 2018: 27.55%), as well as state tax at 8.84% (six months ended 30 September 2018: 8.28%).

The major components of income tax (credit)/expense of the Group are as follows:

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	(JPY'000)	(JPY'000)
Current income tax – Japan	**–**	267,920
Current income tax – Hong Kong	**335,453**	317,930
Deferred tax	**(794,948)**	44,614
	(459,495)	630,464

8. (Loss)/earnings per share attributable to ordinary equity holders of the parent

The calculations of basic and diluted (loss)/earnings per share are based on the (loss)/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 2019 and 2018 in respect of a dilution as the Group had no potentially ordinary shares in issue during 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	
	2019	2018
	(Unaudited)	(Unaudited)
	(JPY'000)	(JPY'000)
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**(51,250)**	2,134,365

	Number of shares For the six months ended 30 September	
	2019	2018
	('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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	(JPY'000)	(JPY'000)
Final declared – JPY1.70 per ordinary share (2018: JPY3.23)	**1,037,501**	1,967,232
Interim declared – JPY8.21 per ordinary share (2018: Nil)	**5,091,686**	–
	6,129,187	1,967,232

During the period, the Company's shareholders approved 2018 proposed final dividend with a total amount of JPY1,037,501,000 (six months ended 30 June 2018: JPY1,967,232,000). The amount of the 2018 final dividend was calculated based on the number of shares of the Company as of 18 September 2019.

On 7 August 2019, the board of directors declared the payment of a special dividend of JPY8.21 per ordinary share totaling approximately JPY5,091,686,000 (six months ended 30 June 2018: Nil) as a reward to the shareholders of the Company for their continuous support and to commemorate the 60th anniversary of Honma brand. The special dividend has been paid on 2 September 2019.

10. Property, plant and equipment

During the six months ended on 30 September 2019, the Group acquired items of property, plant and equipment with a cost of JPY834,189,000 (six months ended 30 September 2018: JPY108,247,000). Depreciation for items of property, plant and equipment was JPY219,801,000 during the period (six months ended 30 September 2018: JPY174,190,000). Assets with a net book value of JPY23,753,000 were disposed of by the Group during the six months ended 30 September 2019 (six months ended 30 September 2018: JPY12,156,000).

11. Freehold land

The carrying amounts of the Group's freehold land is JPY1,940,789,000 as at 30 September 2019 and 31 March 2019. 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 2019 (Unaudited) (JPY'000)	31 March 2019 (Audited) (JPY'000)
Raw materials	**2,658,007**	2,785,076
Work in progress	**989,057**	952,581
Finished goods	**5,166,996**	4,419,599
	8,814,060	8,157,256
Less: provision for inventories	**(694,458)**	(579,255)
	8,119,602	7,578,001

13. Trade and bills receivables

	30 September 2019 (Unaudited) (JPY'000)	31 March 2019 (Audited) (JPY'000)
Trade receivables	**8,915,027**	9,822,174
Bills receivable	**–**	149,528
	8,915,027	9,971,702
Impairment of trade receivables	**(143,640)**	(184,033)
	8,771,387	9,787,669

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.

13. Trade and bills receivables (continued)

An ageing 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 2019 (Unaudited) (JPY'000)	31 March 2019 (Audited) (JPY'000)
Within 1 month	**4,938,280**	8,913,637
Over 1 and within 3 months	**413,862**	578,970
Over 3 and within 12 months	**3,397,093**	91,875
Over 1 year	**22,152**	53,659
	8,771,387	9,638,141

14. Cash and cash equivalents

	30 September 2019 (Unaudited) (JPY'000)	31 March 2019 (Audited) (JPY'000)
Cash and bank balances	**10,222,122**	14,674,123

15. Trade payables

	30 September 2019 (Unaudited) (JPY'000)	31 March 2019 (Audited) (JPY'000)
Trade payables	**2,417,634**	1,523,086

15. Trade payables (continued)

An ageing 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 2019 (Unaudited) (JPY'000)	31 March 2019 (Audited) (JPY'000)
Within 3 months	**2,368,022**	1,518,620
Over 3 months	**49,612**	4,466
	2,417,634	1,523,086

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

16. Interest-bearing bank borrowings

	30 September 2019 (Unaudited) (JPY'000)	31 March 2019 (Audited) (JPY'000)
Current		
Bank loans – unsecured	**5,600,000**	3,800,000
Analysed into:		
Bank loans repayable:		
Within one year	**5,600,000**	3,800,000

16. Interest-bearing bank borrowings (continued)

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

	30 September 2019 (Unaudited)	31 March 2019 (Audited)
Effective interest rates	**0.30%-0.55%**	0.33%-0.51%

As at 30 September 2019 and 31 March 2019, 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 2019 (Unaudited) (JPY'000)	31 March 2019 (Audited) (JPY'000)
Retirement benefit plan	**1,246,306**	1,297,203

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.

17. Employee defined benefit plans (continued)

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligation were carried out by Mizuho Trust & Banking Co., Ltd. and 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 2019 (Unaudited) (JPY' 000)	30 September 2018 (Unaudited) (JPY' 000)
Current service cost	**38,706**	39,756
Interest cost	**1,769**	2,117
Net benefit expenses	**40,475**	41,873
Recognised in cost of sales	**12,949**	15,033
Recognised in selling and distribution costs	**13,600**	13,287
Recognised in administrative expenses	**13,926**	13,553
	40,475	41,873

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 2019 in the defined benefit obligation and fair value of plan assets:

	1 April 2019 (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 financial assumptions (JPY'000)	Sub-total included in other comprehensive income (JPY'000)	30 September 2019 (JPY'000)
Defined benefit obligation	3,437,388	38,706	2,873	41,579	(130,261)	–	88	88	3,348,794
Fair value of plan assets	(2,140,185)	–	(1,104)	(1,104)	63,161	(24,360)	–	(24,360)	(2,102,488)
Benefit liability	1,297,203	38,706	1,769	40,475	(67,100)	(24,360)	88	(24,272)	1,246,306

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 financial assumptions (JPY'000)	Sub-total included in other comprehensive income (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

17. Employee defined benefit plans (continued)

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

	30 September 2019 (Unaudited) (JPY' 000)	31 March 2019 (Audited) (JPY' 000)
Stocks	**1,029,410**	1,099,170
Bonds	**870,290**	849,572
General account of life insurance companies	**142,189**	141,439
Others	**60,599**	50,004
Total	**2,102,488**	2,140,185

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

	30 September 2019 (Unaudited) (JPY' 000)	31 March 2019 (Audited) (JPY' 000)
Method of allocating projected retirement benefits	**Projected unit credit method**	Projected unit credit method
Discount rate	**0.14%**	0.17%
Salary increase rate (aged based, on average)	**1.90%**	1.90%
Turnover rate (aged based, on average)	**4.90%**	4.90%
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 2019 (Unaudited) (JPY'000)**	31 March 2019 (Audited) (JPY'000)
Discount rate	Increase by 0.5%	**(125,229)**	(125,561)
	Decrease by 0.5%	**125,229**	125,561

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 2019 is 7.4 years (31 March 2019: 7.4 years).

The actuarial valuation showed that the market value of plan assets was JPY2,102,488,000 as at 30 September 2019 (31 March 2019: JPY2,140,185,000), and represented 63% (31 March 2019: 63%) of the defined benefit obligation that had accrued to qualifying employees. The deficiency of JPY1,246,306,000 as at 30 September 2019 (31 March 2019: JPY1,297,203,000) is expected to be cleared over the remaining service period.

18. Share capital

	30 September 2019 (Unaudited)	31 March 2019 (Audited)
Issued capital (As of 30 September 2019 and as of 31 March 2019: 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

The company operates a restricted share unit scheme ("**the Scheme**") for the purpose of providing incentives and rewards to eligible participants who contributed the success of the Group's operations. The Scheme includes three batches, which were effective on 20 October 2015 and 31 May 2016 ("**2015 and 2016 RSU scheme**") and 6 October 2017 ("**2017 RSU scheme**").

2015 and 2016 RSU scheme

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 results 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 results for the fiscal year ending 31 March 2019 (whichever is earlier), which accounted as cancellation and modification of share-based payment.

During the six months ended 30 September 2019, 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 results for the fiscal year ending 31 March 2018 (whichever is earlier) and 30% on 31 December 2019, which accounted as cancellation and modification of share-based payment.

2017 RSU scheme

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 results 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 results for the fiscal year ending 31 March 2019 (whichever is earlier).

During the six months ended 30 September 2019, vesting schedule of above RSUs was modified to 50% on 30 April 2018 or the date on which the Company publishes its annual results for the fiscal year ending 31 March 2018 (whichever is earlier) and 50% on 31 December 2019, which accounted as cancellation and modification of share-based payment.

19. Share-based payment (continued)

2017 RSU scheme (continued)

The following RSUs were outstanding during the year ended 31 March 2019 and the six months ended 30 September 2019:

	For the six months ended 30 September 2019 Number of RSUs	For the year ended 31 March 2019 Number of RSUs
At the beginning of the period	**4,212,608**	9,347,488
Forfeited during the period	**(59,280)**	(373,542)
Cancelled during the period	**–**	(381,030)
Exercised during the period	**–**	(4,380,308)
At the end of the period	**4,153,328**	4,212,608

The Group reversed RSU expenses of JPY607,000 during the six months ended 30 September 2019 since the resignation of employees (six months ended 30 September 2018: accrued RSU expenses of JPY25,368,000).

20. Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	30 September 2019 (Unaudited) (JPY' 000)	31 March 2019 (Audited) (JPY' 000)
Contracted, but not provided for:		
Equipment, furniture and fittings	**116,241**	–
SAP Project	**–**	62,431
	116,241	62,431

21. Related party transactions and balances

(a) Name and relationship

Related parties	**Relationships**
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	
	2019	2018
	(Unaudited)	(Unaudited)
	(JPY'000)	(JPY'000)
Rental expense charged by related parties (note (i))		
Shanghai POVOS Enterprise (Group) Co., Ltd.	**13,815**	14,327

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

(c) Balances with related parties

	30 September 2019	31 March 2019
	(Unaudited)	(Audited)
	(JPY'000)	(JPY'000)
Due to a related party		
Shanghai POVOS Enterprise (Group) Co., Ltd.	**19,857**	7,144

21. Related party transactions and balances (continued)

(d) Compensation of key management personnel of the Group

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	(JPY' 000)	(JPY' 000)
Short term employee benefits	**132,663**	78,059
Pension scheme contributions	**12,302**	7,961
Total compensation paid to key management personnel	**144,965**	86,020

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 – Debt instruments at amortised cost

	30 September	31 March
	2019	2019
	(Unaudited)	(Audited)
	(JPY' 000)	(JPY' 000)
Trade receivables	**8,771,387**	9,638,141
Cash and cash equivalents	**10,222,122**	14,674,123
Financial assets included in prepayments, deposits and other receivables	**167,607**	326,464
Finance lease receivables	**115,172**	–
Other non-current assets	**696,419**	412,789
	19,972,707	25,051,517

22. Financial instruments by category (continued)

Financial assets – debt instruments at fair value through other comprehensive income

	30 September 2019 (Unaudited) (JPY'000)	31 March 2019 (Audited) (JPY'000)
Bills receivables	–	149,528

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

	30 September 2019 (Unaudited) (JPY'000)	31 March 2019 (Audited) (JPY'000)
Equity instruments at fair value through other comprehensive income	16,278	14,266

Financial liabilities – at amortised cost

	30 September 2019 (Unaudited) (JPY'000)	31 March 2019 (Audited) (JPY'000)
Trade payables	2,417,634	1,523,086
Due to a related party	19,857	7,144
Interest-bearing bank borrowings	5,600,000	3,800,000
Financial liabilities included in other payables and accruals	1,974,233	1,047,595
Lease liabilities	2,271,567	–
Financial liabilities included in other non-current liabilities	2,936	1,180
	12,286,227	6,379,005

23. Fair value and fair value hierarchy of financial instruments

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.

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

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The Group did not have any financial liability measured at fair value as at 30 September 2019 (31 March 2019: Nil).

Assets measured at fair value:

As at 30 September 2019

	Level 1 JPY'000	**Level 2 JPY'000**	**Level 3 JPY'000**	**Total JPY'000**
Equity instruments at fair value through other comprehensive income	**16,178**	**–**	**100**	**16,278**

As at 31 March 2019

	Level 1 JPY'000	Level 2 JPY'000	Level 3 JPY'000	Total JPY'000
Equity instruments at fair value through other comprehensive income	14,166	–	100	14,266
Bills receivable	–	149,528	–	149,528
	14,166	149,528	100	163,794

During the six months ended 30 September 2019, 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 2018: nil).

24. Event after the reporting period

On 29 November 2019, the board of directors declared the payment of an interim dividend of JPY1.64 per ordinary share totaling approximately JPY1,000,000,000 for the six months ended 30 September 2019.

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 29 November 2019.

HONMA