HONMA GOLF LIMITED
本間高爾夫有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6858

2019/20
ANNUAL REPORT

Contents

Corporate Information

Board of directors

Executive directors

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

Mr. Ito Yasuki (伊藤康樹)

Mr. Murai Yuji (邨井勇二)

Mr. Zuo Jun (左軍)

Non-executive 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

Registered Public Interest

Entity Auditor

Company's website

www.honma.hk

Stock code

6858

Registered office in Cayman Islands

The offices of Maples Corporate Services Limited

PO Box 309

Ugland House

Grand Cayman KY1-1104

Cayman Islands

Headquarter in Japan

35F Roppongi Hills Mori Tower

P.O. Box#62, 6-10-1

Roppongi

Minatoku

Tokyo, Japan

Shanghai Office

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

Principal place of business in Hong Kong

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

The Cayman Islands principal share registrar and transfer agent

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

Hong Kong share registrar

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

Principal bankers

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

Financial Summary

	For the year ended 31 March				
	2020	2019	2018	2017	2016
	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000
Operating Results					
Revenue	**23,787,214**	27,770,704	26,296,159	24,242,435	22,368,761
Gross profit	**12,117,617**	16,056,776	15,977,446	14,548,373	13,194,843
Gross profit margin	**50.9%**	57.8%	60.8%	60.0%	59.0%
Operating profit	**405,095**	5,309,429	6,242,193	4,946,318	4,129,769
Net (loss)/profit	**(732,413)**	4,208,839	3,933,211	4,952,669	3,564,540
(Loss)/profit before tax	**(357,679)**	5,604,221	5,374,265	5,563,805	3,959,136
(Loss)/profit for the year attributable to owners of the Company	**(732,363)**	4,209,367	3,934,291	4,569,948	3,569,201

	As at 31 March				
	2020	2019	2018	2017	2016
	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000
Assets and Liabilities					
Assets					
Non-current assets	**9,184,866**	6,124,873	5,838,480	6,379,692	5,689,990
Current assets	**29,712,451**	32,962,725	30,354,928	24,554,102	14,378,784
Total assets	**38,897,317**	39,087,598	36,193,408	30,933,794	20,068,774
Equity and liabilities					
Total equity	**21,263,797**	29,192,727	28,004,913	25,729,278	5,527,297
Non-current liabilities	**2,373,707**	1,754,481	1,825,221	2,216,654	2,605,157
Current liabilities	**15,259,813**	8,140,390	6,363,274	2,987,862	11,936,320
Total liabilities	**17,633,520**	9,894,871	8,188,495	5,204,516	14,541,477
Total equity and liabilities	**38,897,317**	39,087,598	36,193,408	30,933,794	20,068,774
Net current assets	**14,452,638**	24,822,335	23,991,654	21,566,240	2,442,464
Total assets less current liabilities	**23,637,504**	30,947,208	29,830,134	27,945,932	8,132,454

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to present our annual report for the year ended 31 March 2020.

During the year, we continued delivering strong results driven by steadfast implementation of our growth strategies, and continuous investment in our team and brand value. We were off to a good finish until the outbreak of COVID-19 impacted tremendously businesses across the world, including the golf industry. Since late January, protecting our team, partners and financial edge became top priorities for HONMA. With the changing retail environment and shift of consumers' buying behavior across many markets, we intensified efforts to go digital.

As lockdown measures started to ease in many places across Asia, and with many sports events now penciling in dates for their return, there are lots of opportunities opening up for the golf industry in the coming months. HONMA experienced mid-double-digit growths in China and South Korea while Japan started to show signs of recovery from the pandemic in April and May 2020. Markets in the US and Central Europe are starting to re-open and recent sell-through data has been above expectations. We are optimistic that our business performance will gradually recover in the months ahead.

Review of the Year

Due to the significant supply chain and operational challenges and slowed retail sales caused by COVID-19, our full-year sales declined by 13.9% based on comparable currency. Nevertheless, we are delightful to see Korea and Europe delivered 13.6% and 15.1% of growth against the challenging environment. In fact, excluding China and Japan whose economies were affected for most of the fourth quarter of the year ended 31 March 2020, our full-year revenue increased by 3.0%. We are expecting the markets to continue to be back to normality in the second half of the year.

Committed to offering premium products combining leading technology and Japanese craftsmanship

As a company with innovative technologies and traditional Japanese craftsmanship at its foundation, HONMA's design and engineering teams continue to provide golfers with exquisitely crafted and performance-driven golf clubs, accessories and apparel. Adhering to the mission of fine craftsmanship and the spirit of golf, we decided to optimize our club product offering with a greater focus on the super-premium and premium-performance consumer segments. This move proved to be a success as the sales performance of TOUR WORLD, our premium-performance club family grew by 51.6% and 73.3% in North America and Europe, respectively.

Nurturing complementary non-club product lines is another leg of the product strategy that aims to provide customers with a complete golf lifestyle experience. In January 2019, we re-launched HONMA apparel collection and during the last financial year, despite negative impact from COVID-19, apparel sales rose by 0.7%, while sales in Japan and Korea grew by 19.0% and 125.7%, respectively. Revenue from golf balls rose by 22.5%, marking a 6th consecutive year of double digit growth.

Chairman's Statement

Offering the ultimate 360-degree brand experience with a re-defined HONMA brand

During the year, we took multiple initiatives to improve our global brand positioning and communication, especially digital communication, to re-define HONMA as a dynamic, relevant and global brand among the younger golfers. These initiatives includes revamping our global website and social media platform, re-locating and renovating retail spaces with enhanced and consistent consumer experience, adding/re-launching e-commerce capabilities in key markets including Japan, China and the US. We are determined to provide consumers with the ultimate 360-degree brand experience through our unique direct-to-consumer communication and to eventually increase sales both online and offline.

Continue pivoting business expansion in North America and Europe

During the last financial year, we elevated our store presence with HONMA-branded displays at 40+ retail locations in North America while at the same time, pivoted to a mobile van program which brings the HONMA fitting experience to customers' home courses. This program now covers 9 territories in North America and has received an overwhelming response. We are confident that our strategy gives HONMA the best opportunity to establish a bigger foothold in North America, grow brand awareness and loyalty, and drive high-margin revenue growth. In Europe, we continued expanding our distribution network increasing total POS to 540 by 31 March 2020. To better serve avid golf enthusiasts, we are constantly evaluating our existing sales channels and exploring new channels in all of our major markets.

Building for the future

As we start to see the light at the end of the tunnel in some regions regarding COVID-19, we will continue our journey to build a world-leading golf lifestyle company, by leveraging the legacy and strong equity of the HONMA brand, our expanding distribution network, innovative technologies and traditional Japanese craftsmanship.

HONMA will fully capture our unique opportunities at the forefront in both super-premium and premium performance segments, increasing the market share in home markets, namely Japan, Korea and China by maintaining our leading position in the super-premium segment while making solid inroads into the fast-growing premium performance segment. In North America and Europe, we remain committed to adding more premier retail point-of-sales and mobile vans in the next 18-24 months to capture the strong growth potential in this market.

On behalf of the Board, I would like to extend my gratitude to our Shareholders, business partners and customers for their continuous support, understanding and trust. I would also like to express my deepest appreciation to our Board members, management team, and all employees for their dedication and contribution to HONMA. As a team, we will proactively promote our business strategies to create more value for our Shareholders.

LIU Jianguo

Chairman

15 June 2020

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 combines latest innovative technologies with 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.

2019 marked the 60th Anniversary of HONMA. In late 2018, in the run-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, which further improved HONMA's brand awareness in Asia. In January 2019, HONMA stepped up its tour presence internationally in an effort to further elevate the HONMA brand and to boost its global reach among consumers in super-premium and premium-performance segments.

Overview of Key Operating Results

In 2019, the global golf industry continued its recovery with golfers across the globe showing renewed interest and increased participation in golf as a sport.

With this, the management of HONMA made the decision to strengthen its product offering with a greater focus on the super-premium and premium-performance consumer segments. This 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 year ended 31 March 2020, the said decision has led to a decrease in the net sales of Be ZEAL by 64.0% as compared to the year ended 31 March 2020 based on constant currency. Since January, the outbreak of COVID-19 and government reactions to implement social distancing and shelter-in-place created significant business operation challenges and slowed retail sales, at a time when HONMA was launching two new products targeting super-premium and premium-performance segments. Full year sales declined by 13.9% based on comparable currency. However excluding Japan and China, the two countries that got most affected by COVID-19, net sales of BERES and TOUR WORLD family did benefit from the revised product strategy and grew by approximately 36.1% and 7.3%, respectively.

Market wise, Europe and Korea continued to lead the way in terms of growth, delivering a year on year growth of 15.2% and 13.6%, respectively, both on constant currency basis. Due to negative impact from COVID-19 on the launch window of its BERES and TOUR WORLD products, sales from Japan, decreased by 24.4% on constant currency basis but sales in balls and apparels grew by 43.7% and 19.0%, respectively. Sales from China dropped by 28.1% on a constant currency basis, due to negative impact from COVID-19 and continued social unrest in Hong Kong. Japan, Korea and China contributed 80.7% of total sales.

Management Discussion and Analysis Overview of the Company, Its Key Business Results and Business Outlook (continued)

Highlights of Major achievements

In the year ended 31 March 2020, 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 in the future.

- ***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 brand among internet-savvy younger golfers, the Company relaunched its global website in November 2018 and its social media platforms in January 2019. Since then the Company made regular and frequent content updates of digital platforms to promote brand awareness and appeal to the younger golfers. The rapid increase of HONMA's digital communications has generated month-on-month 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 Company started creating and/or revamping its customer relationship management ("**CRM**") systems and added various e-commerce capabilities and consumer-facing custom tools 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 communication and to eventually increase sales both online and offline.

- ***Continued executing growth strategies in North America and Europe.*** The critical driver of HONMA North America's growth plan lies with a direct to consumer distribution model. For the year ended 31 March 2020, the Company installed elevated store presence with HONMA branded display/custom fixture at 40+ retail locations in North America, ranging from A-level (500+ square feet with golf simulator), B-level (250+ square feet and feature wall), C-level (100+ square feet) and to D-level (1-2 display only) shop in shops. At the same time and since summer 2019, the Company pivoted to a mobile strategy, where the total HONMA fitting experience is brought to the golfer's home course. By January 2020, the Company had 9 mobile vans in North America, the number of which will expand to 14 in summer 2020.

  In mid-April 2019, the Company launched a brand new e-commerce website and therefore created another important brand touchpoint for HONMA's North American consumers researching and searching for HONMA products, local retailers or fitting experience. Various digital marketing efforts have been implemented to drive website traffic and target potential shoppers through re-targeting efforts in social media and search engine marketing. And for the year ended 31 March 2020, the Company has seen 566,664 site visits and average order value of more than one thousand US dollar, which trend continued into April 2020 albeit negative impact from COVID-19. The strong start is also good evidence of HONMA's brand building and consumer interest in the second year of North American expansion. The Company is confident that this mobile strategy gives HONMA the best opportunity to establish a foothold in North America, grow brand awareness and loyalty, and drive high-margin revenue growth.

Management Discussion and Analysis Overview of the Company, Its Key Business Results and Business Outlook (continued)

Highlights of Major achievements (continued)

In Europe, HONMA continued expanding its distribution network and opened 68 new POS while closing 46 in the year ended 31 March 2020, hence increasing its total POS to 540 by 31 March 2020. Sales in Europe grew by 15.2% on a constant currency basis compared to the year ended 31 March 2019.

- ***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 year ended 31 March 2020, HONMA applied several of its revolutionary proprietary technologies to the design and development of its new XP series, the first 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 followed by the launch of TR in March 2020, which targets single handicappers who often get inspired by tour players. Although net sales of the TOUR WORLD family declined globally by 16.8% based on constant currency mainly due to government-imposed lockdown in Asia, sales of TOUR WORLD products did grow by 51.6% and 73.3% in North America and Europe hence reconfirming the Company's decision to reprioritize its club offerings.

- ***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.*** Unlike its peers, HONMA's golf clubs continued to generate 79% of its total sales. On the back of continued and mid-double-digit growth in revenue from golf balls over the past three years, the Company further prioritized 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 22.5% on a constant currency basis, attributable to continued growth in Japan and Korea where revenue of golf balls grew by 43.7% and 123.1%, respectively, as compared to the year ended 31 March 2019.

  In January 2019, HONMA re-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 year ended 31 March 2020 included mostly sales from the Spring/Summer and Fall/Winter Collections from 2019. In spite of the negative impact from COVID-19 where China and Japan saw their retail operation coming to a standstill, apparel sales rose by 0.7% based on constant currency and sales in Japan and Korea grew by 19.0% and 125.7%, respectively.

- ***360-degree brand experience built into new retail space and environments.*** The Company 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 year ended 31 March 2020, the Company opened 2 new stores in Japan, 14 in China and 6 in Korea, by consistently applying the new retail visual identity, design concept and consumer experience elements using advanced technology. The Company also converted multiple shop-in-shops in the 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.

Management Discussion and Analysis Overview of the Company, Its Key Business Results and Business Outlook (continued)

Highlights of Major achievements (continued)

- ***Customer events.*** Customer events have always been key to the continued enhancement of HONMA's brand, product awareness and consumer mind share. During the year ended 31 March 2020, HONMA hosted close to 4,329 customer days across its main markets, most of which were held on golf courses with dedicated fitters.

- ***Sponsoring TEAM HONMA players.*** As of 31 March 2020, TEAM HONMA consisted of 13 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.

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**

Management Discussion and Analysis Overview of the Company, Its Key Business Results and Business Outlook (continued)

Highlights of Major achievements (continued)

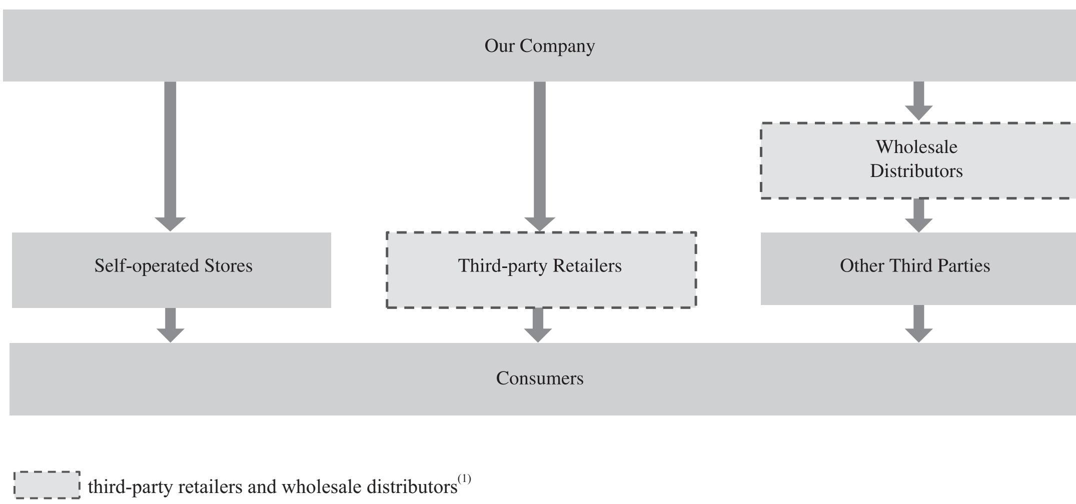
Product Design and Development (continued)

BERES golf clubs target consumers in Segment 2, which is the Company's traditional customer base and comprises affluent consumers 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 looking to improve their performance.

As part of the global brand re-definition and entry into the US and European markets, the Company 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.

Sales and Distribution Network

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



Note:

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

Management Discussion and Analysis Overview of the Company, Its Key Business Results and Business Outlook (continued)

Highlights of Major achievements (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 31 March 2020, the Group had 79 HONMA-branded self-operated stores, all of which were located in Asia with 3 stores opened in the US during the year ended 31 March 2020. Following the apparel relaunch, the Group opened 14 new self-operated stores and closed 9 stores in China in the year ended 31 March 2020. 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 number of self-operated stores opened and closed during the year ended 31 March 2020:

	For the year ended 31 March 2020			
	Period start	Opened	Closed	Period end
Japan	32	2	5	29
China (including Hong Kong and Macau)	32	14	9	37
US	–	3	–	3
Rest of Asia	4	6	–	10
Total	68	25	14	79

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 31 March 2020, the Group had 6 fitting centers.

As at 31 March 2020, the Group had approximately 3,911 points of sales ("**POS**"), representing a year-on-year increase of 177 POSs. The Group's POSs consist of (a) POS of third-party retailers ("**Retailers**") and (b) POS of wholesale distributors ("**Wholesale Distributors**") that on-sell the Group's products to other third parties and consumers. Retailers include, among others, sports megastores, which are large retailers of sports goods. As at 31 March 2020, the Group's products were sold at 1,546 POSs of sports megastores.

In Japan, the Group mainly sells products to Retailers, including nation-wide sports chain stores 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.

Management Discussion and Analysis Overview of the Company, Its Key Business Results and Business Outlook (continued)

Highlights of Major achievements (continued)

Updating e-commerce capabilities and creating one digital ecosystem

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 upgraded its 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 227 craftsmen, 24 of whom are master craftsmen with more than 34 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.

Employees

As at 31 March 2020, the Group had 822 employees worldwide, the 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 JPY5,236.8 million for the year ended 31 March 2020.

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

Management Discussion and Analysis Overview of the Company, Its Key Business Results and Business Outlook (continued)

Highlights of Major achievements (continued)

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.

The brand perception of luxury and super-rich Asians is strongly rooted in consumer sentiment, and extensive marketing efforts have been designed to evolve and expand this perception towards performance focus, rooted in unique craftsmanship and superior technology. The launch of XP-1 family of game-improvement products, and the subsequent launch of TR family of tour performance products have generated great consumer and media buzz for HONMA.

Outlook

Business Outlook

For the year ahead, 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. 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, followed by similar store openings in China, US and Europe. 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.

Management Discussion and Analysis Overview of the Company, Its Key Business Results and Business Outlook (continued)

Outlook (continued)

Business Outlook (continued)

- ***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. The Group will continuously foster stronger partnerships with its retail partners while intensifying investments in sales point product promotions that are relevant to these consumer segments.

- ***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 year ended 31 March 2020, HONMA continued implementing a unique direct to consumer distribution strategy, installed 43 elevated retail presence and implemented 9 mobile vans. In October 2019, Honma opened its first flagship store in Carlsbad, California, which further increased HONMA's brand awareness. The Company remains committed to add another 30-40 premier shop-in-shops and between 20-30 mobile hubs in North America in the next 18-24 months. The said direct to consumer 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 purchase journey.

  Furthermore, the decision to differentiate the TOUR WORLD product offering between tour inspired better players and golfers who look for performance enhancements 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, the TOUR WORLD series designed for double handicappers was officially launched in October 2019, which together with TR, the TOUR WORLD series designed for single handicappers 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 three apparel collections, being 2019 Spring/Summer collection, 2019 Fall/Winter collection and 2020 Spring/Summer 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.

Management Discussion and Analysis Overview of the Company, Its Key Business Results and Business Outlook (continued)

Outlook (continued)

Business Outlook (continued)

- ***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 JPY362.3 million and JPY343.9 million for the years ended 31 March 2019 and 2020, respectively. In the year ended 31 March 2020, 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.

Industry Outlook

The golf industry will continue to face multiple challenges in the year ending 31 March 2021 as we have seen in the year ended 31 March 2020. These challenges included anticipated slowdown of GDP growths in our major markets, continued US-China trade war and sustained if not accelerating outbreak of COVID-19 which has and will continue to cause market turbulence and economic uncertainties. Since early 2020, we have seen golf courses and retail stores being forced to close, production activities suspended and consumption demands decreased in a short period of time. The Group's operations, mainly, the operations of a significant number of our self-operated stores and retailers in China and our supply base in China and to some extent Japan have been interrupted by the COVID-19 outbreak, following the introduction of mandatory restrictive or lockdown measures by governmental authorities. As of the date of this announcement, the majority of our self-operated stores that were temporarily closed have been reopened but our retail partners in a number of countries, in particular markets outside Asia remain shut.

Although the reinstatement of golf at the 2016 Olympic Games significantly raised the profile of the sport worldwide, COVID-19 has also caused a painful decision to postpone the 2020 Tokyo Olympic. As of the date of this announcement, for markets that have lifted the lockdown, we have already seen increased participation in golf and we do expect the golf industry to gradually go back to the new norm as from July 2020.

The Group also believes that the year ending 31 March 2021 will be a crucial year for it to execute its development strategies. The Group is confident in its ability to mitigating the adverse impacts of the COVID-19 outbreak and will seize every possible opportunities to preserve cash, to right size its organization in order to foster a solid foundation for the mid- and long-term development with respect to our brand, products, distribution channel, employees and supply chain. The Group endeavors to promote the sustainable development and strives to create the long-term value for all of its shareholders.

The Group will stay alert on the developments of external challenges including COVID-19, continue to review its existing business strategies from time to time and take necessary action to mitigate the business risks while safe guarding the health and safety of its employees and teams.

Financial Review

The following table is a summary of the Group's consolidated statement of profit or loss with line items in absolute amounts and as percentages of the Group's total revenue for the years indicated, together with the change (expressed in percentages) from the year ended 31 March 2019 to the year ended 31 March 2020:

	For the year ended 31 March				Year-on-Year Change
	2020		2019		
	JPY	%	JPY	%	%
	(In thousands, except for percentages and per share data)				
Consolidated Statement of Profit or Loss					
Revenue	23,787,214	100.0	27,770,704	100.0	(14.3)
Cost of sales	(11,669,597)	(49.1)	(11,713,928)	(42.2)	(0.4)
Gross profit	12,117,617	50.9	16,056,776	57.8	(24.5)
Other income and gains	67,908	0.3	422,207	1.5	(83.9)
Selling and distribution expenses	(9,546,408)	(40.1)	(9,060,498)	(32.6)	5.4
Administrative expenses	(2,186,825)	(9.2)	(1,805,750)	(6.5)	21.1
Other expenses, net	(831,289)	(3.5)	(96,841)	(0.3)	758.4
Finance costs	(69,191)	(0.3)	(15,056)	(0.1)	359.6
Finance income	90,509	0.4	103,383	0.4	(12.5)
(Loss)/profit before tax	(357,679)	(1.5)	5,604,221	20.2	(106.4)
Income tax expense	(374,734)	(1.6)	(1,395,382)	(5.0)	(73.1)
Net (loss)/profit	(732,413)	(3.1)	4,208,839	15.2	(117.4)
(Loss)/earning per share attributable to ordinary equity holders of the parent:					
Basic and diluted					
– For (loss)/profit for the period(JPY)	(1.20)		6.91		(117.4)
Non-IFRS Financial Measure					
Adjusted SG&A[(1)]	(11,733,948)	(49.3)	(10,838,560)	(39.0)	8.3
Operating profit[(2)]	405,095	1.7	5,309,429	19.1	(92.4)
Net operating profit[(3)]	33,490	0.1	3,928,898	14.1	(99.1)

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 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 loss/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 14.3% from JPY27,770.7 million for the year ended 31 March 2019 to JPY23,787.2 million for the year ended 31 March 2020.

Constant Currency Revenue

On a constant currency basis, the Group's total revenue decreased by 13.9% from the year ended 31 March 2019 to the year ended 31 March 2020. For the purpose of calculating constant currency revenue growth, the Group has used the average exchange rate of the year ended 31 March 2019 to translate sales recorded during the year ended 31 March 2020, to the extent the original currency for such sales is not in Japanese Yen.

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

Financial Review (continued)

Revenue (continued)

Revenue by Product Groups

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

	For the year ended 31 March				Year-on-Year Change	
					on as reported basis	on constant currency basis[1]
	2020		2019			
	JPY	%	JPY	%	%	%
	(In thousands, except for percentages)					
Golf clubs	**18,838,711**	**79.2**	22,467,732	80.9	(16.2)	(15.8)
Golf balls	**2,205,839**	**9.3**	1,805,002	6.5	22.2	22.5
Apparels	**1,263,481**	**5.3**	1,283,130	4.6	(1.5)	0.7
Accessories and other related[2]	**1,479,183**	**6.2**	2,214,839	8.0	(33.2)	(33.0)
Total	**23,787,214**	**100.0**	27,770,704	100.0	(14.3)	(13.9)

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.

Golf clubs comprise the majority of the Group's business. Revenue for golf clubs decreased by 16.2% from JPY22,467.7 million for the year ended 31 March 2019 to JPY18,838.7 million for the year ended 31 March 2020. On a constant currency basis, revenue for golf clubs decreased by 15.8% from the year ended 31 March 2019 to the year ended 31 March 2020. The decrease in golf clubs was primarily attributable to negative impacts from COVID-19 on the Company's supply chain and retail activation of BERES 07 and TR 20, two of its main club products launched in December 2019 and January 2020, respectively.

Revenue for golf balls increased by 22.2% from JPY1,805.0 million for the year ended 31 March 2019 to JPY2,205.8 million for the year ended 31 March 2020. On a constant currency basis, revenue for golf balls grew by 22.5% from the year ended 31 March 2019 to the year ended 31 March 2020. 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.

Financial Review (continued)

Revenue (continued)

Revenue by Product Groups (continued)

During the same period and on a constant currency basis, despite unprecedented negative impacts from COVID-19 on the Company's supply chain and retail sales operation and activation of its FW19 and SS20 collections, revenue for apparels sales grew by 0.7% while sales in Japan and Korea grew by 19.0% and 125.7%, respectively.

Revenue for accessories and other related products decreased by 33.2% from JPY2,214.8 million for the year ended 31 March 2019 to JPY1,479.2 million for the year ended 31 March 2020. The decrease was mainly attributed to one off stock clearance ahead of the relaunch of HONMA's accessory lines.

Revenue by Geography

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

	For the year ended 31 March				Year-on-Year Change	
					on as reported basis	on constant currency basis(1)
	2020		2019			
	JPY	%	JPY	%	%	%
	(In thousands, except for percentages)					
Japan	10,861,823	45.7	14,369,818	51.7	(24.4)	(24.4)
Korea	5,588,999	23.5	4,919,939	17.7	13.6	13.6
China (including Hong Kong and Macau)	2,750,992	11.6	3,975,678	14.3	(30.8)	(28.1)
North America	1,238,979	5.2	1,362,855	4.9	(9.1)	(8.1)
Europe	1,231,107	5.2	1,069,485	3.9	15.1	15.2
Rest of the World	2,115,314	8.9	2,072,929	7.5	2.0	2.4
Total	23,787,214	100	27,770,704	100.0	(14.3)	(13.9)

Note:

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

For the year ended 31 March 2020, 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 80.7% of the Group's total revenue for the year ended 31 March 2020, which collectively formed the Group's home markets.

Financial Review (continued)

Revenue (continued)

Revenue by Geography (continued)

Revenue from Japan decreased by 24.4% from JPY14,369.8 million for the year ended 31 March 2019 to JPY10,861.8 million for the year ended 31 March 2020, as a result of negative impact of COVID-19 which affected the economy of Japan for the most part of the fourth quarter of the year ended 31 March 2020. The decision to phase out Be ZEAL club series has also led to a year-on-year revenue decrease of 84.6% and Be ZEAL used to account for 25% of Japan's revenue.

Revenue from Korea recorded a double-digit growth of 13.6% for the seventh consecutive year from JPY4,919.9 million for the year ended 31 March 2019 to JPY5,589.0 million for the year ended 31 March 2020. On a constant currency basis, revenue for Korea also increased by 13.6% from the year ended 31 March 2019 to the year ended 31 March 2020. In the year ended 31 March 2020, 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 China (including Hong Kong and Macau) decreased by 30.8% from JPY3,975.7 million for the year ended 31 March 2019 to JPY2,751.0 million for the year ended 31 March 2020. On a constant currency basis, revenue for China (including Hong Kong and Macau) decreased by 28.1% from the year ended 31 March 2019 to the year ended 31 March 2020. The decrease was primarily caused by the continued deterioration of the situation in Hong Kong as well as the effects of the COVID-19. Excluding mainland China, revenue from Hong Kong decreased by 60.8% from JPY728.7 million for the year ended 31 March 2019 to JPY285.7 million for the year ended 31 March 2020.

Revenue from North America decreased by 9.1% from JPY1,362.9 million for the year ended 31 March 2019 to JPY1,239.0 million for the year ended 31 March 2020. On a constant currency basis, revenue for North America decreased by 8.1% from the year ended 31 March 2019 to the year ended 31 March 2020. The decrease was primarily due to negative impacts from COVID-19 on the retail activation of BERES 07 and TR 20, scheduled to take place between February and March 2020. In the year ended 31 March 2020, the Company did see sales for TOUR WORLD clubs rose by 51.6%, mostly driven on a successful activation of XP-1 in September 2019.

Revenue from Europe increased significantly by 15.1% from JPY1,069.5 million for the year ended 31 March 2019 to JPY1,231.1 million for the year ended 31 March 2020 despite the unprecedented impact from COVID-19 on the golf industry and the global economy. On a constant currency basis, revenue from Europe increased by 15.2% from the year ended 31 March 2019 to the year ended 31 March 2020. 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 years indicated:

	For the year ended 31 March				Year-on-Year Change	
	2020		2019		on as reported basis	on constant currency basis[1]
	JPY	**%**	JPY	%	%	%
	(In thousands, except for percentages)					
Self-operated stores	**5,282,206**	**22.2**	6,040,575	21.8	(12.6)	(11.7)
3rd party retailers and wholesalers	**18,505,008**	**77.8**	21,730,129	78.2	(14.8)	(14.5)
Total	**23,787,214**	**100.0**	27,770,704	100.0	(14.3)	(13.9)

Note:

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

Revenue from self-operated stores decreased by 12.6% from JPY6,040.6 million for the year ended 31 March 2019 to JPY5,282.2 million for the year ended 31 March 2020. The decrease was primarily due to temporary closures of almost all of its self-operated stores in China, Japan and Korea in response to various mandatory restrictive or lockdown measures imposed by governmental authorities. Revenue from sales to third-party retailers and wholesalers decreased by 14.8% from JPY21,730.1 million for the year ended 31 March 2019 to JPY18,505.0 million for the year ended 31 March 2020.

Financial Review (continued)

Cost of Sales

Cost of sales remained relatively stable at JPY11,713.9 million for the year ended 31 March 2019 and JPY11,669.6 million for the year ended 31 March 2020. The table below sets forth a breakdown of the key components of cost of sales, each expressed in absolute amounts and as percentages of the total cost of sales during the years indicated:

	For the year ended 31 March			
	2020		2019	
	JPY	%	JPY	%
	(In thousands, except for percentages)			
Raw materials	6,988,343	59.9	6,735,500	57.5
Employee benefits	1,191,707	10.2	1,336,261	11.4
Manufacturing overhead[(1)]	399,080	3.4	539,599	4.6
Finished goods purchased from suppliers	3,090,467	26.5	3,102,568	26.5
Total	11,669,597	100.0	11,713,928	100.0

Note:

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

Gross Profit and Gross Profit Margin

Gross profit decreased by 24.5% from JPY16,056.8 million for the year ended 31 March 2019 to JPY12,117.6 million for the year ended 31 March 2020. Gross profit margin decreased from 57.8% for the year ended 31 March 2019 to 50.9% for the year ended 31 March 2020.

Financial Review (continued)

Gross Profit and Gross Profit Margin (continued)

Gross Profit and Gross Profit Margin by Product Groups

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

	For the year ended 31 March			
	2020		2019	
	JPY	%	JPY	%
	(In thousands, except for percentages)			
Golf clubs	9,959,117	52.9	13,605,115	60.6
Golf balls	865,206	39.2	838,309	46.4
Apparels	790,114	62.5	670,034	52.2
Accessories and other related[1]	503,180	34.0	943,318	42.6
Total	12,117,617	50.9	16,056,776	57.8

Note:

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

Gross profit for golf clubs decreased by 26.8% from JPY13,605.1 million for the year ended 31 March 2019 to JPY9,959.1 million for the year ended 31 March 2020. Gross profit margin for golf clubs decreased from 60.6% for the year ended 31 March 2019 to 52.9% for the year ended 31 March 2020, primarily due to negative product lifecycle impact as the year finished without a full-fledged launch of its two main golf club products, namely BERES 07 and TR20.

Gross profit for golf balls increased by 3.2% from JPY838.3 million for the year ended 31 March 2019 to JPY865.2 million for the year ended 31 March 2020. Gross profit margin for golf balls decreased from 46.4% for the year ended 31 March 2019 to 39.2% for the year ended 31 March 2020, primarily due to greater sales contribution from third-party retailers and wholesalers compared to self-operated stores.

Gross profit for apparels increased by 17.9% from JPY670.0 million for the year ended 31 March 2019 to JPY790.1 million for the year ended 31 March 2020, and gross profit margin for apparels increased from 52.2% for the year ended 31 March 2019 to 62.5% for the year ended 31 March 2020. The increases were due to continued improvement in price management and upgrade in HONMA's supplier network.

Gross profit for accessories and other related products decreased by 46.7% from JPY943.3 million for the year ended 31 March 2019 to JPY503.2 million for the year ended 31 March 2020 and gross profit margin for accessories and other related products decreased from 42.6% for the year ended 31 March 2019 to 34.0% for the year ended 31 March 2020. The decreases were primarily due to clearance of inventories from past collections ahead of the relaunch of HONMA's accessory lines.

Financial Review (continued)

Other Income and Gains

Other income and gains decreased significantly from JPY422.2 million for the year ended 31 March 2019 to JPY67.9 million for the year ended 31 March 2020. The decrease was primarily due to the decrease in net foreign exchange gains which was JPY336.7 million for the year ended 31 March 2019.

Selling and Distribution Expenses

Selling and distribution expenses increased by 5.4% from JPY9,060.5 million for the year ended 31 March 2019 to JPY9,546.4 million for the year ended 31 March 2020. Selling and distribution expenses as a percentage of revenue increased from 32.6% for the year ended 31 March 2018 to 40.1% for the year ended 31 March 2020. These increases were primarily due to increased personnel costs related to new markets and new businesses and decrease in overall sales. The following table sets forth a breakdown of selling and distribution expenses by absolute amounts and percentages of total selling and distribution expenses for the years indicated:

	For the year ended 31 March			
	2020		2019	
	JPY	%	JPY	%
	(In thousands, except for percentages)			
Employee benefits	3,363,984	35.2	3,187,106	35.2
Advertising and promotion expenses	2,888,334	30.3	3,156,787	34.8
Depreciation of right-of-use assets	832,259	8.7	–	–
Rental fees	419,959	4.4	1,229,628	13.6
Others[(1)]	2,041,872	21.4	1,486,977	16.4
Total	9,546,408	100.0	9,060,498	100.0

Note:

(1) Include distribution costs, depreciation and amortisation of tangible and intangible assets, travel expenses, consumables and other expenses.

Administrative Expenses

Administrative expenses increased by 21.1% from JPY1,805.8 million for the year ended 31 March 2019 to JPY2,186.8 million for the year ended 31 March 2020, primarily due to bad debt provision of JPY676.0 million as per IFRS9.

Financial Review (continued)

Other Expenses, Net

Other expenses increased significantly by 758.4% from JPY96.8 million for the year ended 31 March 2019 to JPY831.3 million for the year ended 31 March 2020. The increase was primarily due to net foreign exchange losses which was JPY574.2 million for the year ended 31 March 2020 and one off workforce rationalization cost of JPY197.5 million.

Finance Costs

Finance costs increased by 359.6% from JPY15.1 million for the year ended 31 March 2019 to JPY69.2 million for the year ended 31 March 2020. The increase was primarily due to the interest expense relating to lease liabilities of JPY43.5 million as adoption of IFRS16.

Finance Income

Finance income decreased by 12.5% from JPY103.4 million for the year ended 31 March 2019 to JPY90.5 million for the year ended 31 March 2020. The decrease was primarily due to the decrease in average bank deposit and the decline in bank interest rates.

Loss/Profit Before Tax

As a result of the foregoing, loss before tax for the year ended 31 March 2020 was JPY357.7 million.

Income Tax Expense

Income tax expense decreased by 73.1% from JPY1,395.4 million for the year ended 31 March 2019 to JPY374.7 million for the year ended 31 March 2020. The Group's effective tax rate decreased from 24.9% for the year ended 31 March 2019 to negative 104.8% for the year ended 31 March 2020.

Net Loss/Profit

As a result of the foregoing, net loss for the year ended 31 March 2020 was JPY732.4 million. Net loss margin for the year ended 31 March 2020 was 3.1%.

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 years indicated:

	For the year ended 31 March	
	2020	2019
	(In JPY thousands)	
Selling and distribution expenses	**9,546,408**	9,060,498
Administrative expenses	**2,186,825**	1,805,750
Adjustment for:		
RSU expenses in relation to sales and marketing staff and administrative staff	**715**	(27,688)
Adjusted SG&A	**11,733,948**	10,838,560

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 years indicated:

	For the year ended 31 March	
	2020	2019
	(In JPY thousands)	
(Loss)/profit before tax	(357,679)	5,604,221
Adjustment for:		
Other income and gains	(67,908)	(422,207)
Other expenses	831,289	96,841
RSU expenses	(607)	30,574
Operating (loss)/profit	405,095	5,309,429

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 years indicated:

	For the year ended 31 March	
	2020	2019
	(In JPY thousands)	
Net (loss)/profit	(732,413)	4,208,839
Adjustment for:		
Other income and gains	(67,908)	(422,207)
Other expenses	831,289	96,841
RSU expenses	(607)	30,574
Impact on tax	3,129	14,851
Net operating profit	33,490	3,928,898

Financial Review (continued)

Working Capital Management

	For the year ended 31 March	
	2020	2019
Inventories turnover days[(1)]	**268**	224
Trade and bills receivables turnover days[(2)]	**139**	122
Trade and bills payables turnover days[(3)]	**63**	39

Notes:

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

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

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

Compared to the year ended 31 March 2019, inventories turnover days increased by 44 days for the year ended 31 March 2020 primarily due to negative impact from COVID-19 which prevented the Company from shipping orders received. Due to the same reason, trade and bills receivables turnover days increased for the year ended 31 March 2020 by 17 days. Trade payables turnover days increased by 24 days for the year ended 31 March 2020, primarily due to continued supply chain improvement effects.

Inventories

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

	As at 31 March 2020	As at 31 March 2019
	(In JPY thousands)	
Raw materials	**2,200,698**	2,785,076
Work in progress	**1,105,279**	952,581
Finished goods	**7,106,722**	4,419,599
Less: provision	**(822,734)**	(579,255)
Total	**9,589,965**	7,578,001

Financial Review (continued)

Inventories (continued)

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

	As at 31 March 2020	As at 31 March 2019
	(In JPY thousands)	
Within 1 year	**5,984,035**	4,160,007
1 year to 2 years	**1,793,830**	2,051,945
2 to 3 years	**1,072,500**	611,205
3 to 4 years	**435,545**	420,914
Over 4 years	**304,055**	333,931
Total	**9,589,965**	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.

Liquidity and Capital Resources

During the year ended 31 March 2020, the Group financed its operations primarily through cash from operations, net proceeds received from the global offering and proceeds from bank loans. The Group intends to finance its expansion and business operations by internal resources and through organic and sustainable growth, bank borrowings, as well as the net proceeds received from the global offering.

As at 31 March 2020, the Group had JPY10,472.8 million in cash and cash equivalents, which were primarily held in U.S. dollar, Japanese Yen and Renminbi. The Group's cash and cash equivalents primarily consist of cash in hand and demand deposits.

A substantial portion of the Group's operation is based in Japan, and a substantial portion of the Group's revenue and expenditures are denominated and settled in Japanese Yen. As a result, the Group's currency risk is limited, and the Group did not use any derivative contracts to hedge against such risk as at 31 March 2020.

Financial Review (continued)

Indebtedness

As at 31 March 2020, the Group's interest-bearing borrowings amounted to JPY8,600.0 million, all of which were denominated in Japanese Yen. All of such borrowings were unsecured and payable within one year. The effective interest rate for the balance of the Group's interest-bearing borrowings as at 31 March 2020 ranged from 0.33% to 0.53%.

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 31 March 2020, the Group's gearing ratio was 50.1% (as at 31 March 2019, the Group's gearing ratio was 13.0% or 17.6% after taking the impact of IFRS 16 into consideration).

Capital Expenditures

The Group's capital expenditures for the year ended 31 March 2020 amounted to JPY1,194.4 million, which was used primarily to purchase plant machinery and equipment, office equipment and leasehold improvement. In the year ended 31 March 2020, the Group financed its capital expenditures primarily with cash generated from operations and net proceeds received from the global offering.

Contingent Liabilities

As at 31 March 2020, 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.

Charge on Assets

There was no charge on the Group's assets as at 31 March 2020.

Material Acquisitions and Future Plans for Major Investment

During the year ended 31 March 2020, 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.

Financial Review (continued)

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 JPY16,798.4 million, which are intended to be applied in compliance with the intended use of proceeds as set out in the section headed "Net Proceeds from the Global Offering" in the Group's Announcement of Offer Price and Allotment Results dated 5 October 2016.

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

Intended use of proceeds	Percentage of intended use of proceeds (%)	Intended use of proceeds from the global offering (In JPY millions)	Percentage of used amount as at 31 March 2020 (%)	Percentage of unused balance as at 31 March 2020 (%)	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	10.3	2.7	From 1 April 2020 to 31 March 2022
Repayment of interest-bearing bank borrowings	17.3	2,906	17.1	0.2	From 1 April 2020 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	67.8	32.2	

Financial Review (continued)

Use of Proceeds from the Global Offering (continued)

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 announcement, 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.

As at 31 March 2020, the unused balance of the proceeds from the global offering of approximately JPY5,415.1 million are currently deposited with creditworthy banks with no recent history of default.

Events after the Reporting Period

Final Dividend

The Board recommends the payment of a final dividend of JPY1.50 per share, amounting to approximately a total of JPY908.5 million for the year ended 31 March 2020 (the "**2019/2020 Final Dividend**"), representing approximately 6.4% of the Group's distributable profits as at 31 March 2020. The 2019/2020 Final Dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (the "**AGM**").

Exchange Rate Conversion

Unless otherwise specified, amounts denominated in USD have been translated, for the purpose of illustration only, into JPY at the exchange rate of USD1.00:JPY109.36. 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.

Biographies of Directors and Senior Management

Directors

Executive Directors

Mr. Liu Jianguo (劉建國), aged 51, was appointed as the Chairman of the Board, President and executive Director of the Company on 14 June 2016. He is the chairman of the Nomination Committee of the Company. He is also the chairman and representative director of Honma Golf Co., Ltd. ("**Honma Japan**") and a director of Honma Holdings Group Limited ("**Honma Holdings**") and certain subsidiaries of the Company. He is responsible for formulating the overall development strategies and business plans of our Group and overseeing the management and strategic development of our Group. Mr. Liu acquired our Group in 2010 and he has served as chairman of Honma Japan since June 2010. Mr. Liu has over 29 years of experience in business management. He has been the chairman of Shanghai POVOS Enterprise (Group) Co., Ltd. (上海奔騰企業(集團)有限公司), which is engaged in the development, manufacturing and marketing of household appliance products, since January 2002 and has been chairman of Zhejiang POVOS Appliance Co., Ltd. (浙江奔騰電器股份有限公司) since September 2000. From May 1991 to August 2000, Mr. Liu was the general manager of Zhejiang Changjiang Electronical Industry Co., Ltd. (浙江長江電子工業有限公司), where he was responsible for general management and daily operations of the company. Mr. Liu obtained an executive master of business administration degree from Guanghua School of Management, Peking University (北京大學), PRC, in January 2007. Mr. Liu is the sole director of each of Kouunn Holdings Limited and Prize Ray Limited, controlling shareholders of the Company.

Mr. Ito Yasuki (伊藤康樹), aged 59, was appointed as an executive Director, Chief Marketing Officer and President of Japan Operations of the Company on 14 June 2016. He is mainly responsible for overseeing the marketing strategies and operations of our Group and overseeing our business in Japan. Mr. Ito has also served as president and representative director of Honma Japan since 21 December 2015, and as the director of the Marketing Division and the Third Overseas Sales Division since 1 February 2016. Mr. Ito joined our Group on 1 April 1985 and has served the Group for more than 35 years, during which he has gained extensive experience in the marketing of golf products. In February 1990, he joined as the senior staff of Ogikubo Office (荻窪營業所), and in April 1997, he became the manager of the Second Section of the First Department of the Sales Division. After that, he served in various positions in the Group, including as the deputy director of the Fifth Department of the Sales Division from May 2002 to March 2006, as the director of various sales and planning departments from April 2007 to April 2011, as the operating director of the Marketing Division from May 2011 to March 2014, and as the managing operating director of the Marketing Division from April 2014 to December 2015. Mr. Ito obtained a bachelor's degree in business from Seikei University, Japan, in March 1985.

Mr. Murai Yuji (邨井勇二), aged 60, was appointed as an executive Director and Chief Sales Officer of the Company on 14 June 2016. He is mainly responsible for overseeing the sales strategies and operations of our Group. Since 1 February 2016, Mr. Murai has also been the managing operating director of the Domestic Sales Division, as well as the managing operating director and head of the First Overseas Sales Division. Mr. Murai joined our Group in April 1983 and has served the Group for more than 37 years, during which he has gained extensive experience in the sales operations of golf products. Mr. Murai served as the deputy manager of various sales departments from April 1992 to March 1997. He was deputy director of the First Department of the Sales Division as well as deputy director of the Construction Department from April 1997 to March 2001, and deputy director and director of the Overseas Sales Department of the Sales Division from April 2001 to March 2007. From April 2007 to March 2009, Mr. Murai served as operating director of the Overseas Sales Division. Thereafter, he served as the operating director of the Domestic Sales Division from April 2009 to April 2011, as the operating director of the Sales Division from May 2011 to March 2012, and back to the position of operating director of the Domestic Sales Division from April 2012 to March 2014. Mr. Murai then served as the managing operating director of the Domestic Sales Division from April 2014 to January 2016. Mr. Murai obtained a bachelor's degree in political economics from Nihon University, Japan, in March 1983.

Directors (continued)

Executive Directors (continued)

Mr. Zuo Jun (左軍), aged 47, was appointed as an executive Director, Chief Administrative Officer and President of China Operations of the Company on 14 June 2016. He is also a member of the Remuneration Committee of the Company. He is primarily responsible for overseeing the administrative management of our Group and overseeing our business in the PRC. Mr. Zuo has been the president of World Power International Trading (Shanghai) Company Limited (世力國際貿易(上海)有限公司) since he joined our Group in February 2015 and a director of Honma Japan since June 2015. Mr. Zuo has nearly 24 years of experience in business management and operations. Prior to joining our Group, Mr. Zuo was a vice president of POVOS Electrical Appliance (Shanghai) Co., Ltd. (奔騰電器(上海)有限公司), a comprehensive high-tech enterprise which centres on development, manufacture and distribution of household electrical appliance, from March 2009 to December 2014. He was deputy general manager at TCL Household Appliance (Nanhai) Company (TCL小家電(南海)有限公司) from June 2006 to September 2008. From September 2004 to June 2006, he served as general manager of Shunde Ecom Intelligent Household Appliance Co., Ltd. (順德一家智能電器有限公司), a company engaged in intelligent household appliances manufacturing. He worked at Shunde Gree Household Appliance Company (順德格力小家電有限公司) as deputy general manager from June 2002 to June 2004. Mr. Zuo graduated from Central South University (中南大學, formerly known as Central South University of Technology (中南工業大學)), PRC, with a master's degree in thermal engineering in March 1996.

Non-executive Directors

Mr. Yang Xiaoping (楊小平), aged 56, was appointed as a non-executive Director of the Company on 28 May 2018 and responsible for providing strategic advice on the business development of the Group. Mr. Yang has been the senior vice chairman of Charoen Pokphand Group Company Limited, a substantial shareholder of the Company, since January 2017, an executive director and the vice chairman of C.P. Lotus Corporation (卜蜂蓮花有限公司), a company previously listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (Stock Code: 121) and with its listing withdrawn on 28 October 2019, since April 2000 and January 2012 respectively, and he is also the vice chairman and chief executive officer of the Chia Tai Group (China Area) (正大集團(中國區)). Mr. Yang has been the chief executive officer of CT Bright Holdings Limited (正大光明控股有限公司) since May 2003. He has also been a non-executive director of Ping An Insurance (Group) Company of China, Ltd. (中國平安保險(集團)股份有限公司), a company listed on the Stock Exchange (Stock Code: 2318), since June 2013, CITIC Limited (中國中信股份有限公司), a company listed on the Stock Exchange (Stock Code: 267), since August 2015 and Tianjin Binhai Teda Logistics (Group) Corporation Limited (天津濱海泰達物流集團股份有限公司), a company listed on the Stock Exchange (Stock Code: 8348), since December 2012 respectively. He has also been the co-chairman and the chairman of the related party transaction committee of the board of directors and the audit committee of China Minsheng Investment (Group) Corp., Ltd (中國民生投資股份有限公司) since 11 February 2019. Mr. Yang previously acted as the manager of the China Division of Nichiyo Co., Ltd. from 1989 to 1993 and the chief representative of the Beijing Office of Nichiyo Co., Ltd. from 1993 to 2001. Mr. Yang was a member of The Twelfth National Committee of the Chinese People's Political Consultative Conference. He is the vice president of the China Institute for Rural Studies of Tsinghua University (清華大學中國農村研究院), the associate dean of the Institute of Global Development of Tsinghua University (清華大學全球共同發展研究院) and the president of Beijing Association of Enterprises with Foreign Investment (北京外商投資企業協會). Mr. Yang holds a bachelor's degree from Jiangxi Institute of Technology (江西省工學院) and a doctor's degree from Tsinghua University of Economics and Management (清華大學經管學院) and he also has experience studying in Japan.

Directors (continued)

Non-executive Directors (continued)

Mr. Ho Ping-hsien, Robert (何平僊), aged 71, was appointed as a non-executive director of the Company on 20 November 2018. He is responsible for providing strategic advice on the business development of the Group. Mr. Ho has been the chief financial officer international of Charoen Pokphand Group Company Limited, the ultimate parent company of a substantial shareholder of the Company, since January 2000, and executive director of CT Bright Holdings Limited, CT Bright Group Company Limited and CPG Overseas Company Limited since May 2003, September 2009 and January 2015, respectively. On 5 September 2018, Mr. Ho has been appointed as a director of M.J. International Co., Ltd., a company listed on the Taiwan Stock Exchange Corporation (Stock Code: 8466). Mr. Ho previously acted as executive director of C.P. Pokphand Co. Ltd., a company listed on the Stock Exchange (Stock Code: 43) since September 2005 to April 2012. He has also been an executive director of C.P. Lotus Corporation, a company previously listed on the Stock Exchange (Stock Code: 121) and with its listing withdrawn on 28 October 2019, since April 2000 to April 2012. Mr. Ho served as chief of funding, senior officer and deputy chief financial officer of Formosa Plastics Group since September 1974 to September 1987 and served as the chief financial officer of Formosa Plastics Corp., U.S.A. from September 1987 to December 1999. Mr. Ho holds a bachelor of law degree from the Business Administrative Section, Business Administration Department of National Taiwan University.

Independent non-executive Directors

Mr. Lu Pochin Christopher (盧伯卿), aged 61, was appointed as an independent non-executive Director of the Company on 18 September 2016. He is also the chairman of the Audit Committee and a member of the Nomination Committee of the Company. Mr. Lu worked at Deloitte Touche Tohmatsu for approximately 30 years from 1981, where he served in various positions, including chief executive officer of Deloitte Huayong Certified Public Accountants, managing partner of Eastern China Region, co-chairman of China Service Group, and the managing partner of the client and market strategy department. Since March 2015, Mr. Lu Pochin Christopher has served as an executive director of FIT Hon Teng Limited (incorporated in the Cayman Islands under the name of Foxconn Interconnect Technology Limited), a company engaged in the manufacture, sales and service of information technology products which became listed on the Stock Exchange on 13 July 2017 (Stock Code: 6088). Since August 2015, Mr. Lu has served as an independent director of Greenland Holdings Corporation Limited (綠地控股集團股份有限公司), a real property development company which is listed on the Shanghai Stock Exchange (Stock Code: 600606). He served as an independent non-executive director of Pantronics Holdings Limited (桐成控股有限公司), a manufacturer in the electronic manufacturing services industry which is listed on the Stock Exchange (Stock Code: 1611) from October 2016 to October 2018.

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

Directors (continued)

Independent non-executive Directors (continued)

Mr. Wang Jianguo (汪建國), aged 59, was appointed as an independent non-executive Director of the Company on 18 September 2016 and he is also the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Wang Jianguo has served as the chairman of Kidswant Children Products Co., Ltd since April 2016, a company engaged in the sales and service of kids products which was listed on the National Equities Exchange and Quotations from 9 December 2016 to 23 April 2018 (Stock Code: 839843). Mr. Wang has been the chairman of the Five Star Holdings Group Co., Ltd. (五星控股集團有限公司) since February 2009. Before that, Mr. Wang was the vice president of the Asia-Pacific Region for Best Buy Co., Inc., an American multinational consumer electronics corporation which is listed on the New York Stock Exchange (Stock Code: BBY). From December 1998 to February 2009, Mr. Wang served as the chairman and president of Jiangsu Five Star Appliance Co., Ltd. (江蘇五星電器有限公司), a company engaged in the sales of appliances. From July 1992 to October 1998, Mr. Wang worked at Jiangsu Wujiaohua Corporation (江蘇省五交化總公司), and served in various positions including manager of comprehensive development, deputy general manager and general manager.

Mr. Wang graduated from the Australian National University, Australia, in July 2004 with an executive master's degree in business administration. He also obtained a Ph.D. in Business Administration in Global Finance from Arizona State University, U.S.A. in May 2018. He has been the vice chairman of Jiangsu General Chamber of Commerce since December 2014. Mr. Wang was awarded the Service Industry Professional Special Contribution Award by Jiangsu Provincial People's Government in October 2014. Mr. Wang was granted the Outstanding Achievement Award by the China Chain Store & Franchise Association in November 2012. He was elected as the Model Worker of the National Business System (全國商務系統勞動模範) by the Ministry of Personnel and the Ministry of Commerce of the PRC in 2007. Mr. Wang has been sponsor of Hupan University (湖畔大學) since September 2015.

Mr. Xu Hui (徐輝), aged 46, was appointed as an independent non-executive Director of the Company on 18 September 2016 and he is also a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Xu has been the chief executive officer and executive director of Shenzhen Chuangxin Qizhi Technology Co., Ltd. (深圳創新奇智科技有限公司) since February 2017. He served as the general manager of customer services and support of Greater China at Microsoft Corporation from March 2013 to December 2014, the vice president of Greater China at Microsoft Corporation from January 2015 to November 2016 and the chief executive officer of Shanghai Xinfeifan E-commerce Co., Ltd. (上海新飛凡電子商務有限公司) from November 2016 to January 2017. From October 2009 to February 2013, he served in various positions in SAP Beijing Software System Co., Ltd, a multinational software company, including as the sales director, general manager of East and Central China and the vice president of Greater China. Mr. Xu had also held various positions at IBM China Company Limited since November 1996, including its business representative, clusters client unit executive of financial services sector and consultant.

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

Biographies of Directors and Senior Management

Senior management

Mr. Suwa Hiroshi (諏訪博士), aged 64, was appointed as our Managing Executive Officer of Product Development on 14 June 2016 and is primarily responsible for overseeing the research and development of our Group's products. He has been the Managing Executive Officer of Product Development of Honma Japan since 1 April 2014. He has also been the manager of the Sakata Campus since April 2009. Since Mr. Suwa joined our Group in 1978 in the Hawaii factory, he has held the following positions: deputy manager of the Golf Club Manufacturing Section from April 1983 to March 1986; manager of the Golf Club Manufacturing and Assembly Section from April 1986 to January 1990; deputy director of the Golf Club Manufacturing Department from February 1990 to May 1992; deputy director of the Wooden Golf Club Manufacturing Department from June 1992 to September 1996; deputy director of the Product Development Department from October 1996 to April 1998; director of the Product Development Department from May 1998 to June 2005; deputy manager of the Sakata Campus and director of the Product Development Department from June 2005 to March 2006; general manager of the Operational Planning, Product Development and Product Production Division, and deputy manager of the Sakata Campus from March 2006 to March 2007. From April 2007 to March 2014, Mr. Suwa also served as the operating director of the Product Development Division. Prior to joining our Group, Mr. Suwa worked at Oita Tourism Co., Ltd. from April 1974 to March 1978. Mr. Suwa graduated from Oita Prefectural Usuki Commercial High School, Japan, in March 1974.

Ms. Bian Weiwen (邊蔚文), aged 50, joined our Group on 1 November 2015 and was appointed as the Chief Financial Officer of our Group on 14 June 2016. She was also appointed as Chief Operating Officer on 27 May 2019. She is responsible for overseeing the overall financial management of our Group. Ms. Bian has over 25 years of experience in the finance industry. Prior to joining our Group, Ms. Bian served in various positions at Royal Philips Electronics Co., Ltd., which is listed on the New York Stock Exchange (stock code: PHG) and Euronext N.V. (stock code: PHIA), and was the head of Finance of Business Group Domestic Appliance from April 2006 to September 2015. From January 2000 to March 2006, Ms. Bian was senior manager of the Project & Trade Finance Unit of the Corporate Finance Department at ThyssenKrupp AG, a diversified industrial group which is listed on Frankfurt Stock Exchange (stock code: DE 000 750 0001), where her responsibilities included the arrangement and execution of project financing for major projects in various areas of the group. Ms. Bian served as associate director of the Structured Finance and Advisory Department of UBS Warburg Deutschland from September 1997 to September 1999. From April 1994 to September 1997, she was an associate at Credit Suisse First Boston, working in its China and Germany offices. Ms. Bian graduated from Fudan University (復旦大學), PRC, with a bachelor's degree in international finance in July 1992. She was presented with the Magnolia Silver Award by the Shanghai Municipal People's Government in September 2011.

Directors' Report

The Board is pleased to present its report together with the audited consolidated financial statements of the Group, for the year ended 31 March 2020.

Principal activities

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

Business Review

In the year ended 31 March 2020, the Group continued to implement its growth strategies, including, among others, (i) marketing golf clubs that target high growth consumer segments; (ii) continued scaling up non-club product categories; (iii) deepening cooperation with sports megastores in home and new markets; (iv) continued implementing the Group's U.S. business development plan; and (v) sponsoring TEAM HONMA players. The Group's products are sold in approximately 50 countries worldwide, primarily in Asia and also across North America, Europe and other regions.

Performance of the Group's Business

Full year revenue declined by 13.9% from the year ended 31 March 2019 to JPY23,787.2 million (equivalent to USD217.5 million) based on comparable currency. Excluding China and Japan whose economy were affected for most part of the fourth quarter of the year ended 31 March 2020, full year revenue increased by 7.9%. In the year ended 31 March 2019, the Group reorganised distribution channels and activated various marketing campaigns in North America as part of the U.S. growth strategy.

Business Review (continued)

Financial Highlights

In the year ended 31 March 2020,

- Full year revenue declined by 13.9% from the year ended 31 March 2019 to JPY23,787.2 million (equivalent to USD217.5 million) based on comparable currency. Excluding China and Japan whose economy were affected for most part of the fourth quarter of the year ended 31 March 2020, full year revenue increased by 7.9%. See "Management Discussion and Analysis – Financial Review – Revenue";

- Full year revenue by geography. Despite unprecedented impact from COVID-19 on the golf industry and the global economy, Korea and Europe finished the year with robust year on year growth of 13.6% and 15.2%, respectively, on constant currency basis reconfirming that the Group's product offering and brand recognition remained strong and resilient. The rest of the markets showed however different degrees of sales decline, primarily due to government-imposed social distancing and lockdown which caused widespread supply chain disruption and retail operation standstills;

- Full year revenue by product. On constant currency basis revenue from golf balls and apparels rose by 22.5% and 0.7%, respectively, benefiting from products launched before January 2020. Yet revenue from golf clubs decreased by 15.8% due to negative impacts from COVID-19 on the Company's supply chain and the retail activation of BERES 07 and TR 20, two of its main club products launched in December 2019 and January 2020, respectively;

- Gross profit margin decreased by 6.9 percentage points from the year ended 31 March 2019 primarily due to negative product lifecycle impact as the year finished without a full-fledged launch of its two main golf club products;

- Full year operating profit was JPY405.1 million (equivalent to USD3.7 million), down from JPY5,309.4 million (equivalent to USD48.0 million) for the year ended 31 March 2019.

- Operating cash flow remained positive and stood at JPY558.6 million (equivalent to USD5.1 million) for the year ended 31 March 2020.

Business Review (continued)

Outlook for 2020/2021

In the year ending 31 March 2021, the Group will continue to pursue the following: (i) optimise the product mix by further penetrating high growth consumer segments; (ii) continue product innovation and development to cater for the latest market trends; (iii) further increase market share and enhance brand awareness in existing markets; (iv) continue to drive growth in North America and Europe; (v) continue to invest in the marketing and promotion of HONMA brand to improve and transform HONMA brand value into customer loyalty; (vi) continue to increase operational efficiency and optimise cost structure; and (vii) provide customers with a complete golf lifestyle experience by nurturing complementary non-club product lines.

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

Key Relationships

Relationship with suppliers

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

Relationship with customers

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

Relationship with employees

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

Business Review (continued)

Environmental policies and performance

The Group has always attached great importance to the protection of the environment, and has adopted a number of measures which are regularly carried out to manage emissions and wastes in the course of business operations, including (i) 5S on-site management and organization method has been implemented in the manufacturing processes; (ii) regularly monitor and perform maintenance on key environmental protection facilities such as dust removal and sewage treatment equipment to ensure these are in proper working order in removing harmful substances; (iii) tests are regularly carried out to ensure that the water discharged is safe to the surrounding community and that it also meets the standards required by the authority; (iv) regular collection of hazardous wastes (such as cyanide and chrome) from sewage, and scraps (such as metals and coatings) are handled by qualified service providers for recycling and treatment; (v) scraps (such as metals, coatings, carbon fiber, etc.) generated in the manufacturing process are regularly monitored and reduced wherever possible for the purpose of cost and waste reduction; (vi) use the video conferencing system instead of air travel when communicating between different offices to reduce the number of business trips whenever possible; (vii) wrapping materials and paper cartons are reused wherever possible, otherwise recycle properly, or dispose of responsibly; (viii) the Waste Recycling Committee has continued to explore different ways to recycle and reduce waste in the manufacturing processes; and (ix) continuously optimizing the entire production process, i.e. centralizing manufacturing efforts to shorten production cycle and minimizing raw material utilization, and reducing travel distance between raw material logistics and production through careful management of inventory location and warehouse space.

During the year, the Group adopted the following additional measures to mitigate emissions and reduce wastes: (i) use of energy saving machines and fixtures, regular checking to ensure usage efficiency; (ii) priorities the use of water saving and energy efficient production machinery and office equipment and air-conditioners which have good temperature and humidity control; (iii) promote awareness of energy saving through circulating various guidelines to employees; (iv) inspect electricity and power equipment regularly to ensure safety and operating efficiency; and (v) reducing excessive printing by going paperless as far as possible while printed papers are reused wherever possible, subject to personal data privacy requirements.

Licences, regulatory approvals and compliance with laws and regulations

During the year ended 31 March 2020, there were no material breaches or violations of relevant laws and regulations in Japan, China, Korea, and where the Group has business entities and operation, and the Group obtained all material licences and permits necessary for its business in the jurisdictions in which the Group operates. Details of our compliance with relevant laws and regulations are set out in Environmental, Social and Governance Report.

Principal risks and uncertainties

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

Principal Risks and Uncertainties	Description	Key Mitigations
Risks related to any possible deterioration in the brand image of the Honma brand of the Company	We are dependent on our HONMA brand for all our revenue and we expect to continue relying heavily on the HONMA brand. Product defects, counterfeit products and ineffective promotional activities are all potential threats to the strength of our brand.	• We keep decent R&D investments to insure innovative technologies and high quality in our products; • We take legal actions against counterfeit products in different markets.
Uncertainty as to maintenance of high growth rate of the business	Our ability to maintain a high growth rate in the future depends on the implementation of our growth strategies. There can be no assurance that our strategies will continue to be successful. If we are not able to implement our growth strategies effectively or adjust them as market conditions evolve, we will not be able to sustain our growth.	• We maintain the leadership in club market segment 2 and keep the engine growing in segment 5 and 6; • We strengthened the efforts on non-club business, i.e. golf balls and apparels etc; • We engaged experienced senior management team in USA and deployed decent growth strategy. Further channel penetration in Europe are executed, including Great Britain with high potential.
Uncertainty as to the maintenance or expansion of the sales and distribution network	Our products are currently sold in approximately 50 countries worldwide, primarily in Asia and also across North America, Europe and other regions. We sell our products through a combination of self-operated stores and distribution channels. If we are unable to maintain or grow our sales and distribution network, we could experience a decline in sales and market share.	• We fine-tuned the channels in home markets by shutdown of non-profitable self-operated stores and expanded our distributors/dealers base; • We opened Honma Experience center in June 2019, followed by Ship in Shop, Retail Hubs in USA, to enrich the variety of distribution channels. • Since summer 2019, the Company pivoted to a mobile strategy and started to operate, where the total HONMA fitting experience is brought to the golfer's home course.
Uncertainty as to expansion into new consumer segments and product categories	We devote significant resources to developing and marketing golf clubs that appeal to new target consumer segments. However, there can be no assurance that our efforts to expand into new consumer segments will continue to be successful. If our golf clubs fail to attract our target consumers, our business, results of operations and financial condition would be materially and adversely affected.	• We keep a healthy pace on technology innovations in new consumer segments of golf clubs; • We introduced TW747 in late 2018, launched the TW XP1 and BERES 07 in late 2019, and launch TR in March 2020.

Principal Risks and Uncertainties	Description	Key Mitigations
Uncertainty as to the international expansion, especially in North America and Europe	As we expand into new geographic markets, we will face competition from competitors who are well established in these markets. In addition, in many of these markets, the retail market conditions, consumer behavior, operating environments and tax and regulatory requirements may differ significantly from those in our home markets of Japan, Korea and China (including Hong Kong and Macau). Moreover, our international expansion may not be successful for a number of other reasons, such as changes in consumer demand and product trends, economic fluctuations, political and social turbulences, changes in legal regulations or other conditions and difficulties. If we are not successful in expanding into new geographic markets, our business, results of operations and financial condition would be materially and adversely affected.	• We have engaged an experienced management team in US; • The new products (TW747, TW XP1) have taken into account more technology requirements from international markets; • We have increased the POS coverage in international markets to 425 in USA and 540 in Europe for the year ended 31 March 2020.
Risks inherent in our effort to expand grow non-club sales	We set the strategy to grow the non-club business, i.e. golf balls, apparels and accessories. However, there can be no assurance that our strategy on growing non-club business will continue to be successful. If our non-club products fail to attract our target consumers, our business, results of operations and financial condition would be materially and adversely affected.	• On top of the strategic partnership with Itochu Corporation ("**Itochu**") to develop its apparel & accessories, we also set up professional team in key markets, i.e. Japan, Korea and China; • We have good partnership with Foremost to develop the most advanced golf balls which has shown decent growth in the past years.
Uncertainty as to the development of novel coronavirus (COVID-19)	The recent occurrence of the COVID-19 epidemic has increased uncertainties to the global economy in the coming years. If the development of the COVID-19 epidemic persists or intensifies, the global economy, including the economy in our home markets may be materially and adversely affected. In such event, health safety risks during the occurrence of the COVID-19 may also lead to labour shortage, closure or interruption of our point-of-sales, and/or delaying the work progress as a result. These adverse impacts, if materialise and persist for a substantial period, may significantly and adversely affect our business operation and financial performance.	• For markets that have lifted the lockdown, we have already seen increased participation in golf; • Intensified efforts to go digital: In the year ended 31 March 2020, the Company took several steps to improve its global brand positioning and communication, including revamping its global website and social media platform, which helped HONMA generate month-on-month growth in organic traffic, conversion and other digital engagement matrixes.

Financial statements

The results of the Group for the year ended 31 March 2020 and the state of the Group's financial position as at that date are set out in the financial statements on pages 120 to 128.

Final dividend

The Board recommends the payment of a final dividend of JPY1.50 per Share, amounting to approximately a total of JPY908.5 million for the year ended 31 March 2020 (the "**2019/2020 Final Dividend**"), representing approximately 6.4% of the Group's distributable profits as at 31 March 2020. Together with the special dividend of JPY8.21 per share paid on 2 September 2019 and the interim dividend of JPY1.64 per share paid on 30 December 2019, total dividends for the year ended 31 March 2020 will amount to JPY11.35 per share and the total dividend payout will amount to JPY6,999.0 million, representing approximately 49.4% of the Group's distributable profits as at 31 March 2020. The 2019/2020 Final Dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The 2019/2020 Final Dividend will be declared in Japanese Yen and paid in Hong Kong dollars, the exchange rate of which will be calculated based on the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its middle rate of exchange as at the record date for determining such dividend entitlement.

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 flows, financial condition, statutory and regulatory restrictions, capital, future business plans and prospects, and any other factors which the Board may consider 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.

Distributable reserves

As at 31 March 2020, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium and retained profits totaling approximately JPY14,165 million (JPY15,658 million as at 31 March 2019).

Reserves

Changes to the reserves of the Group during the year ended 31 March 2020 are set out in the consolidated statement of changes in equity.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 March 2020 are set out in note 15 to the consolidated financial statements in this annual report.

Share capital

Details of movements in the share capital of the Company during the year ended 31 March 2020 are set out in note 32 to the consolidated financial statements in this annual report.

Bank borrowings and other loans

Details of bank borrowings and other loans of the Group as at 31 March 2020 are set out in note 28 to the consolidated financial statements of this annual report.

Charge on assets

There was no charge on the Group's assets as at 31 March 2020.

Donation

Donations made by the Group during the year ended 31 March 2020 was JPY320,000.

Financial summary

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

Purchase, sale or redemption of listed securities of the company

Save for the repurchase of shares of the Company set out below, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2020:

Month/Year	Number of shares purchased	Price per share (Highest) HK$	Price per share (Lowest) HK$	Total consideration HK$
February 2020	2,955,000	4.58	3.96	12,981,200.40
March 2020	452,500	4.62	4.39	2,037,529.15
Total	3,407,500			15,018,629.55

The repurchases were effected for the benefit of the Company and the Shareholders as a whole by enhancing the value of net assets per share and earnings per share of the Company.

Restricted share unit scheme and post-IPO share option scheme

Restricted Share Unit Scheme

On 20 October 2015, the Restricted Share Unit Scheme (the "**RSU Scheme**") was approved and adopted by the then shareholders of the Company. The purpose of the RSU Scheme is to incentivize Directors, senior management and employees of the Company or any of its subsidiaries (the "**RSU Eligible Persons**") for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. The Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion. The RSU Scheme will be valid and effective for a period of ten (10) years from the date of the first grant of the RSUs, being 20 October 2015. As at 31 March 2020, the remaining life of the RSU Scheme is approximately five years and seven months. The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of Shares held or to be held by the trustee for the RSU Scheme for the purpose of the RSU Scheme from time to time. There is no maximum entitlement for each RSU Eligible Person under the rules of the RSU Scheme. Further details of the principal terms of the RSU Scheme are set out in the Prospectus.

The Company has appointed The Core Trust Company Limited (the "**RSU Trustee**") as the trustee to assist in the administration of the RSU Scheme. All the Shares underlying the RSUs granted and to be granted under the RSU Scheme will be transferred, allotted or issued to the RSU Trustee and/or Taisai Holdings Ltd. (the "**RSU Nominee**"), a company indirectly wholly-owned by the RSU Trustee. As at the date of this annual report, RSUs in respect of 18,825,196 underlying Shares were granted under the RSU Scheme for the benefit of RSU Eligible Persons pursuant to the RSU Scheme, and RSUs in respect of 3,746,909 underlying Shares, representing approximately 0.62% of the total issued Shares of the Company as at the date of this annual report, have not been exercised, lapsed or cancelled and remain to be held by the RSU Nominee.

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

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

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

Restricted Share Unit Scheme (continued)

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

The grantees of the RSUs granted under the RSU Scheme as referred to in the table below are not required to pay for the grant of any RSU under the RSU Scheme.

Details of the RSUs granted under the RSU Scheme and outstanding as of 31 March 2020 and details of the vesting period and the movements in RSUs during the year ended 31 March 2020 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 year	Exercised during the year	Cancelled during the year	Lapsed during the year	Number of Shares represented by RSUs at 31 March 2020
Director of the Company								
Liu Jianguo	Chairman of the Board, President and Executive Director	285,675	03-Nov-2015	–	–	–	–	285,675
Ito Yasuki	Executive Director, Chief Marketing Officer and President of Japan Operations	133,341	20-Oct-2015	–	–	–	–	133,341
		95,355	31-May-2016					95,355
Murai Yuji	Executive Director and Chief Sales Officer	144,768	20-Oct-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 year	Exercised during the year	Cancelled during the year	Lapsed during the year	Number of Shares represented by RSUs at 31 March 2020
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-Oct-2015	–	–	–	–	243,188
		762,060	03-Nov-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-Oct-2015	–	–	–	465,699	1,656,759
		76,245	03-Nov-2015					76,245
		159,198	06-Oct-2017					159,198
Total		4,212,608		–	–	–	465,699	3,746,909

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 year ended 31 March 2020.

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

Restricted Share Unit Scheme (continued)

Details of movements in the RSUs under the RSU Scheme are also set out in note 33 to the consolidated financial statements.

No exercise price is required for the exercise of the RSUs granted to the RSU Participants under the RSU Scheme as referred to in the above. The RSU Participants shall serve the exercise notice within three (3) months after receiving the vesting notice. Subject to the vesting conditions, the RSUs granted to the 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 results for the year ended 31 March 2018 (whichever is earlier); and

(iii) as to 30% on 30 June 2020.

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 ended 31 March 2018 (whichever is earlier); and

(ii) as to 50% on 30 June 2020.

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

Post-IPO share option scheme

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

Subject to the terms of the Post-IPO Share Option Scheme, the Board shall be entitled at any time within the period of ten (10) years after the adoption date, being 18 September 2016 to 17 September 2026, to grant options to any Eligible Persons as the Board in its absolute discretion selects. As at 31 March 2020, the remaining life of the Post-IPO Share Option Scheme is approximately six years and six months. No offer shall be made and no option shall be granted to any participant in the Post-IPO Share Option Scheme (the "**Participant**") in circumstances prohibited by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") at a time when the Participant would or might be prohibited from dealing in the Shares by the Listing Rules or by any applicable rules, regulations or law. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period; and (ii) the deadline for the Company to publish its interim or annual results announcement under the Listing Rules; and ending on the date of actual publication of such results announcement.

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

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

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

Post-IPO share option scheme (continued)

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

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

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

- the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of the option, which must be a business day;

- the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and

- the nominal value of a Share on the date of grant.

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

During the period from 18 September 2016 to 31 March 2020, no option had been granted or agreed to be granted by the Company pursuant to the Post-IPO Share Option Scheme.

Directors

The Directors of the Company during the year ended 31 March 2020 and up to the date of this report were:

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

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

The biographical details of the Directors of the Company as at the date of this annual report are set out in the section headed "Biographies of the Directors and Senior Management" in this annual report. Changes in the Directors' biographical details which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules are as follows:

1. The salary and contractual annual performance bonus for Mr. Ito Yasuki (伊藤康樹), executive director of the Company, were changed to JPY11,999,952 per annum and JPY7,999,768 per annum respectively.

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

Directors' service contracts and letters of appointment

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

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

Confirmation of independence of independent non-executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors (being Mr. Lu Pochin Christopher, Mr. Wang Jianguo and Mr. Xu Hui), and the Company considers such Directors to be independent for the year ended 31 March 2020.

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

Save as the related party transactions as disclosed in note 38 to the consolidated financial statements and the connected transactions as disclosed in the section headed "Connected Transactions" in this Directors' Report, there were no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director and/or any of its connected entity had a material interest, whether directly or indirectly, and there were no transactions, arrangements or contracts of significance between the Company or any of its subsidiaries and the Company's controlling shareholders or any of its subsidiaries, subsisted at the end of, or at any time during the year ended 31 March 2020.

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

As at 31 March 2020, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules or as the Company is aware were as follows:

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

Interests in the company

Name of Director/Chief Executive	Capacity/Nature of interest	Number of Shares or underlying Shares interested [1]	Approximate percentage of interest[6]
Mr. Liu Jianguo [2]	Founder and the sole beneficiary of a trust/Interest of controlled corporation	323,560,525 (L)[2]	
	Beneficial owner	952,250 (L)	
		324,512,775 (L)[2]	53.58%
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.

Chia Tai Primrose Holdings Limited, a company indirectly beneficially wholly-owned by Charoen Pokphand Group Company Limited, has entered into an agreement with Kouunn Holdings Limited dated 3 March 2020 to increase its investment in the Company through the acquisition of 90,000,000 Shares from Kouunn Holdings Limited (the "**Transaction**"). The Transaction was completed on 6 April 2020.

(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 605,642,500 Shares in issue as at 31 March 2020.

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 the sole beneficiary of a trust	1,000	100%

Save as disclosed above, as at 31 March 2020, none of the Directors or the chief executive of the Company had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 March 2020, 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 or as the Company is aware:

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)[(4)]	53.42%
Dazzling Coast Limited[(4)]	Interest of controlled corporation	323,560,525 (L)[(4)]	53.42%
Prize Ray Limited[(4)]	Interest of controlled corporation	323,560,525 (L)[(4)]	53.42%
Vistra Trust (Hong Kong) Limited[(4)]	Trustee	323,560,525 (L)[(4)]	53.42%
Ms. Huang Wenhuan (黃文歡) [(3)]	Interest of spouse	324,512,775 (L)[(4)]	53.58%
Fosun Industrial Holdings Limited (復星產業控股有限公司) [(5)]	Beneficial owner	35,629,425 (L)	5.88%
Fosun International Limited [(5)]	Interest of controlled corporation	35,629,425 (L)	5.88%
Fosun Holdings Limited [(5)]	Interest of controlled corporation	35,629,425 (L)	5.88%
Fosun International Holdings Ltd. [(5)]	Interest of controlled corporation	35,629,425 (L)	5.88%
Mr. Guo Guangchang (郭廣昌) [(5)]	Interest of controlled corporation	35,629,425 (L)	5.88%
Yuanta Financial Holding Co., Ltd. [(2) (6)]	Person having a security interest in Shares	103,000,000 (L)	17.01%
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)	19.90%
Charoen Pokphand Group Company Limited [(8)]	Interest of controlled corporation	181,296,500 (L)	29.93%
ITOCHU Corporation	Beneficial owner	38,284,000 (L)	6.32%

Notes:

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

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

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

(4) 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.

Chia Tai Primrose Holdings Limited, a company indirectly beneficially wholly-owned by Charoen Pokphand Group Company Limited, has entered into an agreement with Kouunn Holdings Limited dated 3 March 2020 to increase its investment in the Company through the acquisition of 90,000,000 Shares from Kouunn Holdings Limited (the "**Transaction**"). The Transaction was completed on 6 April 2020.

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

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

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

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

(9) The calculation is based on the total number of 605,642,500 Shares in issue as at 31 March 2020.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 March 2020.

Major customers and suppliers

The Group has a large and diverse customer base. During the year ended 31 March 2020, sales to the Group's five largest customers accounted for approximately 35.9% of the Group's total sales for the same period (of which sales to the Group's single largest customer accounted for approximately 20.6% of the Group's total sales for the same period).

The Group depends on suppliers to supply raw materials or manufacture certain of the products. In the year ended 31 March 2020, purchases from the Group's five largest suppliers accounted for approximately 63.5% of the Group's total purchases from all suppliers for the year (of which purchases from the Group's single largest supplier accounted for approximately 19.5% of the Group's total purchases for the year).

All of the Group's five largest customers and suppliers are independent third parties. None of the Directors, their close associates or the shareholders which to the best knowledge of the Directors, own more than 5% of the issued share capital of the Company, had any interest in any of the five largest customers or suppliers during the year ended 31 March 2020.

Pre-emptive rights

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

Emolument policy

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

Employee benefits

Particulars of the employee benefits of the Group are set out in note 31 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the Corporate Governance Code, the annual remuneration of executive Directors, the senior management and our regional market leaders, by band for the year ended 31 March 2020 is set out below:

Remuneration band (in JPY)	Number of individuals
-10,000,000	8
10,000,001-15,000,000	2
15,000,001-20,000,000	3
20,000,001-25,000,000	–
25,000,001-	1

Public float

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

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

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

Directors' interests in competing business

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

Permitted indemnity provision

Every Director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. Subject to the Companies Law (2013 Revision) of the Cayman Islands, if any Director or other person shall become personally liable for the payment of any sum primarily due from the Company, the Board may execute or cause to be executed any mortgage, charge, or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the Director or person so becoming liable as aforesaid from any loss in respect of such liability. Such provisions were in force throughout the year ended 31 March 2020 and are currently in force. The Company has arranged for appropriate insurance cover for Directors' liabilities in respect of legal actions that may be brought against the Directors.

Use of proceeds from the global offering

On 6 October 2016, the Company's Shares were listed on the Stock Exchange. A total of 133,991,000 Shares with nominal value of US$0.0000025 each were issued at HK$10.00 per Share for a total of HK$1,339,910,000 under the global offering of the Company. The net proceeds raised by the Company from the above mentioned global offering, after deducting the underwriting fees and commissions and expenses paid by the Company in connection with the global offering, amounted to approximately JPY16,798.3 million. Details of the Group's use of proceeds as at 31 March 2020 are set out in the section headed "Management Discussion and Analysis – Financial Review – Use of Proceeds from the Global Offering" in this annual report.

Connected transactions

Mr. Liu Jianguo, an executive Director and a substantial shareholder of the Company, is a connected person of the Company under the Listing Rules. Shanghai POVOS Enterprise (Group) Co., Ltd. (上海奔騰企業（集團）有限公司) ("**Shanghai POVOS**") is wholly owned by Mr. Liu and is therefore an associate of Mr. Liu and hence a connected person of the Company under the Listing Rules. A property lease agreement and a subsequent renewal agreement, which is also a related party transaction disclosed in note 38 to the audited consolidated financial statements in accordance with International Accounting Standards 24 "Related Party Disclosure", was entered into between Shanghai POVOS, as the lessor, and World Power International Trading (Shanghai) Company Limited (世力國際貿易（上海）有限公司), being a member of the Group, as the lessee, on 31 December 2013 and 6 June 2016, respectively, which constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. On 31 December 2019, World Power International Trading (Shanghai) Company Limited and Shanghai POVOS entered into a renewal agreement regarding the aforementioned lease for a term of one year commencing on 1 January 2020. The renewal agreement is to be automatically renewed if neither party terminates the agreement at the expiry of the renewal lease term. As the highest relevant "percentage ratio" (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules is expected to be less than 5% and the total consideration is expected to be less than HK$3,000,000, in each case on an annual basis, the transaction is exempt from the annual review, annual reporting, announcement, circular (including independent financial advice) and independent shareholders' approval requirements pursuant to Rule 14A.76(1) of the Listing Rules.

Subsequent event

Particulars of important events affecting the Group that have occurred since the year ended 31 March 2020 are stated in note 43 to the consolidated financial statements.

Audit committee

The audit committee of the Company has reviewed the accounting principles and policies adopted by the Group and discussed the Group's risk management, internal controls and financial reporting matters with the management. The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 March 2020.

Auditor

The financial statements for the year ended 31 March 2020 have been audited by Ernst & Young who shall retire at the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution will be proposed at the forthcoming AGM to re-appoint Ernst & Young as the auditor of the Company.

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

On behalf of the Board
LIU Jianguo
Chairman

15 June 2020

Corporate Governance Report

Corporate governance practices

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

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

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

In the opinion of the directors of the Company (the "**Directors**"), throughout the year ended 31 March 2020 (the "**Year**"), the Company has complied with all the code provisions as set out in the CG Code save for the deviations from code provisions A.1.1 and A.2.1 which deviations are explained in the relevant paragraphs of this Corporate Governance Report.

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

Directors' securities transactions

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

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

No incident of non-compliance of the Company's own code of conduct regarding relevant employees' securities transactions by the relevant employees was noted by the Company.

Board of Directors

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

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

Board composition

The Board currently comprises nine Directors, consisting of four executive Directors, two non-executive Directors and three independent non-executive Directors.

The composition of the Board is as follows:

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)

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

The biographical information of the Directors are set out in the section headed "Biographies of the Directors and Senior Management" on pages 34 to 38 of this annual report.

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

Board meetings

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

During the Year, the Board held two regular meetings to approve the annual results for the year ended 31 March 2019 and the interim results for the six months ended 30 September 2019. The Company has not held quarterly board meeting as the Company does not announce its results quarterly.

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

Chairman and chief executive

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

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

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

Independent non-executive Directors

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

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

Appointment and re-election of Directors

The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of three years, subject to renewal after the expiry of the then current term.

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

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

Responsibilities of the Directors

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

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

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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

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

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

Continuous professional development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

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

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

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

Directors	Type of Training Note
Executive Directors	
Mr. Liu Jianguo	A
Mr. Ito Yasuki	A
Mr. Murai Yuji	A
Mr. Zuo Jun	A
Non-executive Directors	
Mr. Yang Xiaoping	A
Mr. Ho Ping-hsien Robert	A
Independent Non-executive Directors	
Mr. Lu Pochin Christopher	A
Mr. Wang Jianguo	A
Mr. Xu Hui	A

Note:

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

Board committees

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

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

Audit committee

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

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

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

During the Year, the Audit Committee held two meetings to review, among other things, (i) the annual results and reports in respect of the year ended 31 March 2019 and the interim results and reports in respect of the six months ended 30 September 2019, respectively; (ii) the continuing connected transaction; (iii) the effectiveness of the risk management and internal control systems and internal audit function; (iv) the arrangements for employees to raise concerns about possible improprieties in financial reporting, internal control or other matters; and (v) the appointment of external auditors and their relevant scope of works.

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

Remuneration committee

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

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

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

During the Year, the Remuneration Committee met twice to review the Company's policy and structure for the remuneration of all Directors and senior management, and approve the terms of the new service agreements entered into with four executive Directors and make recommendation to the Board on the remuneration package in the new letters of appointment entered into with three independent non-executive Directors.

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

Nomination committee

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

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

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

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Year, the Nomination Committee met twice to review the structure, size and composition of the Board and the effectiveness of the Board Diversity Policy, to assess the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for election at the 2019 annual general meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy.

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Company is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision of selection of relevant candidates will be based on merit and contribution that the selected candidates will bring to the Board or senior management.

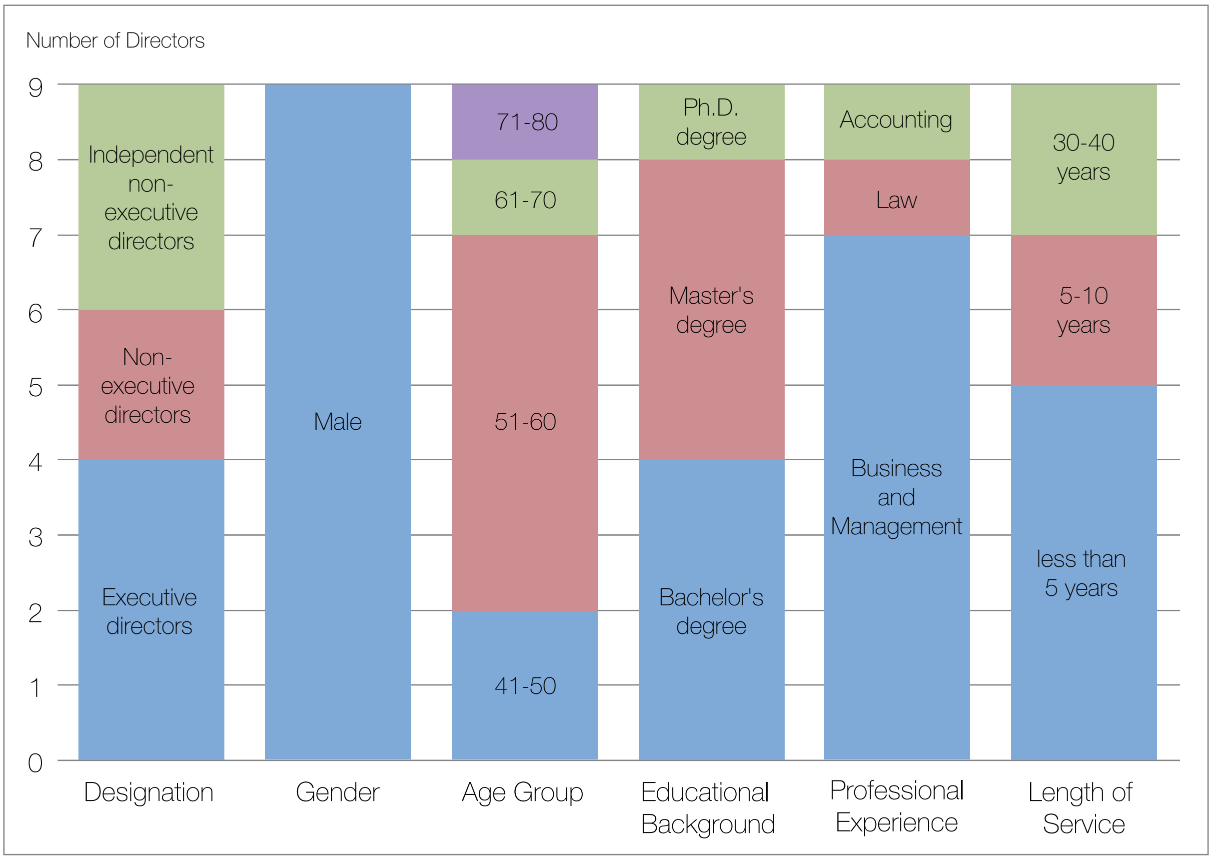
The Board continuously seeks to enhance its effectiveness and to maintain the highest standards of corporate governance and recognises diversity at Board level as an essential element in maintaining competitive advantage and sustainable development.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Board will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

The following chart shows the diversity profile of the Board as at 31 March 2020:



Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Nomination Policy which sets out the selection criteria and process and considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Characters including integrity, honesty and fairness.

- Backgrounds and qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business operation and corporate strategy.

- Commitment to understanding the Company and its industry, willingness to devote adequate time to discharge duties as a Board member and abilities to assist the Board in fulfilling its responsibilities.
- Requirement for the Board to have a sufficient number of independent non-executive Directors in accordance with the Listing Rules and assessment of the independence of the candidates.
- Board Diversity Policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a director.
- Such other factors relating to the Company's business model and specific needs from time to time, and the contribution that the selected candidates will bring to the Board.

The Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The Nomination Committee will review the Nomination Policy, as appropriate, to ensure its effectiveness.

Corporate governance functions

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

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

Attendance records of Directors and committee members

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

	Attendance/Number of Meetings during the Tenure of Directorship				
Name of Director	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Mr. Liu Jianguo	3/3	N/A	2/2	N/A	1/1
Mr. Ito Yasuki	3/3	N/A	N/A	N/A	0/1
Mr. Murai Yuji	3/3	N/A	N/A	N/A	0/1
Mr. Zuo Jun	3/3	N/A	N/A	2/2	1/1
Mr. Yang Xiaoping	3/3	N/A	N/A	N/A	0/1
Mr. Ho Ping-hsien Robert	3/3	N/A	N/A	N/A	1/1
Mr. Lu Pochin Christopher	3/3	2/2	2/2	N/A	1/1
Mr. Wang Jianguo	3/3	2/2	2/2	2/2	0/1
Mr. Xu Hui	3/3	2/2	N/A	2/2	0/1

Risk management and internal controls

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

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

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

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

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

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

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

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

Directors' responsibility in respect of the financial statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2020.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 114 to 119 of this annual report.

Auditors' remuneration

An analysis of the remuneration paid or payable to the external auditors of the Company, Messrs. Ernst & Young, in respect of audit services and non-audit services for the year ended 31 March 2020 is set out below:

Service Category	Fees Paid/Payable
Audit Services	CNY4,960,000
Non-audit Services	
– Consultation Service	CNY1,090,000
– Tax Filing Service	CNY90,000
	CNY6,140,000

Company secretary

Ms. Sham Ying Man is the company secretary of the Company. The primary contact person at the Company is Ms. Bian Weiwen, chief financial officer of the Company. Ms. Sham Ying Man is a manager of Corporate Services of Tricor Services Limited, a global professional service provider specialising in integrated business, corporate and investor services. The company secretary attended sufficient professional training as required under the Listing Rules for the year ended 31 March 2020 to update her skills and knowledge.

Shareholders' rights

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

Right to call an extraordinary general meeting

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

Putting forward proposals at general meetings

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

Putting forward enquiries to the Board

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

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

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

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

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

Communication with shareholders and investor relations

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

Constitutional documents

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

Policies relating to Shareholders

The Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a Dividend Policy on payment of dividends. Under the Dividend Policy, the Company intends to declare and pay no less than 50% of its profits attributable to owners of the Company on an annual basis as dividends to its shareholders, subject to the conditions and factors as set out in the Dividend Policy.

The Board has the discretion to declare and pay dividends to the shareholders of the Company, subject to the Articles of Association of the Company and all applicable laws and regulations and the factors set out in the Dividend Policy.

The Board shall take into account the following factors of the Group when considering the declaration and payment of dividends:

- results of operations;
- cash flows;
- financial condition;
- statutory and regulatory restrictions on the payment of dividends by the Company;
- the Company's capital requirements;
- future business plans and prospects; and
- any other factors that the Board may consider relevant.

Depending on the financial conditions of the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board as final dividend, interim dividend, special dividend or any distribution of net profits that the Board may deem appropriate. Any final dividend for a financial year will be subject to shareholders' approval. The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

Environmental, Social and Governance Report

Reporting Standard, Period and Scope

This environmental, social and governance report ("**ESG Report**") has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (Appendix 27 to the Main Board Listing Rules) ("**ESG Reporting Guide**") of The Stock Exchange of Hong Kong Limited ("**HKEX**"). This ESG Report describes the progress of environmental, social and governance ("**ESG**") efforts made by Honma Golf Limited ("**Honma**" or the "**Company**") and its subsidiaries (collectively "**we**", "**us**" **ours**", or the "**Group**") for the period from 1 April 2019 to 31 March 2020 (the "**Reporting Period**"), which also serves the purpose of informing stakeholders of the Group's ESG policies, initiatives and performance beyond its business operation and financial results.

The scope of the ESG Report covers the Research & Development and Manufacturing Centre (the "**Manufacturing Centre**") in Japan where the golf clubs are manufactured, administration offices ("**Offices**"), as well as self-operating stores ("**Stores**") across both Japan and the People's Republic of China ("**Mainland China**") where golf clubs and golf-related products are sold to customers (collectively "**In-scope Locations**").

Honma employs a total of 822 (2019: 870) employees worldwide, while this ESG Report focuses on covering In-scope Locations where the Group's major business processes were based with a total of 698 (2019: 757) employees.

About the Company

Honma Golf Limited designs, develops, manufactures and sells a comprehensive range of aesthetically-crafted and performance-driven golf clubs and golf-related products. It is founded in 1959 as a premium golf brand synonymous with intricate craftsmanship, dedication to performance excellence and distinguished product quality. We have our in-house manufacturing processes of golf clubs in Sakata City, Yamagata prefecture of Japan. There are skilled craftsmen and R&D personnel staffed in our in-house manufacturing process with years of experience, whose dedication to product quality enables us to maintain our status as one of the most prestigious and iconic brands in the golf industry.

We have our HONMA branded Stores and sales channels via the third-party retailers and wholesalers selling our products and providing a 360-degree brand experience to our customers worldwide, primarily in Asia and also across North America, Europe and other regions. We continue to stay up-to-date with the latest market trend, in additional to upgrading the retail experience both online and offline to increase consumers' awareness and loyalty.

Our Commitment and Approach to Environmental, Social and Governance

The board of directors (the "**Board**") recognizes the importance of ESG in meeting the changing expectation of stakeholders while enhancing the economic value and financial performance of the Group. Hence, the Board working together with the management, has taken the overall responsibility to assess and identify ESG risks associated with the Group for the purpose of ESG strategy and reporting, and has a far-reaching commitment to promote environmental and socially sustainable culture among all our employees to maintain sustainable growth for the Group.

Using the above-mentioned top-down approach, we assimilate ESG concepts into our daily operations at the workplace through the Group's policies and guidelines, so that each of our employees becomes the ambassador of our sustainability efforts, thus ensuring that the scope of the efforts is sufficiently broad to cover the significant parts of our businesses. Our employees are responsible for complying with different ESG related policies and executing accordingly with the Group's ESG works while the ESG working group is responsible for collection of data, disclosure of information and notification to the Board in a timely manner.

Stakeholder Engagement and Materiality Assessment

Stakeholder Engagement

The Group values its stakeholders and endeavours to understand and accommodate their views and interests related to ESG through constructive communication and the fostering of strong working relationships. The Company, while formulating operational strategies, takes into account the stakeholders' expectations in ESG through their mutual cooperation and active engagement.

Stakeholder Engagement and Materiality Assessment (continued)

Stakeholder Engagement (continued)

The stakeholder groups, their expectations and their typical communication channels with the Group are shown below:

Stakeholder groups	Expectations	Typical communication channels
Customers	➢ Product quality ➢ Product warranty ➢ Product price ➢ Product performance ➢ Return policy ➢ Innovation and development of new products ➢ Product safety	➢ Direct engagements at the company's retail point of sales ➢ After sales services during which consumers have the chance to interact with professional service team to fine tune the products to meet their play preferences ➢ Golf events for customers to test products and to give direct feedbacks ➢ Indirect engagement via various touch points within the Group's digital platforms, handled by designated staff in different countries (e.g. global website, various social media platforms and local CRM systems) ➢ Regular communication via email or telephone ➢ Financial reports, announcements and circulars and other publicly available information

Stakeholder Engagement and Materiality Assessment (continued)

Stakeholder Engagement (continued)

Stakeholder groups	Expectations	Typical communication channels
Suppliers	➢ Stable business relationship ➢ Fair and honest dealing ➢ Timely Information sharing ➢ Settlement of invoice in a timely manner ➢ Sufficient Products/services feedback	➢ Regular communication via email or telephone ➢ Regular progress meetings and/or reports ➢ Face to face meetings including visits on factories during the entire product development process ➢ Supplier evaluations
Shareholders and investors	➢ Return on investment ➢ Information disclosure and transparency ➢ Protect the rights and interests of shareholders ➢ Disclose relevant and accurate information in a timely manner ➢ Improve corporate governance ➢ Run business in compliance with laws and regulations ➢ Combat corruption and uphold integrity	➢ Regular non deal roadshows and calls to directly and indirectly interact with analysts, potential investors and shareholders ➢ Regular information feedback via dedicated Investor Relations team, by telephone calls and emails ➢ Regular hosting of investor days to allow investors to physically meet and visit key management staff and main business operations ➢ Attendance in investor conference and summits organised by reputable brokers and securities companies ➢ Regular results briefing towards shareholder and AGM, etc. ➢ Financial reports, results announcements, press release, circulars and other publicly available information ➢ Information disclosure of listed companies ➢ Website information disclosure on HKEX and the Company

Stakeholder Engagement and Materiality Assessment (continued)

Stakeholder Engagement (continued)

Stakeholder groups	Expectations	Typical communication channels
Employees	➢ Vocational Training ➢ Career planning, development and opportunities ➢ Salary and welfare ➢ Working environment ➢ Health and safety protection ➢ Innovation ➢ Intellectual property rights ➢ Competitiveness	➢ Regular team sharing ➢ Mentoring by direct supervisor ➢ Employee notice boards ➢ Training, seminars and workshops ➢ Monthly orientation for newly onboarded employees ➢ Collection of feedback, through the Company's online systems ➢ Employee activities and team-building exercises ("Culture month") ➢ Employee handbook

Stakeholder Engagement and Materiality Assessment (continued)

Stakeholder Engagement (continued)

Stakeholder groups	Expectations	Typical communication channels
Local communities, non-government organisations and the general public	➢ Employment opportunities ➢ Ecological environment ➢ Community development ➢ Social common wealth ➢ Enthusiasm towards public welfare ➢ Charitable donations ➢ Reduction in pollutant emissions ➢ Reduction in waste	➢ Charitable activities ➢ Community investment and service ➢ Environmental protection activities ➢ Sponsorships and donations
Media	➢ Transparency of information ➢ Good media relations	➢ Website information disclosure on HKEX and the Company ➢ Financial reports, announcements and circulars and other publicly available information ➢ Press conference for new products ➢ Regular press release and update on new product launches and new Stores opening

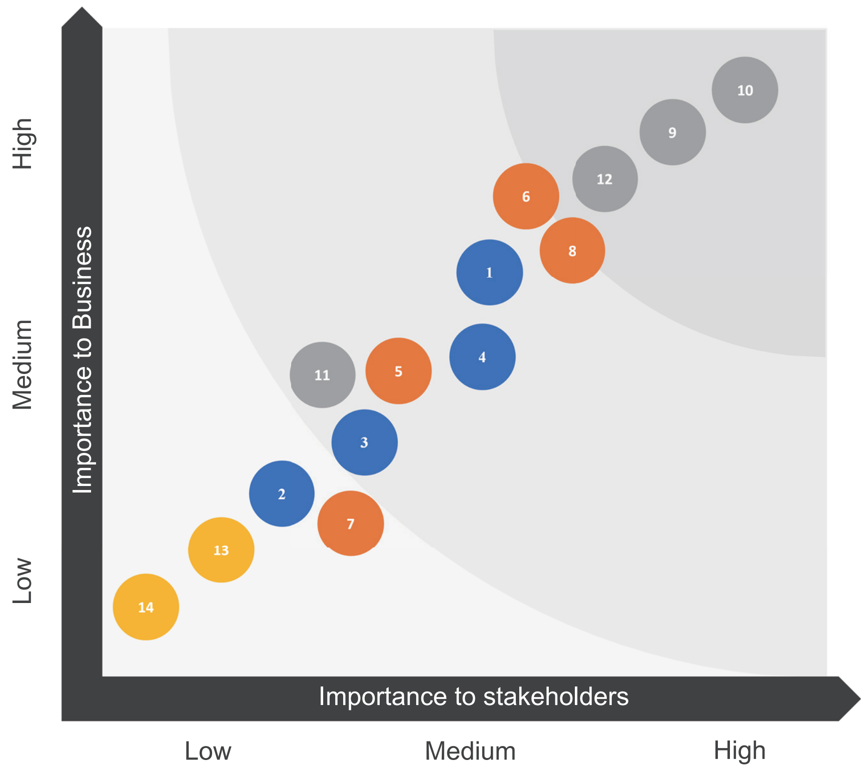
Stakeholder Engagement and Materiality Assessment (continued)

Materiality Assessment

As this ESG Report serves for the purpose for reporting environmental and social issues that have impacts to its sustainability, it is essential to identify their materiality at a glance.

During the Reporting Period, we have managed to communicate with our stakeholders and discovered several potential material issues related to ESG which may affect the Group in the long term. We have further categorized these issues into various areas in accordance with the ESG Reporting Guide, and with the assistance from employees and external consultants, the Group has collected relevant internal and external information which enables it to perform assessment of the impact of these ESG issues to the Group.

The materiality assessment identifies and prioritizes the issues that affected both the internal and external stakeholders of the Group. This materiality assessment is updated regularly to reflect the changes in priority of our stakeholders and the Group. After assessing the materiality and relevance of these ESG issues to the Company, the materiality assessment results were obtained as follows.



Stakeholder Engagement and Materiality Assessment (continued)

Materiality Assessment (continued)

Environment

1. Environmental compliance
2. Investment in environmental protection
3. Greenhouse gas emissions
4. Waste management

Employee

5. Salary and welfare
6. Health and safety protection
7. Employee diversification
8. Training and career development

Business

9. Product safety
10. Product quality
11. Intellectual property rights
12. Supply chain management

Community

13. Community development
14. Charitable donations and community service

Honma provides a complete golf lifestyle experience to its customers with its wide range of golf-related products such as golf clubs, golf balls, bags, apparels and other accessories. The safety and quality of its products are therefore top priorities, which are heavily dependent upon the skills of the craftsmen and the quality of the supplier partners, hence employee training and supply chain management are material ESG issues to the Group.

Based on the above analysis, the Group will continuously improve its ESG performance in order to fulfill the expectations of stakeholders, provide feedback to stakeholders and respond to the risks encountered by the Company. Details of our work under these ESG aspects during the Reporting Period will be presented in the next sections in four sections below, namely "Our Environment", "Our Employee", "Our Business" and "Our Community".

Our Environment

The Company is aware of the risk associated with climate change and the importance of the efforts in managing these risks in the global community. It has been our mission to conduct our business in a manner that is environmentally responsible, minimising the impact to the environment from our business operations.

The Group is committed to complying with environmental laws and regulations of countries in which we operate, especially in Japan and Mainland China where In-scope Locations are based.

In particular, the Manufacturing Centre and Stores in Japan are subject to stringent Japanese environmental laws and regulations, especially at the Manufacturing Centre where inspections were periodically carried out by local government officials. Similar to previous year, the Group devoted significant financial resources on ensuring strict compliance with these laws and regulations and ensure the safety of the surrounding community.

These relevant environmental laws and regulations in Japan include:

➢ Water Pollution Control Act of Japan (水質汙濁防止法);

➢ Air Pollution Control Act of Japan (大氣汙染防止法);

➢ Noise Regulation Act of Japan (騷音規制法);

➢ Vibration Regulation Act of Japan (振動規制法); and,

➢ Soil Contamination Countermeasures Act of Japan (土壤污染對策法).

Our Environment (continued)

Meanwhile, the Stores in the Mainland China are also subject to the relevant environmental laws and regulations in the Mainland China, these include:

➢ Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法);

➢ Environmental Protection Tax Law of the People's Republic of China (中華人民共和國環境保護稅法);

➢ Water Pollution Prevention and Control Law of the People's Republic of China (中華人民共和國水汙染防治法);

➢ Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法);

➢ Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法).

During the Reporting Period, the Group has not received report or complaint of any significant breaches of environmental laws and regulations in any jurisdictions during the Reporting Period (2019: Nil).

In the next sections we detailed the ESG performances of the Company with regards to emissions and waste, use of resources, and environment and natural resources.

Aspect A1: Emissions and Wastes

Air emissions

Air emissions were mainly emitted from burning of fuel in boilers and the use of motor vehicles for transportation used at the Manufacturing Centre. The amounts of the different types of air emissions emitted from In-scope Locations during the Reporting Period were as follows:

(Units: Kilograms)		For the year ended 31 March			
		2020		2019	
Types of air emissions	Air emission source(s)	Emissions amount	Intensities (Note 1)	Emissions amount	Intensities (Note 1)
Nitrogen Oxides (NO_X)	Burning of fuel in the manufacturing processes and the use of motor vehicles	**351**	**0.00029**	403	0.00033
Sulphur Oxides (SO_X)		**2,846**	**0.00235**	6,347	0.00524
Particulate Matter (PM)		**11**	**0.00001**	12	<0.00001

Note 1: Intensity is measured by the amount of emissions divide by the total number of estimated production units during the Reporting Period, which were 1,212,000 and 1,213,000 for the year ended 31 March 2019 and 2020 respectively.

Aspect A1: Emissions and Wastes (continued)

Green House Gas ("GHG") emissions

The amounts of different types of GHG emissions in CO2 equivalent emissions ("**CO_2e**") emitted from In-scope Locations during the Reporting Period were as follows:

(Units: Tonnes of CO_2e)		For the year ended 31 March			
		2020		2019	
GHG emissions	GHG emission source(s)	Emissions amount	Intensities (Note 1)	Emissions amount	Intensities (Note 1)
Scope 1					
Direct emissions	➢ Burning of fuel in the manufacturing processes and the use of motor vehicles	769	0.00063	832	0.00069
Scope 2					
Indirect emissions	➢ Purchased electricity	1,997	0.00165	1,972	0.00145
Scope 3					
Other indirect emissions	➢ Business air travels ➢ Electricity use for fresh water and sewage processing by government departments ➢ Waste paper disposal	250	0.00021	290	0.00019
Total		3,016	0.00249	3,094	0.00233

Note 1: Intensity is measured by the amount of emissions divide by the total number of estimated production units during the Reporting Period, which were 1,212,000 and 1,213,000 for the year ended 31 March 2019 and 2020 respectively.

Aspect A1: Emissions and Wastes (continued)

Green House Gas ("GHG") emissions (continued)

During the Reporting Period, approximately 769 tonnes (2019: 832 tonnes) of direct GHG emissions (Scope 1) were emitted which was contributed mainly from burning of fuel in boilers and the use of motor vehicles for transportation used within the Manufacturing Centre. While the number of production units has increased during the Reporting Period, the direct GHG emission has decreased by 8%, which is an indication of the successful implementation of our environmental protection initiatives.

The use of purchased electricity was the major contributor of indirect GHG emission (Scope 2) during the Reporting Period. Purchased electricity is used at the Manufacturing Centre for the manufacturing processes and general use such as lighting and heating and also at various Stores across Japan and Mainland China. There is slightly increase in usage because the increase in production volume and number of Stores.

For other indirect GHG emission (Scope 3) a total of approximately 250 tonnes (2019: 290 tonnes) were indirectly emitted to the environment during the Reporting Period, of which approximately 187 tonnes (2019: 226 tonnes) were contributed by business air travels, approximately 63 tonnes (2019: 64 tonnes) were contributed by the electricity used for fresh water, sewage processing by government departments and paper disposal at landfills. The decrease of Scope 3 GHG emissions was mainly attributed to the decrease in air travel by our employees.

Through the implementation of various environmental protection measures as are described in the later section headed "Environmental protection measures", the Group has overall managed to maintain air and GHG emission intensities at a relatively low level and has also shown a successful reduction in some of these emissions.

Wastes

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

Non-hazardous scrap materials such as carbon fibre and hazardous ones such as metals and coatings were produced during the manufacturing process. For the handling of these hazardous and non-hazardous waste, we have set up policies and procedures to perform waste disposal and treatment so as to minimize the impact to the nature and environment. Such policies and procedures have been delivered effectively to all staff. Materials are collected and reused wherever possible. Non-recyclable materials were disposed using qualified service providers.

Aspect A1: Emissions and Wastes (continued)

Wastes (continued)

The amounts of the different types of waste generated from In-scope Locations during the Reporting Period were as follows:

(Units: Tonnes)		For the year ended 31 March			
		2020		2019	
Types of wastes	Hazardous/ Non-hazardous	Amount generated	Intensities (Note 1)	Amount generated	Intensities (Note 1)
Chemical waste	Hazardous	**13**	**0.00001**	7	0.00001
Paper	Non-hazardous	**99**	**0.00008**	68	0.00006
Carbon fibre	Non-hazardous	**3**	**<0.00001**	6	0.00001
Polyethylene	Non-hazardous	**18**	**0.00002**	21	0.00002
Magazine, waste plastics, waste coating, etc.	Non-hazardous	**123**	**0.00010**	154	0.00013

Note 1: Intensity is measured by the amount of emissions divide by the total number of estimated production units during the Reporting Period, which were 1,212,000 and 1,213,000 for the year ended 31 March 2019 and 2020 respectively.

Despite the increase in production units during the Reporting Period, the Group has managed to maintain only a moderate increase in waste generation as compared to the same period previous year.

Aspect A2: Use of Resources

The energy resources consumed by In-scope Locations during the Reporting Period were mainly fuel oil, liquefied petroleum gas ("**LPG**"), gas and electricity. Other resources used include water, printing paper and packaging materials. There was no issue in sourcing water which is mainly used which in the electroplating processes. For printing paper, it is consumed only as and when necessary for daily operational use. As for packaging materials, it is mainly used sparingly for packaging finished products at Stores. Even when it is used the impact would be minimal as the Group has opted for simple packaging for customers who require it, and hence the amounts are not material to the Group. As a result the consumption of packaging materials was not collected during the Reporting Period.

The amounts of energy, water and other resources consumed by In-scope Locations during the Reporting Period were as follows:

		For the year ended 31 March			
		2020		2019	
Resources	Units	Amount consumed	Intensities (Note 1)	Amount consumed	Intensities (Note 1)
Electricity	MWh	3,855	0.00318	3,783	0.00312
LPG, gas, fuel oil and others	Cubic metres	3,857	0.00318	3,825	0.00316
Water	Tonnes	60,154	0.04959	58,921	0.04861
Printing paper	Tonnes	5	<0.00001	8	0.00001

Note 1: Intensity is measured by the amount of emissions divide by the total number of estimated production units during the Reporting Period, which were 1,212,000 and 1,213,000 for the year ended 31 March 2019 and 2020 respectively.

The Group has always placed great emphasis on energy and resources conservation, and has adopted various strategies and measures to improve resource utilization in order to reduce raw materials wastage. The Group would continue to keep track of consumption on energy and resources and implement corrective action to align with the environmental conversation goal of the Group. Various strategies and measures adopted by the Group are detailed in the later section titled "Environmental protection measures".

Aspect A3: Environment and Natural Resources

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

Minimising the impact caused by our businesses to the environment and natural resources is essential parts of the Group's ESG strategy. This strategy is implemented in terms of environmental protection measures which are carried out in daily manufacturing and business processes, as well as in specific environmental protection initiatives which are listed below:

Environmental protection measures

The Group adopts the following measures at the Manufacturing Centre which are regularly carried out to achieve its ESG strategy in the course of its operations:

Manufacturing process management

➢ The Group has implemented the 5S on-site management and organization method in its manufacturing processes;

➢ Regular checking of emissions from the manufacturing boilers;

➢ The Group regularly monitors and performs maintenance on key environmental protection facilities so as to minimize the impact on the environment and the consumption of natural resources. This is done to ensure these facilities are in proper working order to remove harmful substances; and

➢ The Group continuously optimises the entire production process, i.e. centralising manufacturing efforts to shorten the production cycle and minimising raw material utilization; reducing the travel distances in the logistics of raw materials and production within the factory through careful management of inventory location and warehouse space.

Aspect A3: Environment and Natural Resources (continued)

Environmental protection measures (continued)

Waste management

- ➢ Hazardous wastes such as cyanide and chrome are collected from sewage by qualified service providers for recycling and treatment;
- ➢ Scraps (such as metal, coating, carbon fibre, etc.) generated in the manufacturing process are regularly monitored and reduced wherever possible for the purpose of cost and waste reduction; and
- ➢ The Waste Recycling Committee has continued to explore different ways to recycle and reduce waste in the manufacturing processes.

In addition, the Group adopts the following measures at the Manufacturing Centre as well as elsewhere at Offices and Stores which are regularly carried out to achieve its ESG strategy in the course of our operations:

Office equipment and supplies

- ➢ Using energy saving machines and fixtures, e.g. energy saving air-conditioner and LED, conduct regular check to ensure safety as well as operating efficiency;
- ➢ Prioritizing the use of water-saving and energy-efficient production machinery and office equipment, i.e. water-efficient sanitary-ware in toilets, electrical appliances which are certified to be energy-efficient or environmental-friendly;
- ➢ Circulating various energy-saving guidelines to staff (for example, turning off computers, lights and office equipment after work and during holiday; closing windows when the air conditioning is in use);
- ➢ Promoting awareness amongst employees to turn off lighting in work areas during their lunch breaks to save energy; and
- ➢ Centralizing the orders for office supplies from various departments to reduce delivery distance, thus reduce indirect emissions from transportation.

Air-conditioning

- ➢ Prioritizing the use of air-conditioners which have good temperature and humidity controls, allowing employees to work in a comfortable environment in the workshops and Offices, while at the same time reducing unnecessary energy use due to over-heating or over-cooling.

Aspect A3: Environment and Natural Resources (continued)

Environmental protection measures (continued)

Water

➢ Tests are regularly carried out to ensure that the water discharged is safe to the surrounding community which it also meets the standards required by the authority;

➢ Installing water-efficient sensor taps wherever possible to avoid unnecessary water wastage; and

➢ Affixing labels at offices and Stores to remind saving on water, cultivate employees' awareness for saving, and require reuse of water in daily life.

Paper

➢ Reusing and recycling packaging such as plastic or paper bag, and paper cartons if possible;

➢ Reusing wrapping materials and paper cartons wherever possible, otherwise recycle properly, or dispose of responsibly;

➢ Reducing excessive printing by going paperless as far as possible, for example utilise digital devices to the greatest extent for internal meeting and internal communications; and

➢ Reusing printed papers wherever possible, subject to the personal data privacy requirements.

Vehicles

➢ Using video/telephone conferencing instead of business travel when communicating between different offices to reduce energy consumption whenever possible; and

➢ Carpooling (i.e. share car) wherever possible for regular commuting and to/from external meetings.

Our Employee

The Company values its employees and is committed to providing them with a fair and equitable workplace environment. In this section we shall detail the various policies and practices adopted by the Company with regards to employment, health and safety, development and training, and labour standards.

Aspect B1: Employment

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

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

➢ The Labour Standards Act of Japan (勞動基準法);

➢ The Labour Safety and Health Law of Japan (勞動安全衛生法);

➢ The Labour Contract Law of Japan (勞動合同法);

➢ The minimum Wage Law of Japan (最低工資法);

➢ The Labour Law of the People's Republic of China (中華人民共和國勞動法); and

➢ The Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法).

There was no significant non-compliance with laws and regulations by the Group relating to employment during the Reporting Period (2019: Nil).

Aspect B1: Employment (continued)

Fairness and Anti-discrimination

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

Recruitment and Promotion

The Group believes that attracting and retaining qualified talents is vital to its continuous success. To achieve this, the Group provides a market competitive remuneration system, including wage, bonus, benefits and allowances. The recruitment process follows the principle of fairness and all personnel shall be treated equally so as to appoint employees on their merits. The human resources management department must strictly abide by the recruitment system of the Company in the process of recruitment, strictly check the recruitment process, and avoid setting up a post for a kindred. The promotion of the Company's personnel follows the principles of fairness, impartiality and openness.

Welfare

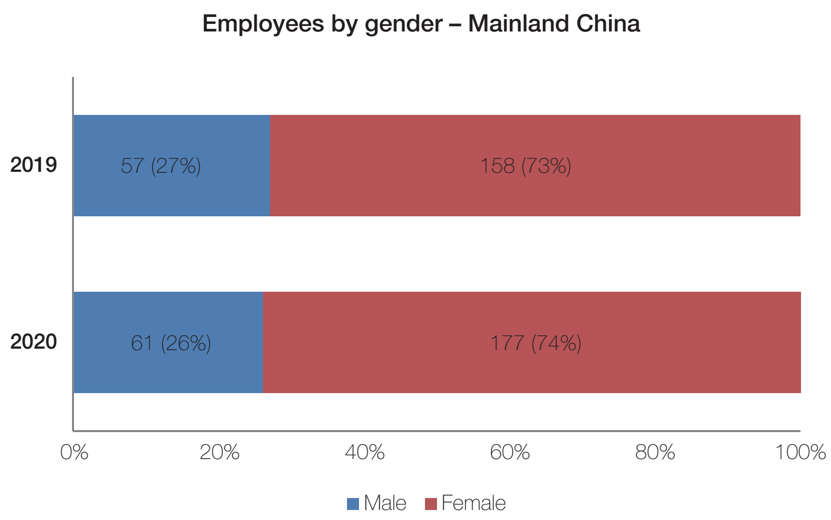
In order to regulate and reinforce the welfare management for the staff of the Group and fully utilise the guarantee and incentive effects of welfare, we have established welfare policies in employee handbook including statutory welfare and corporate welfare.

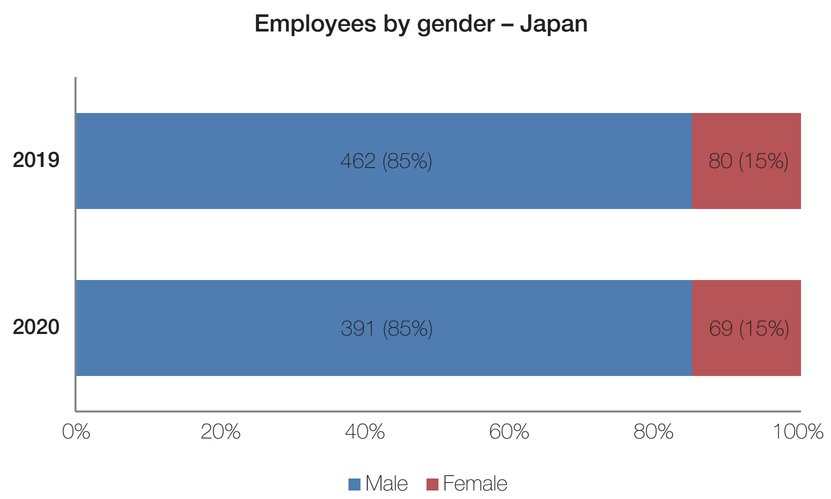
In accordance with laws and regulations including the Labour Law of the PRC and the Social Insurance Law of the PRC, the Group pays social insurance contributions for all employees in China. Other welfare offered to employees are in forms of communication subsidy, traffic subsidy, meal subsidy, accommodation subsidy and travel allowance, etc. To further motivate its staff, rewards in terms of promotions, bonuses or other fringe benefits are provided based on employee's individual performance and contribution to the Group.

Aspect B1: Employment (continued)

Current workforce

As at 31 March 2020, there were a total of 698 (2019: 757) employees at In-scope Locations, of those 238 (2019: 215) were employed in Mainland China and 460 (2019: 542) were employed in Japan. All employees at In-scope Locations are on a full-time basis. The gender ratios of the employees in these two geographic locations are depicted below:



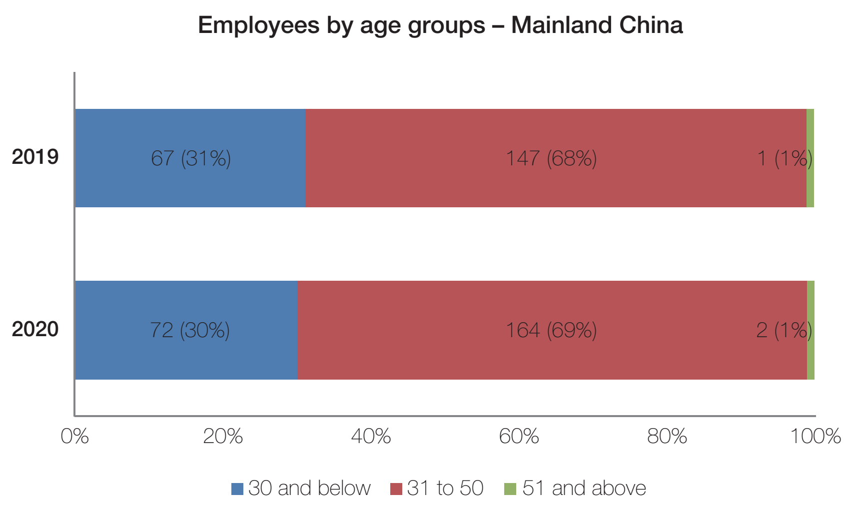


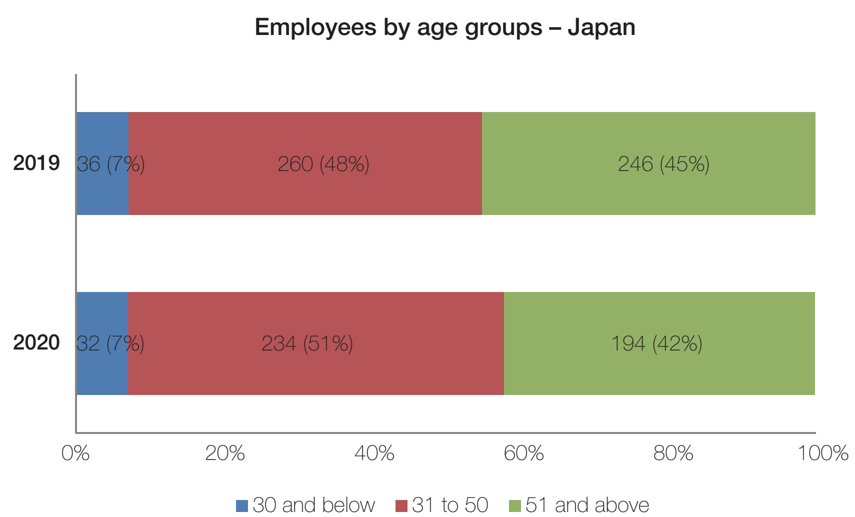
Aspect B1: Employment (continued)

Current workforce (continued)

In Japan where the Manufacturing Centre is based, the male-to-female ratio of the workforce was approximately 5.7:1 (2019: 5.8:1). The work involved in the manufacturing processes is by its nature of labour-intensive and thus has traditionally been preferred by male employees. Nonetheless as evident by the Group's strategy in the sales of ladies golf sets, golf apparels and sponsoring professional ladies golfers, golf is a sport which appeals equally to both genders. In contrast, jobs were mostly filled by female employees in the Mainland China at the end of the Reporting Period, the male-to-female ratio of employees in the Mainland China was 1:2.9 (2019: 1:2.8), which has no significant change compared to the same period of last year.

The ratios of these age groups of the employees in Mainland China and Japan are depicted below:



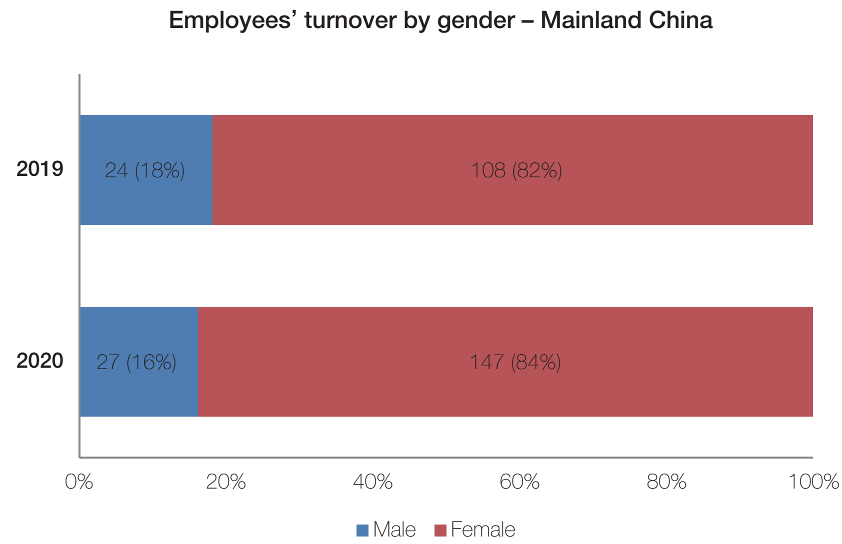


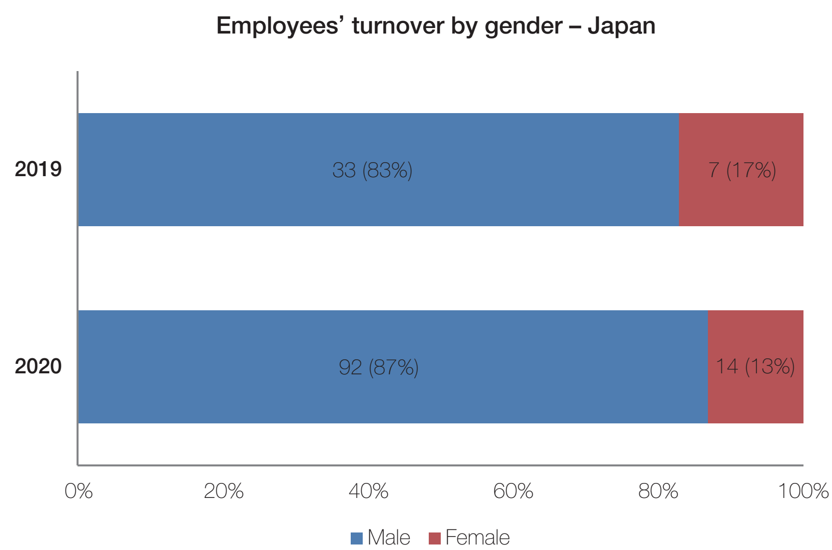
The ratios of employees by age groups have stayed fairly consistent as at the end of Reporting Period compared to those ratios as at the Reporting Period in the previous year, in which the majority of employees are aged from 31-50.

Aspect B1: Employment (continued)

Employees' turnover

The turnover of employees by gender in Mainland China and Japan are depicted below:



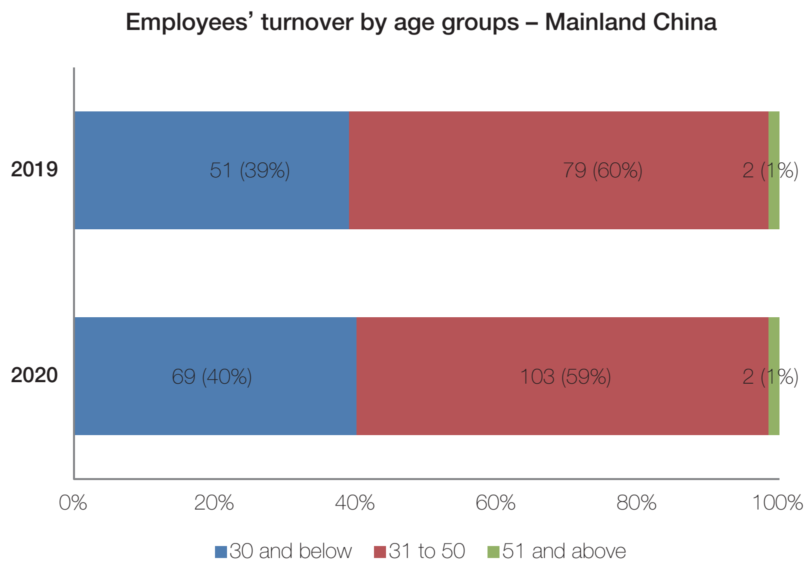


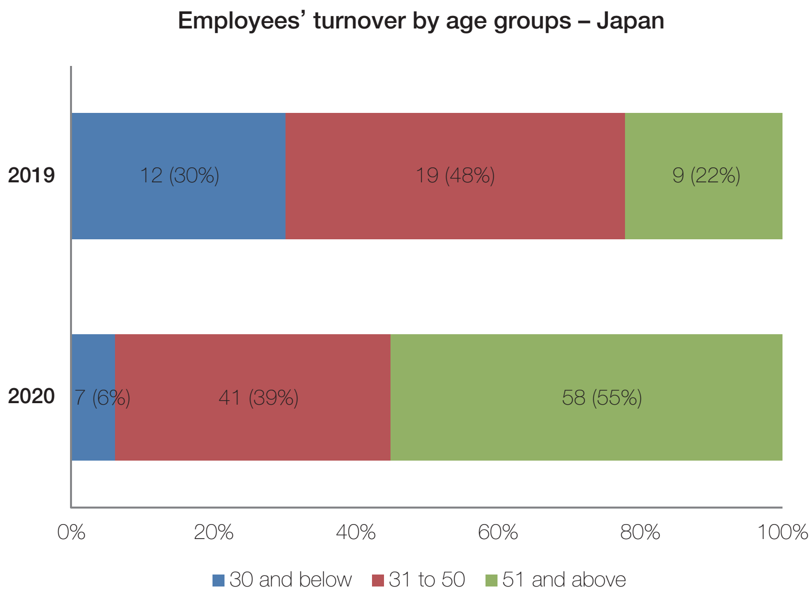
During the Reporting Period there were a total of 280 (2019: 172) employees left the Group in Mainland China and Japan. Of those employees who left, 174 (2019: 132) were employed in Mainland China and 106 (2019: 40) were employed in Japan.

Aspect B1: Employment (continued)

Employees' turnover (continued)

The turnover of employees by age groups in Mainland China and Japan are depicted below:





During the Reporting Period, 144 (2019: 98) employees who left the Group in Mainland China and Japan was from aged 31 to 50, 76 (2019: 63) employees was from aged 30 and below, and 60 (2019: 11) employees was aged 51 and above.

We will continue improving our employee retention strategies, listen to employee's needs and react accordingly so as to make our employee stay and grow with us in the long-run.

Aspect B2: Health and Safety

The Group is committed to and has contributed significant efforts in providing and maintaining a safe and healthy working environment to mitigate any occupational or health risks in our employees. In addition to complying with laws and regulations related to the employment of labour as previously mentioned, the Company is also committed to the compliance of laws and regulations related to occupational health and safety including:

- The Labour Standards Act of Japan (勞動基準法);
- Industrial Safety and Health Act of Japan (勞動安全衛生法); and
- Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases (中華人民共和國職業病防治法).

During the Reporting Period, there was no any significant work-related injuries recorded, zero lost day due to work injury and no incident of work-related fatalities and the Group did not have significant non-compliance with laws and regulations relating to health and safety laws and regulations (2019: Nil). In case there is injuries occurred during work, the Group is fully-complied with the laws and regulations to report to the local government and access whether it constitutes as work-related injuries.

The Group highly valued the health and safety of its employees. It has set up an employee safety committee that is responsible for implementing the Group's internal employee safety policy, providing relevant training and education, and conducting regular inspections, and has established a system for creating records and dealing with accidents. The Group also has dedicated staff in Japan to have meeting every month to discuss the safety and hygiene issues, organize safety training at the Manufacturing Centre to ensure a health and safety working environment.

The Group has developed and included guidance on health and safety principles in the Group's employee handbook and has delivered such policies effectively to all staff. For posts identified by the Group to have occupational hazards, inspections and health checks organized by the Group should be conducted at the time of appointment, service and departure of employees. For worksites identified by the Group to have occupational hazards, the Group conducts inspections on a regular basis and equips employees with labour protection appliances required for work while purchasing targeted insurance. Moreover, the Group has formulated safety measures in response to floods, heavy rain, typhoons and high temperatures based on the actual situation of the worksites and offices to further protect the physical health of its employees.

Safety at Manufacturing Centre

The Group recognises that the significant risk to the health and safety of employees at the Manufacturing Centre. They regularly handled hazardous substances such as organic solvents, dust in the workshops, operate machineries and engage in labour-intensive work during the production processes, and hence a significant amount of efforts has been made in providing protection to our employees there.

Aspect B2: Health and Safety (continued)

Safety at Manufacturing Centre (continued)

Addition health and safety measures for our employees at Manufacturing Centre are as follows:

- Employees are equipped with earplugs, goggles, masks, protective robes and gloves for use during their work;
- Employees are provided with leisure rooms, a place to relax, at the workshops when needed;
- Waste liquid collection containers are installed in operating sites where organic solvents are used in treatment sites after stripping operation, qualified wastage processing service providers is appointed for handling these wastes, to reduce staff's contact with these substances;
- Dust collectors are installed in grinding workshops to reduce the inhalation of air-borne dust;
- Fire suppression equipment including indoor and outdoor fire hydrant, automatic fire alarms, emergency power supplies and smoke detectors are installed where appropriate, and regular inspections are conducted to ensure proper working conditions;
- Self-inspections are conducted regularly on the equipment powered by LPG at least once a year to reduce potential safety hazards;
- Employees are provided with "health diagnosis" and "stress check" twice a year which is more than fulfilling the requirements of the labour regulations of Japan and based on these assessments adjustment to their work may be made as necessary, especially those who are charged with operating machinery in order to ensure their safety.

Safety at Offices and Stores

Employees at Offices and Stores are at relatively lower risk of health and safety concerns since they are do not involved in labour-intensive work nor situated in a hostile working environment. Nonetheless, the Group recognises that they are also at risk of health and safety at work. Hence the Group endeavours to provide a safe working environment, protects the health well-being of these employees and provides training on safety of employees regularly during the Reporting Period.

The Group provides pre-service body checks for newly-employed staff and annual body checks for current staff at Offices and Stores. To ensure safety of employees within the buildings they are located, regular fire drills and air quality checks are carried out by respective the building management companies. In Offices, third party maintenance provider was engaged to look after the various plants in the building in order to provide a comfortable working environment. In Stores, CCTV and security systems were installed to ensure safety of employees. We will continue to focus on health and safety and eventually increase safety awareness among our employees for minimizing injuries during work.

Aspect B3: Development and Training

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

To ensure the maintenance of the iconic status of our brand and our craftsmanship heritage, the Group provides diversified training to our employees, including induction training, job qualification training, professional knowledge and business skills training, integrated management training and advanced training, etc. Training sessions covering topics such as industry knowledge of golf, maintenance of products, new products introduction and negotiation skills with customers were delivered to employees located in the offices and Stores, while trainings on manufacturing techniques and safety were delivered to those employees located in the manufacturing centre.

In addition, the Group has established targeted training programs for employees in different business segments, such as establishing a multi-skilled worker training program and an apprentice program for employees in Sakata Campus, to promote the development of employees and make it possible for senior craftsmen to pass their experience to the younger generation. For the orientation training to new employees, these trainings focus on introduction of the Group's policies, background and knowledge in golf. The Group has also established an internal golf club fitter certification program for sales staff of Stores to certify the staff to have professional knowledge in golf.

In order to provide training sessions that suit the need of employees, the Human Resources Department of the Group is responsible for formulating staff training plan annually and the respective department implements the plan accordingly throughout the year. After training has been completed, staff are evaluated by the presenter to ensure he/she masters the relevant knowledge and skills timely. The Group reviews the implementation of training with various departments regularly, collects feedback and propose improvement measures to increase the effectiveness of training and ultimately provides professional knowledge for employees' career development.

Aspect B3: Development and Training (continued)

Summary of training at In-scope Locations is present as below:

	For the year ended 31 March					
	2020			2019		
	Number of employees*	Total training hours	Average training hours	Number of employees*	Total training hours	Average training hours
By gender						
Male	452	4,734	10.47	519	4,133	7.96
Female	246	7,233	29.40	238	2,324	9.76
Total	698	11,967	17.14	757	6,457	8.53
By hierarchy						
Senior Management	25	58	2.32	17	49	2.88
Middle Management	195	1,129	5.79	211	2,788	13.21
General employee	478	10,780	22.55	529	3,620	6.84
Total	698	11,967	17.14	757	6,457	8.53

* As at 31 March

During the Reporting Period our employees at In-scope locations had completed a total of approximately 11,967 training hours (2019: 6,457), which had a significant increase in total training hours compared to the same period of last year. The average number of training hours for each employee is about 17.14 hours (2019: 8.53) during the Reporting Period. Compared with 2018, new Stores were opened in China, and new employees had to go through a series of training before commencement of work, resulting in the significant increase in the average training hour for general staff. In order to further enhance the skill and quality of services of its employees, the Group had recruited a professional trainer, developed and implemented a comprehensive training system for employees at Stores, which covers the entire procedures for customers to have an excellent shopping experience at the Stores and understanding of different products. This serves the second justification for the increase in the average training hour for general staff during the Reporting Period.

Aspect B4: Labour Standards

The Group attaches great importance to and strictly abides by all applicable laws and regulations of places in which it operates, as mentioned in the above under the title "Aspect B1 Employment". The Group is also committed to the compliance of laws and regulations related to labour conditions and standards including:

- The Labour Standards Act of Japan (勞動基準法);
- The Law of Working Method Reform of Japan (工作方式改革關聯法);
- Child Welfare Act of Japan (兒童福祉法);
- Provisions on the Prohibition of Child Labour in the People's Republic of China (禁止使用童工規定).

The Group also adheres to strict ethical labour standards when dealing with recruitment. Child labour and forced labour are considered unacceptable and actively avoided by the establishment of strict recruitment procedures, including selection examination, physical examination and interview. Those intended to be hired are required to submit identity documents such as their identity cards or personal number cards for screening and checking by administrative and human resources departments before they are employed so as to prevent child labour. In order to rule out any forced labour, not only in the recruitment notice, but also during interview time and signing of labour contract, staff from the human resources department clearly inform job seekers the nature, content and time of relevant work. This ensures that all labour contracts were signed and all labour work were performed by the employees voluntarily.

Aspect B4: Labour Standards (continued)

The Group strictly abides by the relevant requirements of labour laws of the countries in which it operates. Legal employment rights such as working hours, rest days and leave entitlements are fully respected. It makes reasonable arrangements for the working hour and rest time of employees. For overtime work required, employees should apply and obtain approval from their department head, the Group pays overtime wages or give holidays for working extra shifts.

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

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

During the Reporting Period, the Group did not have any material non-compliance case in relation to labour standards laws and regulations, nor any incidents of child labour or forced labour in any form (2019: Nil).

Our Business

In this section we shall detail the various policies and practices adopted by the Group with regards to supply chain management, product responsibility, and anti-corruption which are all vital to the success of our business.

Aspect B5: Supply Chain Management

Golf Club

The Group retains key manufacturing processes at the Manufacturing Centre while outsourcing non-core manufacturing processes to strategic supplier partners. There are also Bill of material (BOM) suppliers that provide the Group with raw materials such as club heads and carbon fibre sheets, as well as various original equipment manufacturer (OEM) suppliers, providing other product ranges such as golf clubs components, golf balls and apparel accessories.

As at the end of Reporting Period, the Group has 684 supplier partners (2019: 684) who were authorised to provide goods/ services to the Group. Supplier partners are from various countries worldwide including 647 from Japan, 15 from Taiwan, 10 from Mainland China, 5 from Hong Kong, 2 from Thailand, 2 from South Korea, 1 from the United States, 1 from Scotland and 1 from Denmark.

The Group has established policies and procedures to maintain good business practices in the selection and evaluation of these supplier partners. These policies and procedures are review and re-evaluated on a regular basis.

When the Group selects a new supplier partner, the Group follows the established policies to complete an initial investigative screening process based on a list of scoring criteria as shown below: -

1. General corporate information such as their background, history and their reputation in the industry;

2. Sustainability practices;

3. Research and developments;

4. Quality control and product safety;

5. Punctuality in meeting deadlines;

6. Suppliers chain management, and;

7. Employee and environment safety.

Aspect B5: Supply Chain Management (continued)

Golf Club (continued)

This initial investigative screening process is documented in evaluation forms and properly filed for future reference. After this process is completed, the Group may make further investigation into the supplier partners by further consideration the following:

1. On-site visit to gain more in-depth understanding of their production procedures;

2. Their operation management process and other operational aspects related to these suppliers;

3. Their production assets such as production facilities and production equipment, and;

4. Their financial soundness through the review of their financial statements.

In the process of cooperating with supplier partners, the Group will also arrange quality control staff to visit each plant of the supplier partners regularly to examine the production process to check whether the production process of the supplier has complied with the specific requirements of the Group to ensure the quality and standard of the products procured by the Group. The Group would continue business with existing supplier partners with satisfactory performance and terminate those which were unsatisfactory.

Apparels

In addition to the golf club, the Group has expanded its apparel section during the Reporting Period and its supply chain management for the apparel section is also critical to its sustainable development and thus it is detailed in the following paragraph.

Aspect B5: Supply Chain Management (continued)

Apparels (continued)

Suppliers for the apparel section offer three main types of products and services to the Group, i.e. fabric, accessories including button, zipper, labels and sewing thread and the manufacturing process. There are a total of 100 suppliers including 76 from Mainland China, 17 from Japan, 4 from South Korea and 3 from Italy as at the end of the Reporting Period.

The selection of new apparel supplier is the same as selecting a supplier elsewhere in the Group's supply chain, which is based on established policies and procedures to ensure fair and comprehensive comparison across any potentially suitable suppliers.

The comparison process focus not only on the quality of materials and services but also on their sustainability practice. For instance, when selecting suppliers for the fabric of apparel products, one of the assessment criteria is to look at whether or not their products are BLUESIGN approved. BLUESIGN is an independent organisation that works with stakeholders in the textile industry to set strict criteria on BLUESIGN approved products, which are products manufactured with responsible use of resources and the lowest possible impact on people and the environment. Thus the Group has ensured apparel suppliers are acting in an environmentally and socially responsible way by ensuring their products and their manufacturing process has been independently approved and verified.

The performance of the suppliers is monitored regularly by internal staff of the Group throughout the course of our active business relationship with this supplier. In addition, the Group has engaged a professional third-party with proficiency in safety and quality laws and regulations to conduct inspection check on the fabric and finished products. The results from these inspections are reviewed by the Group to ensure any exceptions are actively and timely followed up and corrected.

Aspect B6: Product Responsibility

Product Quality Management

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

- For production processes in Japan, tests are conducted on all carbon fibre shafts to ensure each shaft has complied with the Group's production standards in strength, flexibility, weight distribution and vibration frequency;

- For production processes at supplier partners, the Group's quality control staff will examine all delivered goods to ensure the components have complied with our production standards on quality and aesthetics, the Group will have company visit to its suppliers from time to time to monitor the supplier's production process meet the Group's product requirement;

- In the assembly process of finished products in Japan, the Group conduct a series of tests, including strike durability test and torsion test on finished products to ensure the quality of finished products. Professional staff in Japan can test the golf club with the customer in the golf training court of the Sakata Campus to fine-tune the products immediately, providing value-added services to our customers, and;

- The Group has regularly purchased new assembly and testing machines to improve the testing technology to enhance the products quality.

After-sales management of products

The Group has established standard procedures for handling complaints from different channels (i.e. telephone, email, Wechat, etc.), in different countries with Stores. Customer complaints are properly recorded and handled by the Group's customer service team who will investigate into the relevant reasons for all complaints and follow-up with providing solutions. According to the Group's policies, retail customers are allowed to return defective products and the products have warranty, the group has set up detail guidelines in dealing with exchange and return of products. If the Group discovered that they should be responsible for any product defect, the Group will replace such defective product with a brand new product or repair the product free of charge. And the Group will formulate preventive measures afterwards and share the relevant information widely within the Group to avoid the occurrence of similar issues in future. The Group also fine-tunes the golf club according to the feedbacks from customers to ensure greater customer satisfaction with our products.

Aspect B6: Product Responsibility (continued)

After-sales management of products (continued)

During the Reporting Period, the Group do not have material complaints from consumers, nor recalled any products due to safety and health issues (2019: Nil), which is an indication of the success of the strict implementation of the quality control policies of the Group.

Protection of Intellectual Property

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

In addition, all employees in the Research and Development department are required to sign confidentiality and proprietary information agreements with the Group. Such agreements address the problems of protecting intellectual property and require our employees to transfer all inventions, designs and technologies developed within their employment periods at the Group.

The Group has also act actively liaising with the lawyer and China Administration for Industry & Commerce to identify the patent and trademark infringement products to take legal actions to protect our rights.

During the Reporting Period, the Group had no material litigation or claims on intellectual property, nor is being sued for infringement of intellectual property (2019: Nil).

Consumer Information Protection

The Group is committed to complying with relevant laws and regulations related to consumer rights and privacy protection. The Group considers that privacy and security of information are critical operating principles. The Group has implemented comprehensive information privacy and information security programs to protect personal privacy, the policies have been included in employee handbook and has delivered such policies effectively to all staff.

Aspect B6: Product Responsibility (continued)

Consumer Information Protection (continued)

The Group are committed to complying with all relevant laws and regulations related to consumer rights and privacy protection, including but not limited to:

- The Personal Information Protection Law of Japan (個人情報保護法);
- Consumer Protection Fundamental Act of Japan (消費者基本法);
- The Law of the People's Republic of China on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法), and;
- Various guidelines and laws in the People's Republic of China related to personal data protection, such as the PRC Cybersecurity Law (中華人民共和國網絡安全法).

The personal information of customers is used by the Group for the purposes of providing after-sales service, introducing new products and businesses, etc. The Group must obtain consent from customers before collecting and using the personal information of customers and should not disclose personal information of customers in all means to third-party without consent.

The Group has also established different levels of rights of access to the information and the time such information should be retained, and when it should be destroyed to further protect customers' information. The information collected from the customers are classified as confidential that can only be access by managerial staff or above only. Should other staff require such access, approval would be needed to be obtained from their department head and human resources department. In case of breach of policies, there will be serious consequences for staff, which may include the termination of employment and/or take legal action against them.

During the Reporting Period, the Group had no material non-compliance of laws and regulations related to customer personal data privacy (2019: Nil).

Aspect B7: Anti-corruption

The Group is committed to adhering to the highest ethical standards and maintaining a corporate culture of integrity and justice for preventing, detecting and reporting all types of fraud, including corruption. The Group has established effective anti-corruption procedures, including declaration of interests, whistle-blowing, internal audits, etc., which have been stated in employee handbook and has delivered such procedures effectively to all staff.

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

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

The Group are committed to complying with all relevant laws and regulations related to anti-corruption, including but not limited to:

- Criminal Code (刑法典);
- Corporate Rehabilitation Law (公司更生法);
- The Law on the Rectification of economic relations (關於整頓經濟關係罪責的法律); and
- Anti-Money Laundering Law of the PRC (中華人民共和國反洗錢法).

During the Reporting Period, the Group had no significant non-compliance related to corruption (2019: Nil).

Aspect B7: Anti-corruption (continued)

Our Community

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

Aspect B8: Community Investment

The community investments to which Honma has contributed during the Reporting Period were as follows:

➢ Promote golf sport to the youth of local community, the Group opens the golf training court at the Sakata Campus free of charge to young players on weekends; and

➢ Sponsor the 11th Shanghai International Church (ICS) Charity Golf Invitational Tournament (上海國際教會慈善高爾夫邀請賽) with HONMA antique golf club for auction, and donate the money to Shanghai Engguang Elderly Home (上海恩光敬老院).

Independent Auditor's Report

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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

Independent auditor's report

To the shareholders of Honma Golf Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Honma Golf Limited (the "Company") and its subsidiaries (the "Group") set out on pages 120 to 212, which comprise the consolidated statement of financial position as at 31 March 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Employee defined benefit plan The Group operates a funded defined benefit plan for all of its qualified employees in Japan. Under the plan, the employees are entitled to retirement benefits on attainment of a retirement age of 60. As at 31 March 2020, the balance of the net defined benefit plan liabilities was JPY905 million. The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. Management engages an external actuary to determine the present value of the defined benefit obligations. This matter was significant to our audit because the carrying amount of the net defined benefit plan liabilities was material to the financial statements and the valuation process was complex and involved significant judgements. The Group's disclosures about the employee defined benefit plan are included in notes 2.4, 3 and 31 to the financial statements, which explain the accounting policy, major judgements and estimations management made in the assessment and the movements in the net defined benefit plan liabilities.	Among our audit procedures, we considered the objectivity, independence and expertise of the external actuary. We involved our internal actuarial specialists to assist us in evaluating the actuarial methodology and the actuarial result, reviewing the expense determination and actuarial gain/loss, and assessing the underlying assumptions, which included comparing assumed mortality rates to national and industry averages, comparing the assumed discount rate to the redemption yield of Japanese AA corporate bonds based on the expected term of the benefit obligations as at the valuation date, and assessing the assumption for salary increases and the withdrawal rate against the Group's historical trend and expected future outlook. We also checked the census data used against the underlying data held by the Group and scheme administrators, and assessed the adequacy of the disclosures of the valuation of defined pension obligations in the financial statements.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability of deferred tax assets	
As at 31 March 2020, the Group recorded net deferred tax assets amounting to JPY1,502 million in the financial statements resulting from temporary differences and unused tax losses. The Group recognises these deferred tax assets to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered. Assessing future taxable profits was complex and required significant management estimates, in particular on the assumptions about the expected future market and economic conditions. The accounting policies, significant accounting judgements and estimates and disclosures about deferred tax assets are included in notes 2.4, 3 and 21 to the financial statements.	Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group to determine the expected future taxable profits per tax jurisdiction. We evaluated management's assumptions in determining the future available taxable profits, specifically the forecasted revenue and operating profit ratio, by comparing with historical data. Furthermore, we checked whether the information used was derived from the Group's forecast that has been subject to internal reviews, was approved by management and was internally consistent with historical data where available. We also focused on the adequacy of the disclosures in the financial statements regarding deferred tax assets.
Inventory provision	
The total inventories and related inventory provision as at 31 March 2020 amounted to JPY10,413 million and JPY823 million, respectively. The Group considers inventory provision on a semi-annual basis by assessing the inventories' net realisable values. The determination as to whether the inventories are impaired requires a high level of management judgement and estimates, whereby the Group considers specific factors including the ageing of the inventories, the subsequent or estimated selling prices, and the forecasted market demand. This matter was significant to our audit because the carrying amount of inventories was material to the financial statements and the significant management judgement and estimates were used in assessing the net realisable values of inventories. The accounting policies, significant accounting judgements and estimates and disclosures about inventories and inventory provision are included in notes 2.4, 3 and 22 to the financial statements.	Our audit procedures included reviewing the methodologies and parameters for the calculation of the net realisable values of inventories, and assessing the consistency of the provisioning policy applied and the rationale for the recording of inventory write-down. We also tested the underlying data used by management to identify and quantify obsolete and slow-moving inventories, including testing the ageing calculation, comparing management's estimation against historical usage and, recalculating the provision for samples of inventories. Furthermore, we reviewed subsequent sales or usage of inventories after the end of the reporting period. We also focused on the adequacy of the disclosures in the financial statements regarding inventory provision.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
15 June 2020

Consolidated Statement of Profit or Loss

Year Ended 31 March 2020

		Year ended 31 March	
		2020	2019
	Notes	JPY'000	JPY'000
REVENUE	5	23,787,214	27,770,704
Cost of sales		(11,669,597)	(11,713,928)
Gross profit		12,117,617	16,056,776
Other income and gains	5	67,908	422,207
Selling and distribution expenses		(9,546,408)	(9,060,498)
Administrative expenses		(2,186,825)	(1,805,750)
Other expenses, net	6	(831,289)	(96,841)
Finance costs	7	(69,191)	(15,056)
Finance income	8	90,509	103,383
(LOSS)/PROFIT BEFORE TAX	9	(357,679)	5,604,221
Income tax expense	12	(374,734)	(1,395,382)
(LOSS)/PROFIT FOR THE YEAR		(732,413)	4,208,839
Attributable to:			
Owners of the parent		(732,363)	4,209,367
Non-controlling interests		(50)	(528)
		(732,413)	4,208,839
(Loss)/earnings per share attributable to ordinary equity holders of the parent (expressed in JPY per share)	14		
Basic and diluted			
– For (loss)/profit for the year		(1.20)	6.91

Consolidated Statement of Comprehensive Income

Year Ended 31 March 2020

	Notes	Year ended 31 March 2020 JPY'000	2019 JPY'000
(LOSS)/PROFIT FOR THE YEAR		**(732,413)**	4,208,839
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**53,961**	(2,833)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**53,961**	(2,833)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement gains on the defined benefit plans	31	**123,162**	14,004
Income tax effect	21	**(38,326)**	(3,672)
		84,836	10,332
Loss on equity instruments at fair value through other comprehensive income		**(2,143)**	(5,288)
Income tax effect	21	**630**	1,642
		(1,513)	(3,646)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**83,323**	6,686
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**137,284**	3,853
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(595,129)**	4,212,692
Attributable to:			
Owners of the parent		**(595,079)**	4,213,220
Non-controlling interests		**(50)**	(528)
		(595,129)	4,212,692

Consolidated Statement of Financial Position

At 31 March 2020

		At 31 March	
		2020	2019
	Notes	JPY'000	JPY'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**2,634,443**	2,033,426
Right-of-use assets	16	**1,897,674**	–
Freehold land	17	**1,940,789**	1,940,789
Intangible assets	18	**293,850**	333,423
Finance lease receivables	19	**86,953**	–
Other non-current assets	20	**828,698**	754,445
Deferred tax assets	21	**1,502,459**	1,062,790
Total non-current assets		**9,184,866**	6,124,873
CURRENT ASSETS			
Inventories	22	**9,589,965**	7,578,001
Trade and bills receivables	23	**8,391,262**	9,787,669
Prepayments, deposits and other receivables	24	**1,238,129**	922,932
Finance lease receivables	19	**20,302**	–
Cash and cash equivalents	25	**10,472,793**	14,674,123
Total current assets		**29,712,451**	32,962,725
CURRENT LIABILITIES			
Trade and bills payables	26	**2,497,969**	1,523,086
Other payables and accruals	27	**2,122,465**	1,781,690
Interest-bearing bank borrowings	28	**8,600,000**	3,800,000
Due to a related party	38(b)	**–**	7,144
Lease liabilities	29	**837,912**	–
Income tax payable		**1,201,467**	1,028,470
Total current liabilities		**15,259,813**	8,140,390
NET CURRENT ASSETS		**14,452,638**	24,822,335
TOTAL ASSETS LESS CURRENT LIABILITIES		**23,637,504**	30,947,208

continued/…

Consolidated Statement of Financial Position

At 31 March 2020

	Notes	At 31 March 2020 JPY'000	2019 JPY'000
NON-CURRENT LIABILITIES			
Lease liabilities	29	**1,205,404**	–
Net employee defined benefit liabilities	31	**904,809**	1,297,203
Deferred tax liabilities	21	**196,902**	388,814
Other non-current liabilities	30	**66,592**	68,464
Total non-current liabilities		**2,373,707**	1,754,481
NET ASSETS		**21,263,797**	29,192,727
EQUITY			
Equity attributable to owners of the parent			
Share capital	32	**153**	154
Reserves	34	**21,309,343**	29,238,222
		21,309,496	29,238,376
Non-controlling interests		**(45,699)**	(45,649)
Total equity		**21,263,797**	29,192,727

Consolidated Statement of Changes in Equity

Year Ended 31 March 2020

		Attributable to owners of the parent										
	Notes	Share capital JPY'000 Note 32	Treasury shares JPY'000 Note 32	Surplus reserve JPY'000 Note 34(i) *	Exchange translation reserve JPY'000 Note 34(iii)*	Equity-settled share-based payment reserve JPY'000 Note 33*	Fair value reserve JPY'000 Note 34(ii)*	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	139,385	467,153	2,802	16,798,289	10,792,027	29,238,376	(45,649)	29,192,727
Impact of adopting IFRS 16 (note 2.2)		–	–	–	–	–	–	–	(18,195)	(18,195)	–	(18,195)
At 1 April 2019 as restated		154	–	1,038,566	139,385	467,153	2,802	16,798,289	10,773,832	29,220,181	(45,649)	29,174,532
Loss for the year		–	–	–	–	–	–	–	(732,363)	(732,363)	(50)	(732,413)
Other comprehensive loss for the year:												
Exchange differences on translation of foreign operations		–	–	–	53,961	–	–	–	–	53,961	–	53,961
Remeasurement gains on defined benefit plans		–	–	–	–	–	–	–	84,836	84,836	–	84,836
Loss on equity instruments at fair value through other comprehensive income, net of tax		–	–	–	–	–	(1,513)	–	–	(1,513)	–	(1,513)
Total comprehensive loss for the year		–	–	–	53,961	–	(1,513)	–	(647,527)	(595,079)	(50)	(595,129)
Repurchase of shares	32	–	(214,282)	–	–	–	–	–	–	(214,282)	–	(214,282)
Cancellation of treasury shares	32	(1)	214,282	–	–	–	–	(214,281)	–	–	–	–
Equity-settled share-based payment expenses	33	–	–	–	–	(607)	–	–	–	(607)	–	(607)
Dividends declared	13	–	–	–	–	–	–	–	(7,100,717)	(7,100,717)	–	(7,100,717)
Transferred from retained profits		–	–	282	–	–	–	–	(282)	–	–	–
At 31 March 2020		153	–	1,038,848	193,346	466,546	1,289	16,584,008	3,025,306	21,309,496	(45,699)	21,263,797

continued/…

		Attributable to owners of the parent										
		Share capital	Treasury shares	Surplus reserve	Exchange translation reserve	Equity-settled share-based payment reserve	Fair value reserve	Share premium	Retained profits	Total	Non-controlling interests	Total equity
		JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000
	Notes	Note 32	Note 32	Note 34(i) *	Note 34(iii)*	Note 33*	Note 34(iii)*	*	*			
At 31 March 2020		**153**	**-**	**1,038,848**	**193,346**	**466,546**	**1,289**	**16,584,008**	**3,025,306**	**21,309,496**	**(45,699)**	**21,263,797**
At 1 April 2018		154	–	1,037,723	142,218	436,579	6,448	16,798,289	9,628,623	28,050,034	(45,121)	28,004,913
Profit/(loss) for the year		–	–	–	–	–	–	–	4,209,367	4,209,367	(528)	4,208,839
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		–	–	–	(2,833)	–	–	–	–	(2,833)	–	(2,833)
Remeasurement gains on defined benefit plans		–	–	–	–	–	–	–	10,332	10,332	–	10,332
Loss on equity instruments at fair value through other comprehensive income, net of tax		–	–	–	–	–	(3,646)	–	–	(3,646)	–	(3,646)
Total comprehensive income for the year		–	–	–	(2,833)	–	(3,646)	–	4,219,699	4,213,220	(528)	4,212,692
Equity-settled share-based payment expenses	33	–	–	–	–	30,574	–	–	–	30,574	–	30,574
Dividends declared	13	–	–	–	–	–	–	–	(3,055,452)	(3,055,452)	–	(3,055,452)
Transferred from retained profits		–	–	843	–	–	–	–	(843)	–	–	–
At 31 March 2019		154	–	1,038,566	139,385	467,153	2,802	16,798,289	10,792,027	29,238,376	(45,649)	29,192,727

* These reserve amounts comprise the consolidated reserves of JPY21,309,343,000 (2019: JPY29,238,222,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year Ended 31 March 2020

	Notes	2020 JPY'000	2019 JPY'000
		Year ended 31 March	
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(357,679)**	5,604,221
Adjustments for:			
Provision for impairment of property, plant and equipment	15	**12,798**	40,384
Write-down of inventories to net realisable value	9	**243,479**	162,454
Impairment of trade receivables	23	**675,595**	129,504
Net losses on disposal of property, plant and equipment and intangible assets	9	**18,028**	52,170
Net loss on disposal of right-of-use assets	9	**8,792**	–
Depreciation of property, plant and equipment	15	**540,203**	340,650
Depreciation of right-of-use assets	16	**832,259**	–
Amortisation of intangible assets	18	**116,974**	96,814
Defined benefit plan expenses	31	**80,369**	85,545
Equity-settled share-based payment expenses	33	**(607)**	30,574
Foreign exchange losses/(gains)		**347,775**	(348,503)
Finance costs	7	**69,191**	15,056
Finance income	8	**(90,509)**	(103,383)
		2,496,668	6,105,486
Increase in inventories		**(2,255,443)**	(933,460)
Decrease/(increase) in trade and bills receivables		**720,812**	(1,127,150)
Decrease/(increase) in prepayments, deposits and other receivables		**84,816**	(320,192)
Decrease in amounts due from related parties		**–**	7,851
Increase in other non-current assets		**(76,396)**	(107,779)
Increase in trade and bills payables		**974,883**	525,540
Increase in other payables and accruals		**36,424**	141,789
(Decrease)/increase in an amount due to a related party		**(7,144)**	488
(Decrease)/increase in other non-current liabilities		**(1,872)**	7,986
Payment of the defined benefit obligations		**(110,028)**	(48,772)
Contributions in plan assets		**(2,515)**	(1,091)

continued/…

Consolidated Statement of Cash Flows

Year Ended 31 March 2020

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Cash generated from operating activities	**1,860,205**	4,250,696
Interest received	**90,509**	103,383
Interest paid	**(69,191)**	(15,056)
Japan income tax paid	**(1,214,493)**	(93,995)
Overseas income tax paid	**(108,378)**	(1,635,958)
Net cash flows generated from operating activities	**558,652**	2,609,070
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment and intangible assets	**(1,194,404)**	(669,397)
Proceeds from disposal of items of property, plant and equipment and intangible assets	**6,014**	–
Decrease in finance lease receivables	**10,844**	–
Net cash flows used in investing activities	**(1,177,546)**	(669,397)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	**(214,282)**	–
Proceeds from bank borrowings	**78,600,000**	40,800,000
Repayment of bank borrowings	**(73,800,000)**	(39,500,000)
Principal portion of lease payments	**(809,270)**	–
Dividends paid	**(7,100,717)**	(3,055,452)
Net cash flows used in financing activities	**(3,324,269)**	(1,755,452)
Net (decrease)/increase in cash and cash equivalents	**(3,943,163)**	184,221

continued/…

Consolidated Statement of Cash Flows

Year Ended 31 March 2020

	Note	2020 JPY'000	2019 JPY'000
		Year ended 31 March	
Cash and cash equivalents at the beginning of year		**14,674,123**	14,147,319
Effect of foreign exchange rate changes, net		**(258,167)**	342,583
Cash and cash equivalents at the end of year		**10,472,793**	14,674,123
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the consolidated statement of financial position	25	**10,472,793**	14,674,123

1. Corporate and group information

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

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

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

Information about subsidiaries

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

Name	Place and date of incorporation/ registration	Nominal value of issued ordinary shares/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Seiyou Holdings Limited	British Virgin Islands ("BVI") 25 October 2013	USD1,000	100%	–	Investment holding
Honma Holdings Group Limited	Hong Kong 18 November 2013	USD10	–	100%	Investment holding and trading
World Power International Trading (Shanghai) Co., Ltd. *	People's Republic of China ("PRC") 27 December 2013	RMB10,000,000	–	100%	Trading
Hong Kong Honma Golf Company Limited	Hong Kong 2 April 1996	HKD28,782,200	–	100%	Trading
Honma Golf Co., Ltd. ("Honma Japan")	Japan 18 February 1959	JPY500,000,000	–	100%	Manufacture and sale of golf related products
Honma Golf Stock Company Limited	Taiwan 10 June 1996	NTD68,000,000	–	100%	Trading

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Name	Place and date of incorporation/ registration	Nominal value of issued ordinary shares/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Honma Golf (Thailand) Company Limited ("Honma Thailand")**	Thailand 28 May 1997	THB2,000,000	–	48.99%	Trading
Honma Golf US Ltd.	United States 28 November 2016	USD100	–	100%	Trading
Honma Golf Europe GmbH	Switzerland 9 February 2017	CHF20,000	–	100%	Trading

Notes:

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

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

Honma Thailand has been in the process of liquidation since January 2017 and the process has not been completed by the date of approval of these financial statements.

2.1 Basis of presentation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

2.1 Basis of presentation (continued)

Basis of consolidation (continued)

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

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

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

2.2 Changes in accounting policies and disclosures

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

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-23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for IFRS 16 *Leases*, the new and revised IFRSs had no significant impact on the Group's financial statements. The nature and the impact of IFRS 16 are described below:

2.2 Changes in accounting policies and disclosures (continued)

IFRS 16 replaces IAS 17 *Leases*, IFRIC-4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

IFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 April 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 April 2019, and the comparative information for the year ended 31 March 2019 was not restated and continued to be reported under IAS 17 and related interpretations.

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-4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-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.

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 leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 April 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

2.2 Changes in accounting policies and disclosures (continued)

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

Impact 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 April 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:

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

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

Financial impact at 1 April 2019

The impact arising from the adoption of IFRS 16 as at 1 April 2019 was as follows:

	Increase/(decrease)
	JPY'000
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)

Financial impact at 1 April 2019 (continued)

The lease liabilities as at 1 April 2019 reconciled to the operating lease commitments as of 31 March 2019 are as follows:

	JPY'000
Operating lease commitments as at 31 March 2019	1,622,146
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 March 2020	(235,884)
	1,386,262
Weighted average incremental borrowing rate as at 1 April 2019	2.34%
Discounted operating lease commitments as at 1 April 2019	1,348,543
Less: Prepayments included in prepayments, other receivables and other assets as at 31 March 2019	(31,558)
Add: Rental payables included in other payables and accruals	8,911
Lease liabilities as at 1 April 2019	1,325,896

2.3 Issued but not yet effective international financial reporting standards

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

Amendments to IFRS 3	*Definition of a Business* [1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform* [1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [4]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current* [3]
IFRS 17	*Insurance Contracts* [2]
Amendments to IAS 1 and IAS 8	*Definition of Material* [1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
4 No mandatory effective date yet determined but available for adoption

While the adoption of some of the new and revised IFRSs may result in changes in accounting policies, none of these IFRSs is expected to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of significant accounting policies

Fair value measurement

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

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

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

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

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

or

2.4 Summary of significant accounting policies (continued)

Related parties (continued)

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment

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

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

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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

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

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

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

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

Intangible assets (other than goodwill)

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

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

2.4 Summary of significant accounting policies (continued)

Intangible assets (other than goodwill) (continued)

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

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

Licences	10 years
Software	5 years
Telephone use right	Infinite life

Research and development costs

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

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

Freehold land

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

Leases (applicable from 1 April 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.4 Summary of significant accounting policies (continued)

Leases (applicable from 1 April 2019) (continued)

Group as a lessee (continued)

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. 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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Shops	2 to 8 years
Office properties	2 to 5 years
Motor vehicles	2 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *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 its incremental borrowing rate at the lease commencement date because 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 the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

2.4 Summary of significant accounting policies (continued)

Leases (applicable from 1 April 2019) (continued)

Group as a lessee (continued)

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that is considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income and gains in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as other income and gains in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee are accounted for as finance leases. At the commencement date, an amount representing the lease payment receivables and initial direct costs is included in the consolidated statement of financial position as finance lease receivables. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the lease payment receivables, initial direct costs, the unguaranteed residual value and their present value is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

2.4 Summary of significant accounting policies (continued)

Leases (applicable before 1 April 2019)

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

General approach (continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.4 Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, interest-bearing bank borrowings, an amount due to a related party, other payables and accruals, lease liabilities and other non-current liabilities.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 Summary of significant accounting policies (continued)

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

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

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

2.4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) *Sale of golf related products*

Revenue from the sale of golf related products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the golf related products. The normal credit term is 30 to 180 days for major customers. Payment in advance is required for some contracts.

(b) *Rendering of services*

The Group provides services relating to golf related products. The performance obligation is satisfied over time as services are rendered. Payment is generally due within 30 to 45 days upon completion of service and acceptance of the customer.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted by using an income approach (discount cash flow method, in particular). Further details of which are given in note 33 to the financial statements.

2.4 Summary of significant accounting policies (continued)

Share-based payments (continued)

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

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

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

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

Other employee benefits

Pension scheme

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

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

2.4 Summary of significant accounting policies (continued)

Other employee benefits (continued)

Defined benefit plans

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

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

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

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

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

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

Borrowing costs

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

2.4 Summary of significant accounting policies (continued)

Dividends

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

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

Foreign currencies

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

2.4 Summary of significant accounting policies (continued)

Foreign currencies (continued)

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

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

3. Significant accounting judgement, estimates and assumptions

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

Estimation uncertainty

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

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The key assumptions and inputs used in estimating future taxable profits include forecasted revenue and operating profit ratio, etc. The carrying value of deferred tax assets was JPY1,502,459,000 as at 31 March 2020 (2019: JPY1,062,790,000). Further details are disclosed in note 21 to the financial statements.

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

Estimation uncertainty (continued)

Defined benefit plans

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

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

The mortality rate is based on publicly available mortality tables for the specific countries. The salary increase rate is based on expected future inflation rates for the respective countries. The turnover rate is based on historical analysis of the withdrawal rate. The carrying value of net employee defined benefit liabilities was JPY904,809,000 as at 31 March 2020 (2019: JPY1,297,203,000). Further details are disclosed in note 31 to the financial statements.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in market conditions. Management reassesses these estimates at each reporting date after considering specific factors such as the ageing of the inventories, the subsequent or estimated selling price and forecasted market demand. The carrying value of inventories was JPY9,589,965,000 as at 31 March 2020 (2019: JPY7,578,001,000). Further details are disclosed in note 22 to the financial statements.

4. Operating segment information

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

Geographic information

(a) Revenue from external customers

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Japan	**10,861,823**	14,369,818
Korea	**5,588,999**	4,919,939
China (including Hong Kong and Macau)	**2,750,992**	3,975,678
North America	**1,238,979**	1,362,855
Europe	**1,231,107**	1,069,485
Rest of the world	**2,115,314**	2,072,929
	23,787,214	27,770,704

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

4. Operating segment information (continued)

Geographic information (continued)

(b) Non-current assets

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Japan	**4,832,094**	3,899,858
Other Asia Pacific countries	**973,466**	269,018
North America	**927,183**	136,482
Europe	**34,013**	2,280
	6,766,756	4,307,638

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

Information about major customers

Revenue of approximately JPY4,838,095,000 was derived from one major customer (2019: JPY4,535,905,000 was derived from one major customer), including sales to a group of entities which are known to be under common control with that customer.

5. Revenue, other income and gains

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

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

	Year ended 31 March	
	2020	2019
	JPY' 000	JPY' 000
Revenue from contracts with customers		
Sale of goods	23,656,372	27,679,005
Rendering of services	130,842	91,699
Total	23,787,214	27,770,704

	Year ended 31 March	
	2020	2019
	JPY' 000	JPY' 000
Other income and gains		
Foreign exchange gains, net	–	336,698
Government grants	–	29,293
Others	67,908	56,216
Total	67,908	422,207

5. Revenue, other income and gains (continued)

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Types of goods or services		
Sale of golf related products	**23,656,372**	27,679,005
Rendering of services relating to golf related products	**130,842**	91,699
Total revenue from contracts with customers	**23,787,214**	27,770,704
Timing of revenue recognition		
Goods transferred at a point in time	**23,656,372**	27,679,005
Services transferred over time	**130,842**	91,699
Total revenue from contracts with customers	**23,787,214**	27,770,704

The disaggregation of the Group's revenue based on the geographical region for the year ended 31 March 2020 is included in note 4.

6. Other expenses, net

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Employee termination benefits	**197,516**	29,700
Net losses on disposal of property, plant and equipment and intangible assets	**18,028**	52,170
Net loss on disposal of right-of-use assets	**8,792**	–
Foreign exchange losses, net	**574,216**	–
Others	**32,737**	14,971
Total	**831,289**	96,841

7. Finance costs

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

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Interest on bank borrowings	**25,737**	15,056
Interest on lease liabilities	**43,454**	–
	69,191	15,056

8. Finance income

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Interest income	**89,895**	102,791
Others	**614**	592
Total	**90,509**	103,383

9. (Loss)/profit before tax

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

		Year ended 31 March	
		2020	2019
	Notes	**JPY'000**	JPY'000
Cost of inventories sold		**11,565,338**	11,658,343
Cost of service provided		**104,259**	55,585
Depreciation of property, plant and equipment	15	**540,203**	340,650
Depreciation of right-of-use assets	16	**832,259**	–
Amortisation of intangible assets	18	**116,974**	96,814
Research and development costs		**343,877**	362,284
Provision for impairment of property, plant and equipment	15	**12,798**	40,384
Impairment of trade receivables	23	**675,595**	129,504
Minimum lease payments under operating leases		**–**	1,129,811
Lease payments not included in the measurement of lease liabilities	36(b)	**308,334**	–
Auditors' remuneration		**78,577**	81,023
Employee benefit expense:			
Wages and salaries		**3,958,104**	3,851,786
Pension and social security costs		**368,083**	344,291
Defined benefit plan expenses	31	**80,369**	85,545
Employee benefits		**519,167**	521,100
Other benefits		**311,643**	298,887
Equity-settled share-based payment expenses	33	**(607)**	30,574
		5,236,759	5,132,183
Foreign exchange losses/(gains), net	5/6	**574,216**	(336,698)
Write-down of inventories to net realizable value		**243,479**	162,454
Net losses on disposal of items of property, plant and equipment and intangible assets	6	**18,028**	52,170
Net loss on disposal of right-of-use assets	6	**8,792**	–

10. Directors' and chief executive's remuneration

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

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Fees	**24,451**	22,440
Other emoluments:		
Salaries, allowances and benefits in kind	**47,485**	48,724
Equity-settled share-based payment expenses	**–**	4,936
Pension scheme contributions	**4,676**	4,593
	52,161	58,253
	76,612	80,693

Certain directors were granted Restricted Stock Units ("RSUs"), in respect of their services to the Group, under the share-based payment scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair values of such RSUs, which have been recognised in the statement of profit or loss over the vesting period, were determined as at the date of grant and the amounts included in the financial statements for the current year are included in the above directors' and chief executive's remuneration disclosures.

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

(a) Independent non-executive directors

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

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Mr. Lu Pochin Christopher	8,169	8,400
Mr. Xu Hui	4,873	5,069
Mr. Wang Jianguo	4,873	5,069
	17,915	18,538

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

(b) Executive directors

	Fees JPY'000	Salaries, allowances and benefits in kind* JPY'000	Pension scheme contributions JPY'000	Total remuneration JPY'000
Year ended 31 March 2020				
Executive directors:				
Mr. Liu	–	19,192	252	19,444
Mr. Yasuki Ito	–	12,131	1,424	13,555
Mr. Yuji Murai	–	11,416	1,384	12,800
Mr. Zuojun	–	4,746	1,616	6,362
	–	47,485	4,676	52,161
Non-executive directors:				
Mr. Yang Xiaoping	3,268	–	–	3,268
Mr. Ho Ping-hsien Robert	3,268	–	–	3,268
	6,536	–	–	6,536
	6,536	47,485	4,676	58,697

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

(b) Executive directors (continued)

	Fees JPY'000	Salaries, allowances and benefits in kind* JPY'000	Equity-settled share-based payment expenses JPY'000	Pension scheme contributions JPY'000	Total remuneration JPY'000
Year ended 31 March 2019					
Executive directors:					
Mr. Liu	–	16,925	1,285	254	18,464
Mr. Yasuki Ito	–	12,129	1,633	1,411	15,173
Mr. Yuji Murai	–	11,409	1,161	1,452	14,022
Mr. Zuojun	–	8,261	857	1,476	10,594
	–	48,724	4,936	4,593	58,253
Non-executive directors:					
Mr. Yang Xiaoping (appointed on 28 May 2018)	2,738	–	–	–	2,738
Mr. Ho Ping-hsien Robert (appointed on 20 November 2018)	1,164	–	–	–	1,164
	3,902	–	–	–	3,902
	3,902	48,724	4,936	4,593	62,155

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

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

11. Five highest paid employees

The five highest paid employees of the Group during the year included no directors (2019: Nil). Details of directors' remuneration are set out in note 10 above. Details of the total remuneration of the five (2019: five) highest paid employees who are neither a director nor the chief executive of the Group are as follows:

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Salaries, allowances and benefits in kind	**195,529**	96,595
Performance related bonuses	**5,464**	15,653
Pension scheme contributions	**11,638**	17,565
	212,631	129,813

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

	Number of employees Year ended 31 March	
	2020	2019
HK$1,500,001 to HK$2,000,000	**1**	4
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**2**	–
HK$3,500,001 to HK$4,000,000	**2**	–
	5	5

12. Income tax

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

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

The subsidiaries of the Company incorporated in Hong Kong are subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year (2019: 16.5%).

Pursuant to the rules and regulations of Japan, the subsidiary incorporated in Japan is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the effective statutory tax rate for these taxes was 30.62% for the year (2019: 30.62%).

The subsidiary of the Company registered in the Mainland China is subject to PRC enterprise income tax on the taxable income as reported in its PRC statutory accounts adjusted in accordance with relevant PRC income tax laws based on a statutory rate of 25% (2019: 25%).

The subsidiaries incorporated in Taiwan and Thailand are subject to income tax at the rates of 17% and 20% on the assessable profits (2019: 17% and 20%), respectively.

The Company's subsidiary incorporated and operating in the United States was subject to federal corporation income tax at a rate of 21% during the year (2019: 21%), as well as state tax at approximately 8.84% (2019: 8.84%).

The Company's subsidiary incorporated and operating in Switzerland was subject to federal corporation income tax at a rate of 8.5% during the year (2019: 8.5%), as well as cantonal and communal taxes at rates ranging 2% and 5% (2019: 2% ~ 5%).

12. Income tax (continued)

Tax in the statement of profit or loss represents:

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Current income tax – Japan	**–**	872,722
Current income tax – Hong Kong	**964,123**	606,782
Current income tax – elsewhere	**174**	1,480
Deferred tax (Note 21)	**(589,563)**	(85,602)
	374,734	1,395,382

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

	Year ended 31 March			
	2020		2019	
	JPY'000	**%**	JPY'000	%
(Loss)/profit before tax	**(357,679)**		5,604,221	
Tax at the statutory tax rate (30.62% for the year ended 31 March 2020, and 30.62% for the year ended 31 March 2019)	**(109,521)**	**30.62**	1,716,012	30.62
Different tax rates or tax basis for entities outside Japan	**(710,995)**	**198.78**	(485,780)	(8.67)
Expense not deductible	**103,423**	**28.92**	21,274	0.38
Income not subject to tax	**(17,338)**	**4.85**	(111,867)	(2.00)
Effect of withholding tax on the distributable profits of the Group's subsidiaries in the PRC and Japan	**(90,088)**	**25.19**	87,279	1.56
Impact of unrecognised tax losses and temporary differences	**1,199,253**	**335.29**	168,464	3.01
Tax charge at the Group's effective rate	**374,734**	**104.77**	1,395,382	24.90

13. Dividends

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Special dividend – JPY8.21 (2019: Nil) per ordinary share	5,091,686	–
Interim – JPY1.64 (2019: 1.75) per ordinary share	998,842	1,065,838
Proposed final – JPY1.50 (2019: JPY1.70) per ordinary share	908,464	1,037,501
Dividend declared by the Company	7,100,717	3,055,452

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

14. (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 attributable to ordinary equity holders of the parent and weighted average number of ordinary shares in issue during the year.

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the years ended 31 March 2020 and 2019 in respect of a dilution as the Group had no potentially ordinary dilutive shares in issue during the years ended 31 March 2020 and 2019.

The following reflects the income and the share data used in the basic (loss)/earnings per share computation:

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent	(732,363)	4,209,367

	Number of shares	
	2020	2019
	('000)	('000)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (losses)/earnings per share calculation	608,727	609,050

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

15. Property, plant and equipment

	Building JPY'000	Machinery JPY'000	Leasehold improvement JPY'000	Motor vehicles JPY'000	Equipment, furniture and fitting JPY'000	Construction in progress JPY'000	Total JPY'000
31 March 2020							
Cost:							
At 1 April 2019	6,570,692	2,109,864	1,199,971	45,989	1,415,227	146,140	11,487,883
Additions	–	78,490	416,842	–	67,201	628,164	1,190,697
Transfer from construction in progress	23,787	1,770	554,933	–	105,110	(685,600)	–
Disposals	–	–	(90,740)	–	(25,934)	(2,540)	(119,214)
Exchange realignment	–	(173)	(20,260)	–	(2,001)	(2,397)	(24,831)
At 31 March 2020	6,594,479	2,189,951	2,060,746	45,989	1,559,603	83,767	12,534,535
Accumulated depreciation:							
At 1 April 2019	5,556,168	1,599,152	665,886	35,285	1,163,070	–	9,019,561
Depreciation provided during the year	103,283	96,027	204,000	3,288	133,605	–	540,203
Disposals	–	–	(16,335)	–	(15,293)	–	(31,628)
Exchange realignment	–	(104)	(10,910)	–	(1,180)	–	(12,194)
At 31 March 2020	5,659,451	1,695,075	842,641	38,573	1,280,202	–	9,515,942
Accumulated impairment:							
At 1 April 2019	86,314	1,868	275,363	198	71,153	–	434,896
Impairment provided during the year	–	–	10,948	–	1,850	–	12,798
Disposals	–	–	(59,002)	–	(4,542)	–	(63,544)
At 31 March 2020	86,314	1,868	227,309	198	68,461	–	384,150
Net book value:							
At 31 March 2020	848,714	493,008	990,796	7,218	210,940	83,767	2,634,443

15. Property, plant and equipment (continued)

	Building JPY'000	Machinery JPY'000	Leasehold improvement JPY'000	Motor vehicles JPY'000	Equipment, furniture and fitting JPY'000	Construction in progress JPY'000	Total JPY'000
31 March 2019							
Cost:							
At 1 April 2018	6,506,050	1,922,030	1,404,385	62,542	1,390,440	5,634	11,291,081
Additions	64,642	169,026	42,177	1,693	110,901	159,066	547,505
Transfer from construction in progress	–	18,703	–	–	–	(18,703)	–
Disposals	–	–	(247,808)	(18,286)	(86,568)	–	(352,662)
Exchange realignment	–	105	1,217	40	454	143	1,959
At 31 March 2019	6,570,692	2,109,864	1,199,971	45,989	1,415,227	146,140	11,487,883
Accumulated depreciation:							
At 1 April 2018	5,454,654	1,526,645	736,627	47,838	1,100,494	–	8,866,258
Depreciation provided during the year	101,514	72,566	50,349	5,191	111,030	–	340,650
Disposals	–	–	(122,460)	(17,747)	(48,747)	–	(188,954)
Exchange realignment	–	(59)	1,370	3	293	–	1,607
At 31 March 2019	5,556,168	1,599,152	665,886	35,285	1,163,070	–	9,019,561
Accumulated impairment:							
At 1 April 2018	86,314	1,868	315,502	198	102,168	–	506,050
Impairment provided during the year	–	–	39,333	–	1,051	–	40,384
Disposals	–	–	(79,472)	–	(32,066)	–	(111,538)
At 31 March 2019	86,314	1,868	275,363	198	71,153	–	434,896
Net book value:							
At 31 March 2019	928,210	508,844	258,722	10,506	181,004	146,140	2,033,426

16. Right-of-use assets

	Shops	Office properties	Motor vehicles	Total
	JPY'000	JPY'000	JPY'000	JPY'000
Carrying amount at 31 March 2019	–	–	–	–
Impact of adopting IFRS 16 (note 2.2)	807,189	495,260	27,899	1,330,348
Carrying amount at 1 April 2019	807,189	495,260	27,899	1,330,348
Addition	1,512,821	29,654	57,668	1,600,143
Depreciation during the year	(628,758)	(178,003)	(25,498)	(832,259)
Disposal	(17,467)	(148,551)	–	(166,018)
Exchange realignment	(32,681)	(1,847)	(12)	(34,540)
Carrying amount at 31 March 2020	1,641,104	196,513	60,057	1,897,674

17. Freehold land

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

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Cost:		
As at 1 April	**1,940,789**	1,940,789
Disposal	**–**	–
As at 31 March	**1,940,789**	1,940,789
Impairment:		
As at 1 April	**–**	–
Disposal	**–**	–
As at 31 March	**–**	–
Net book value:		
As at 31 March	**1,940,789**	1,940,789

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

18. Intangible assets

31 March 2020

	Licenses JPY'000	Software JPY'000	Telephone use right JPY'000	Total JPY'000
Cost at 1 April 2019, net of accumulated amortisation and impairment	3,250	324,203	5,970	333,423
Additions	–	79,911	–	79,911
Amortisation provided during the year	(478)	(116,496)	–	(116,974)
Exchange realignment	–	(2,510)	–	(2,510)
At 31 March 2020	2,772	285,108	5,970	293,850
At 31 March 2020:				
Cost	5,596	1,131,418	41,767	1,178,781
Accumulated amortisation	(2,824)	(846,310)	–	(849,134)
Impairment	–	–	(35,797)	(35,797)
Net carrying amount	2,772	285,108	5,970	293,850

18. Intangible assets (continued)

31 March 2019

	Licenses JPY'000	Software JPY'000	Telephone use right JPY'000	Total JPY'000
Cost at 1 April 2018, net of accumulated amortisation and impairment	3,728	397,024	5,970	406,722
Additions	–	23,960	–	23,960
Amortisation provided during the year	(478)	(96,336)	–	(96,814)
Exchange realignment	–	(445)	–	(445)
At 31 March 2019	3,250	324,203	5,970	333,423
At 31 March 2019:				
Cost	6,220	1,052,848	41,694	1,100,762
Accumulated amortisation	(2,970)	(728,645)	–	(731,615)
Impairment	–	–	(35,724)	(35,724)
Net carrying amount	3,250	324,203	5,970	333,423

19. Finance lease receivables

The total future lease payments receivable under finance leases and their present values were as follows:

	At 31 March 2020 JPY'000
Within one year	20,365
After one year but within two years	20,365
After two years but within three years	20,365
After three years but within four years	20,365
After four years but within five years	20,365
After five years	6,728
Total minimum finance lease receivables	108,553
Unearned finance income	(1,298)
Total net finance lease receivables	107,255
Portion classified as current assets	(20,302)
Non-current portion	86,953

19. Finance lease receivables (continued)

	At 31 March 2020 JPY' 000
Within one year	20,302
After one year but within two years	20,221
After two years but within three years	20,128
After three years but within four years	20,035
After four years but within five years	19,943
After five years	6,626
Total present value of minimum finance lease receivables	107,255

The Group applies a simplified approach in calculating ECLs prescribed by IFRS 9, which permits the use of the lifetime expected losses for lease receivables. All of the finance lease receivables are not past due. To measure the expected credit losses, finance lease receivables have been grouped based on shared credit risk characteristics and the days past due. The determination of expected credit losses have also incorporated forward-looking information. All the finance lease receivables are classified as Stage 1 without any significant increase in credit risk tracked since initial recognition. The expected credit loss rates for finance lease receivables that were not yet past due are minimal.

20. Other non-current assets

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Equity instruments at fair value through other comprehensive income		
Unlisted equity investments, at fair value	**100**	100
Listed equity investments, at fair value	**12,023**	14,166
	12,123	14,266
Rental deposits	**638,515**	412,789
Long-term prepaid expenses	**178,060**	327,390
	828,698	754,445

21. Deferred tax

Deferred tax assets

	Unrealised profit	Tax losses	Impairment of inventories	Accrued payroll	Defined benefit plan	Bad debt	Others	Total
	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000
At 31 March 2018 and 1 April 2018	106,129	252,905	8,560	9,943	385,046	–	157,659	920,242
Deferred tax charged to other comprehensive income during the year	–	–	–	–	(3,672)	–	–	(3,672)
Deferred tax (charged)/credited to the profit or loss during the year	(34,569)	156,929	12,020	4,998	11,410	36,443	(44,191)	143,040
Exchange realignment	–	3,180	–	–	–	–	–	3,180
At 31 March 2019 and 1 April 2019	71,560	413,014	20,580	14,941	392,784	36,443	113,468	1,062,790
Deferred tax charged to other comprehensive income during the year	–	–	–	–	(38,326)	–	–	(38,326)
Deferred tax credited/(charged) to the profit or loss during the year	268,417	351,678	(243)	(14,941)	(78,263)	(29,466)	(1,099)	498,281
Exchange realignment	–	(20,286)	–	–	–	–	–	(20,286)
At 31 March 2020	339,977	744,406	20,337	–	276,195	6,977	114,567	1,502,459

21. Deferred tax (continued)

Deferred tax liabilities

	Change in fair value	Depreciation allowance in excess of related depreciation	Withholding tax	Total
	JPY'000	JPY'000	JPY'000	JPY'000
At 31 March 2018 and 1 April 2018	4,716	124,284	360,218	489,218
Deferred tax credited to other comprehensive income during the year	(1,642)	–	–	(1,642)
Deferred tax (credited)/charged to the profit or loss during the year	–	(29,841)	87,279	57,438
Transfer to tax payable	–	–	(156,200)	(156,200)
At 31 March 2019 and 1 April 2019	3,074	94,443	291,297	388,814
Deferred tax credited to other comprehensive income during the year	(630)	–	–	(630)
Deferred tax credited to the profit or loss during the year	–	(1,194)	(90,088)	(91,282)
Transfer to tax payable	–	–	(100,000)	(100,000)
At 31 March 2020	2,444	93,249	101,209	196,902

21. Deferred tax (continued)

Deferred tax liabilities (continued)

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

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Tax losses	**3,251,899**	578,538
Deductible temporary differences	**2,978,432**	1,789,579
Total	**6,230,331**	2,368,117

As of 31 March 2020, the Group had tax losses of JPY5,986,758,000 (2019: JPY2,010,369,000), that are available for offsetting against future taxable profits of the companies in which the losses arose, subject to the rules of the tax jurisdictions in which the Group operates. Deferred tax assets have not been recognised in respect of certain tax losses and deductible temporary differences mentioned above as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Unused tax losses arising from its subsidiaries in Japan and Taiwan would expire in ten years, for offsetting against future taxable profits. Unused tax losses arising from its subsidiaries in the United States of America and Hong Kong are available indefinitely against future taxable profits.

21. Deferred tax (continued)

Deferred tax liabilities (continued)

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

As at 31 March 2020 and 2019, there were no significant unrecognised deferred tax liabilities for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted due to the availability of double taxation relief.

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

22. Inventories

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Raw materials	**2,200,698**	2,785,076
Work in progress	**1,105,279**	952,581
Finished goods	**7,106,722**	4,419,599
	10,412,699	8,157,256
Less: provision	**(822,734)**	(579,255)
	9,589,965	7,578,001

23. Trade and bills receivables

	At 31 March 2020 JPY'000	At 31 March 2019 JPY'000
Trade receivables	**8,887,817**	9,822,174
Bills receivable	**260,552**	149,528
	9,148,369	9,971,702
Less: provision	**(757,107)**	(184,033)
	8,391,262	9,787,669

The Group's trading terms with its customers are mainly on credit. The credit period is ranging from 30 to 180 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	At 31 March 2020 JPY'000	At 31 March 2019 JPY'000
Within 1 month	**4,193,113**	8,913,637
1 to 3 months	**1,195,788**	578,970
3 to 12 months	**1,490,551**	91,875
Over 1 year	**1,251,258**	53,659
	8,130,710	9,638,141

23. Trade and bills receivables (continued)

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

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Opening balance	**184,033**	54,529
Addition	**675,595**	184,033
Reversal	**–**	(54,529)
Amount written off as uncollectable	**(102,521)**	–
Ending balance	**757,107**	184,033

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than two years and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 March 2020

	Expected loss rates	**Gross carrying amounts**	**Impairment**
	JPY'000	**JPY'000**	**JPY'000**
General item:			
Current and within 6 months	**1.78%**	**8,241,226**	**146,356**
6 to 12 months past due	**58.26%**	**85,876**	**50,036**
Over 1 year past due	**100.00%**	**560,715**	**560,715**
		8,887,817	**757,107**

23. Trade and bills receivables (continued)

As at 31 March 2019

	Expected loss rates JPY'000	Gross carrying amounts JPY'000	Impairment JPY'000
General item:			
Current and within 6 months	0.59%	9,634,622	56,964
6 to 12 months past due	22.62%	78,165	17,682
Over 1 year past due	100.00%	109,387	109,387
		9,822,174	184,033

24. Prepayments, deposits and other receivables

	At 31 March	
	2020 JPY'000	2019 JPY'000
Prepaid rental expenses	**47,002**	140,687
Prepaid expenses	**61,499**	45,847
Deductible input value added tax and prepaid corporate income tax	**949,778**	144,526
Advances to suppliers	**108,064**	265,408
Rental deposits	**61,840**	294,336
Other receivables	**9,946**	32,128
	1,238,129	922,932

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 March 2020 and 2019, the loss allowance was assessed to be minimal.

The carrying amount of prepayments, deposits and other receivables approximates to their fair value due to their short term maturity.

25. Cash and cash equivalents

	At 31 March 2020 JPY'000	At 31 March 2019 JPY'000
Cash and bank balances	**10,472,793**	14,674,123
Denominated in JPY	**2,637,743**	3,398,834
Denominated in USD	**6,782,529**	9,160,115
Denominated in HKD	**236,988**	638,132
Denominated in TWD	**45,583**	134,366
Denominated in RMB	**633,703**	654,095
Denominated in other currencies	**136,247**	688,581
	10,472,793	14,674,123

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

26. Trade and bills payables

	At 31 March 2020 JPY'000	At 31 March 2019 JPY'000
Trade payables	**2,494,583**	1,523,086
Bills payable	**3,386**	–
	2,497,969	1,523,086

26. Trade and bills payables (continued)

The ageing of trade and bills payables as at 31 March 2020 and 2019 is as follows:

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Within 3 months	**2,373,238**	1,518,620
Over 3 months	**124,731**	4,466
	2,497,969	1,523,086

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

27. Other payables and accruals

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Payables for purchase of property, plant and equipment	**38,102**	–
Contract liabilities	**269,870**	202,162
Staff payroll and welfare payables	**745,439**	396,795
Other tax payables	**57,122**	135,138
Other payables and accruals	**1,011,932**	1,047,595
	2,122,465	1,781,690

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

During the year ended 31 March 2020, contract liabilities of JPY202,162,000 (2019: JPY152,204,000) at the beginning of the year were recognised as revenue. The increase in contract liabilities as at 31 March 2020 and 2019 was mainly due to the increase in short-term advances received from customers in relation to the sale of golf related products.

28. Interest-bearing bank borrowings

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Current		
Bank loans – unsecured	**8,600,000**	3,800,000
Analysed into:		
Bank loans repayable:		
Within one year	**8,600,000**	3,800,000

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

	At 31 March	
	2020	2019
Effective interest rates	**0.33%-0.53%**	0.33%-0.51%

At 31 March 2020 and 2019 there were no properties pledged to secure bank borrowings granted to the Group.

29. Lease Liabilities

	At 31 March
	2020
	JPY'000
At the end of the previous year	–
Impact of adopting IFRS 16 (note 2.2)	1,325,896
At the beginning of the year (restated)	1,325,896
Addition	1,600,143
Accretion of interest	43,454
Payment	(852,724)
Lease modification	(36,475)
Exchange realignment	(36,978)
At the end of the year	2,043,316

29. Lease Liabilities (continued)

Maturity profile of lease liabilities as at 31 March 2020 is as follows:

	At 31 March 2020 JPY'000
Within one year	865,379
In the second year	545,106
In the third to five years, inclusive	520,533
After five years	160,110
Total undiscounted lease liabilities	2,091,128
Discount amount	(47,812)
Total present value of lease liabilities	2,043,316
Portion classified as current liabilities	(837,912)
Non-current portion	1,205,404
Analysed into:	
Lease liabilities:	
Within one year	837,912
In the second year	533,835
In the third to fifth years, inclusive	512,296
Beyond five years	159,273
	2,043,316

30. Other non-current liabilities

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Asset retirement obligations	**64,988**	65,526
Other long-term payables	**371**	1,758
Rental deposits received as lessor	**1,233**	1,180
	66,592	68,464

The movements in asset retirement obligations are as follows:

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Beginning balance	**65,526**	52,100
Addition	**–**	16,795
Utilised	**(988)**	(972)
Change in discount rate	**450**	(2,397)
Ending balance	**64,988**	65,526

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

31. Employee defined benefit plans

Net employee defined benefit liabilities:

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Retirement benefit plans	904,809	1,297,203

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

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

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

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

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

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

31. Employee defined benefit plans (continued)

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

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Current service cost	**78,092**	81,117
Interest cost	**2,277**	4,428
Net benefit expenses	**80,369**	85,545
Recognised in cost of sales	**27,888**	29,684
Recognised in selling and distribution costs	**35,533**	37,821
Recognised in administrative expenses	**16,948**	18,040
	80,369	85,545

31. Employee defined benefit plans (continued)

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

Changes for the year ended 31 March 2020 in the defined benefit obligations and fair value of plan assets:

	1 April 2019 JPY'000	Current service cost JPY'000	Net interest JPY'000	Sub-total included in profit or loss JPY'000 (note 9)	Benefits paid JPY'000	Return on plan assets JPY'000	Actuarial changes arising from changes in financial assumptions JPY'000	Experience adjustments JPY'000	Sub-total included in other comprehensive income JPY'000	Contributions by employer JPY'000	31 March 2020 JPY'000
Defined benefit obligation	3,437,388	78,092	6,118	84,210	(440,598)	–	(222,996)	2,165	(220,831)	–	2,860,169
Fair value of plan assets	(2,140,185)	–	(3,841)	(3,841)	93,512	97,669	–	–	97,669	(2,515)	(1,955,360)
Benefit liability	1,297,203	78,092	2,277	80,369	(347,086)	97,669	(222,996)	2,165	(123,162)	(2,515)	904,809

Changes for the year ended 31 March 2019 in the defined benefit obligations and fair value of plan assets:

	1 April 2018 JPY'000	Current service cost JPY'000	Net interest JPY'000	Sub-total included in profit or loss JPY'000 (note 9)	Benefits paid JPY'000	Return on plan assets JPY'000	Actuarial changes arising from changes in financial assumptions JPY'000	Experience adjustments JPY'000	Sub-total included in other comprehensive income JPY'000	Contributions by employer JPY'000	31 March 2019 JPY'000
Defined benefit obligation	3,454,031	81,117	12,040	93,157	(101,286)	–	(5,846)	(2,668)	(8,514)	–	3,437,388
Fair value of plan assets	(2,178,506)	–	(7,612)	(7,612)	52,514	(5,490)	–	–	(5,490)	(1,091)	(2,140,185)
Benefit liability	1,275,525	81,117	4,428	85,545	(48,772)	(5,490)	(5,846)	(2,668)	(14,004)	(1,091)	1,297,203

31. Employee defined benefit plans (continued)

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

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Stocks	**939,727**	1,099,170
Bonds	**796,943**	849,572
General account of life insurance companies	**140,101**	141,439
Others	**78,589**	50,004
Total	**1,955,360**	2,140,185

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

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Method of allocating projected retirement benefits	**Projected unit credit method**	Projected unit credit method
Discount rate	**0.29%**	0.17%
Salary increase rate (age-based, on average)	**1.90%**	1.90%
Turnover rate (age-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

31. Employee defined benefit plans (continued)

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

		Increase/(decrease) in defined benefit obligations At 31 March	
		2020	2019
Assumption	*Change in assumption*	**JPY'000**	JPY'000
Discount rate	Increase by 0.5%	**(113,948)**	(125,561)
	Decrease by 0.5%	**113,948**	125,561

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

The average durations of the defined benefit plan obligations as at 31 March 2020 and 2019 were 6.8 years and 7.4 years, respectively.

The actuarial valuation showed that the market value of plan assets was JPY1,955,360,000 and JPY2,140,185,000 as at 31 March 2020 and 2019 and represented 68% and 63% of the defined benefit obligations, respectively, that had accrued to qualified employees. The deficiency of JPY904,809,000 and JPY1,297,203,000 as at 31 March 2020 and 2019, respectively, is expected to be cleared over the remaining service period.

32. Share capital and treasury shares

	At 31 March 2020	At 31 March 2019
Issued capital: (As of 31 March 2020: 20,000,000,000 authorised shares of USD0.0000025 each, 605,642,500 ordinary shares in issue; As of 31 March 2019: 20,000,000,000 authorised shares of USD0.0000025 each, 609,050,000 ordinary shares in issue) USD	**1,514**	1,523
Equivalent to JPY	**153,000**	154,000

During the year ended 31 March 2020, the Company repurchased 3,407,500 Shares on the Hong Kong Stock Exchange at considerations of JPY214,282,000. All of the repurchased shares were cancelled during the year.

A summary of movements in the Company's share capital and treasury shares is as follows:

	Number of shares in issue	Share capital	Treasury shares
		JPY' 000	JPY' 000
At 1 April 2018, 31 March 2019 and 1 April 2019	609,050,000	154	–
Repurchases of shares	–	–	(214,282)
Cancellation of treasury shares	(3,407,500)	(1)	214,282
At 31 March 2020	605,642,500	153	–

33. 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 will contribute to the success of the Group's operations. The Scheme includes three batches, which became 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 individuals' 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.

33. Share-based payment (continued)

2015 and 2016 RSU scheme (continued)

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 ended 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 ended 31 March 2019 (whichever is earlier), which was accounted for as cancellation and modification of share-based payment.

During the year ended 31 March 2020, the vesting schedule of the 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 ended 31 March 2018 (whichever is earlier) and 30% on 30 June 2020, which was accounted for 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 individuals' 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 ended 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 ended 31 March 2019 (whichever is earlier).

During the year ended 31 March 2020, the vesting schedule of the 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 ended 31 March 2018 (whichever is earlier) and 50% on 30 June 2020, which was accounted for as cancellation and modification of share-based payment.

The following RSUs were outstanding during the year:

	At 31 March	
	2020	2019
	Shares represented by RSUs	Shares represented by RSUs
At the beginning of the year	**4,212,608**	9,347,488
Forfeited during the year	**(465,699)**	(373,542)
Cancelled during the year	**–**	(381,030)
Exercised during the year	**–**	(4,380,308)
At the end of the year	**3,746,909**	4,212,608

The Group reversed RSU expenses of JPY607,000, which was immaterial, during the year ended 31 March 2020 upon the resignation of employees.

The Group recognised RSU expenses of JPY30,574,000 during the year ended 31 March 2019.

34. Reserves

(i) Surplus reserve

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

(ii) Fair value reserve

This is the valuation difference in the fair value of equity instruments at fair value through other comprehensive income.

(iii) Exchange translation reserve

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

35. Contingent liabilities

As at 31 March 2020, the Group had no significant contingent liabilities.

36. Operating Lease Commitments

As lessor

The Group leases retail shops, under operating lease arrangements, with a lease term of five to six years. The terms of the leases generally also require the tenants to provide for periodic rent adjustments according to the then prevailing market conditions. Rental income from retail shops for the year was JPY1,671,000 (2019: JPY1,785,000).

Operating lease commitments as at 31 March 2020

The undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Within one year	**1,700**	1,700
After one year but within two years	**1,700**	1,700
After two years but within three years	**1,700**	1,700
After three years but within four years	**1,699**	1,700
After four years but within five years	**–**	1,699
	6,799	8,499

36. Operating Lease Commitments (continued)

As lessee

The Group leases certain of its office properties, shops and motor vehicles under operating lease arrangements. Lease terms of these lease contracts are disclosed in note 2.4 to the financial statements. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets and lease liabilities

Detailed information regarding right-of-use assets and lease liabilities is set out in notes 16 and 29, respectively, to the financial statements.

(b) The amounts recognised in profit or loss in relation to leases are as follows:

	At 31 March 2020
	JPY'000
Interest on lease liabilities	43,454
Depreciation charge of right-of-use assets	832,259
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 March 2020	308,334
Total amount recognised in profit or loss	1,184,047

(c) Total cash outflows for leases and non-cash additions to right-of-use assets and lease liabilities are disclosed in note 42(a) and 42(c) to the financial statements.

36. Operating lease commitments (continued)

As lessee (continued)

(d) Operating lease commitments as at 31 March 2019

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

	At 31 March 2019 JPY'000
Within one year	810,680
After one year but within five years	808,488
Over five years	2,978
	1,622,146

37. Commitments

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

	At 31 March	
	2020 **JPY'000**	2019 JPY'000
Contracted, but not provided for:		
SAP Project	–	62,431

38. Related party transactions and balances

The related parties of the Group include:

Related parties	**Relationship**
Shanghai POVOS Enterprise (Group) Co., Ltd.	Company controlled by the ultimate shareholder
Shanghai POVOS Electric (Group) Co., Ltd.	Company controlled by the ultimate shareholder

38. Related party transactions and balances (continued)

(a) Transactions with related parties

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Rental expense charged by related parties		
Shanghai POVOS Enterprise (Group) Co., Ltd.*	**27,292**	26,959

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

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

(b) Balances with related parties

	At 31 March	
	2020	2019
	JPY'000	JPY'000
Due to a related party		
Shanghai POVOS Enterprise (Group) Co., Ltd.	**–**	7,144

Amounts due to related parties were interest-free and unsecured and had no fixed repayment terms.

38. Related party transactions and balances (continued)

(c) Compensation of key management personnel of the Group:

	Year ended 31 March	
	2020	2019
	JPY'000	JPY'000
Short-term employee benefits	196,581	169,092
Equity-settled share-based payment expense	–	7,420
Pension scheme contributions	13,882	17,684
Total compensation paid to key management personnel	210,463	194,196

Further details of directors' emoluments are included in note 10 to the financial statements.

39. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 March 2020

Financial assets

	Financial assets at amortised cost JPY'000	Debt instruments at fair value through other comprehensive income JPY'000	Equity instruments at fair value through other comprehensive income JPY'000	Total JPY'000
Trade and bills receivables	8,130,710	260,552	–	8,391,262
Cash and cash equivalents	10,472,793	–	–	10,472,793
Financial assets included in prepayments, deposits and other receivables	71,786	–	–	71,786
Finance lease receivables	107,255	–	–	107,255
Other non-current assets	638,515	–	12,123	650,638
Total	19,421,059	260,552	12,123	19,693,734

39. Financial instruments by category (continued)

31 March 2020 (continued)

Financial liabilities

	Financial liabilities at amortised cost JPY'000
Trade and bills payables	2,497,969
Interest-bearing bank borrowings	8,600,000
Financial liabilities included in other payables and accruals	1,050,034
Lease liabilities	2,043,316
Financial liabilities included in other non-current liabilities	1,233
Total	14,192,552

31 March 2019

Financial assets

	Financial assets at amortised cost JPY'000	Debt instruments at fair value through other comprehensive income JPY'000	Equity instruments at fair value through other comprehensive income JPY'000	Total JPY'000
Trade and bills receivables	9,638,141	149,528	–	9,787,669
Cash and cash equivalents	14,674,123	–	–	14,674,123
Financial assets included in prepayments, deposits and other receivables	326,464	–	–	326,464
Other non-current assets	412,789	–	14,266	427,055
Total	25,051,517	149,528	14,266	25,215,311

39. Financial instruments by category (continued)

31 March 2019 (continued)

Financial liabilities

	Financial liabilities at amortised cost JPY'000
Trade and bills payables	1,523,086
Due to a related party	7,144
Interest-bearing bank borrowings	3,800,000
Financial liabilities included in other payables and accruals	1,047,595
Financial liabilities included in other non-current liabilities	1,180
Total	6,379,005

40. Fair value and fair value hierarchy of financial instruments

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, deposits and other receivables, an amount due from a related party, the current portion of finance lease receivables, rental deposits included in other non-current assets, trade and bills payables, interest-bearing bank borrowings, an amount due to a related party, financial liabilities included in other payables and accruals and the current portion of lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The non-current portion of finance lease receivables and the non-current portion of lease liabilities of the Group approximate to their fair values because their carrying amounts are present value and internal rates of return are close to rates currently available for instruments with similar terms, credit risk and remaining maturities.

Management has assessed that the fair values of rental deposits paid as lessee included in other non-current assets and rental deposits received as lessor included in other non-current liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed to approximate to their carrying amounts.

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

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the board of directors. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the vice president responsible for finance. The valuation process and results are discussed with the board of directors once a year for annual financial reporting.

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 realised and the fair values have been estimated to be the principal plus estimated interest income. The directors believe that the estimated fair values which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of each of the reporting period.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

31 March 2020

	Level 1	Level 2	Level 3	Total
	JPY'000	JPY'000	JPY'000	JPY'000
Equity instruments at fair value through other comprehensive income	12,023	–	100	12,123
Bills receivable	–	260,552	–	260,552
	12,023	260,552	100	272,675

31 March 2019

	Level 1	Level 2	Level 3	Total
	JPY'000	JPY'000	JPY'000	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 years ended 31 March 2020 and 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

41. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing bank borrowings, trade and bills payables, an amount due to a related party, financial liabilities included in other payables and accruals and lease liabilities. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and short-term deposits, which arise directly from its operations. The main risks faced by the Group are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board of directors reviews and agrees policies for managing each of the risks which are summarised below:

Interest rate risk

The Group's exposure to risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts and using interest rate swaps contracts.

As at 31 March 2020, if interest rates had been 100 basis points higher/lower with all other variables held constant, loss before tax for the year would have been JPY86,000,000 lower/higher (2019: JPY38,000,000 lower/higher), mainly as a result of higher/lower interest expense on floating rate bank borrowings.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 32.8% (2019: 31.7%) of the Group's sales for the year were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 65.1% (2019: 61.4%) of costs for the year were denominated in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities).

41. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

	Increase/(decrease) in rate of foreign currency	Increase/(decrease) in profit before tax
	%	JPY'000
Year ended 31 March 2020		
If USD strengthens against JPY	**5**	**260,716**
If USD weakens against JPY	**-5**	**(260,716)**
Year ended 31 March 2019		
If USD strengthens against JPY	5	422,354
If USD weakens against JPY	-5	(422,354)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables).

The Group trades only with recognised and creditworthy third parties and related parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The carrying amounts of cash and cash equivalents, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, an amount due from a related party, finance lease receivables and rental deposits included in the other non-current assets in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

Further qualitative and quantitative information regarding trade receivables, which apply the simplified approach under IFRS 9, is disclosed in note 23 to the financial statements.

All the carrying amounts of financial assets at amortised cost, applying the general approach under IFRS 9, were classified in Stage 1 in terms of ECLs as at 31 March 2020 and 31 March 2019.

41. Financial risk management objectives and policies (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing loans and borrowings and lease liabilities.

The maturity profile of the Group's financial liabilities as at 31 March 2020 and 2019, based on contractual undiscounted payments, is as follows:

31 March 2020

	On demand JPY'000	Less 1 year JPY'000	Over 1 year JPY'000	Total JPY'000
Trade and bills payables	–	2,497,969	–	2,497,969
Financial liabilities included in other payables and accruals	1,050,034	–	–	1,050,034
Interest-bearing bank borrowings	–	8,602,589	–	8,602,589
Lease liabilities	–	865,379	1,225,749	2,091,128
Other non-current liabilities	1,233	–	–	1,233
	1,051,267	11,965,937	1,225,749	14,242,953

31 March 2019

	On demand JPY'000	Less 1 year JPY'000	Over 1 year JPY'000	Total JPY'000
Trade and bills payables	–	1,523,086	–	1,523,086
Financial liabilities included in other payables and accruals	1,047,595	–	–	1,047,595
Interest-bearing bank borrowings	–	3,801,147	–	3,801,147
Other non-current liabilities	1,180	–	–	1,180
Due to a related party	7,144	–	–	7,144
	1,055,919	5,324,233	–	6,380,152

41. Financial risk management objectives and policies (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy debt to equity ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2020 and 2019.

The Group monitors capital, which is the total equity, using a debt to equity ratio, which is interest-bearing bank borrowings plus lease liabilities divided by total equity. The debt to equity ratios as at the end of the reporting periods were as follows:

	31 March 2020	**1 April 2019**	**31 March 2019**
	JPY'000	JPY'000	JPY'000
Interest-bearing bank borrowings	8,600,000	3,800,000	3,800,000
Lease liabilities	2,043,316	1,325,896	–
Total debt	10,643,316	5,125,896	3,800,000
Total equity	21,263,797	29,192,727	29,192,727
Debt to equity ratio	50%	18%	13%

Note: The Group has adopted IFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 April 2019 with no adjustments to the comparative amounts as at 31 March 2019. This resulted in an increase in the Group's net debt and hence the Group's gearing ratio increased from 13% to 18% on 1 April 2019 when compared with the position as at 31 March 2019.

42. Notes to the consolidated statement of cash flows

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of JPY1,600,143,000 and JPY1,600,143,000, respectively, in respect of lease arrangements for office properties, shops and motor vehicles (31 March 2019: Nil).

42. Notes to the consolidated statement of cash flows (continued)

(b) Changes in liabilities arising from financing activities are as follows:

	Interest-bearing bank borrowings	Dividend payable included in other payables	Lease liabilities
	JPY'000	JPY'000	JPY'000
At 1 April 2018	2,500,000	–	–
Changes from financing cash flows	1,300,000	(3,055,452)	–
Final dividend payable	–	3,055,452	–
At 31 March 2019	3,800,000	–	–
Impact of adopting IFRS 16 (note 2.2)	–	–	1,325,896
At 1 April 2019	3,800,000	–	1,325,896
Changes from financing cash flows	4,800,000	(7,100,717)	(809,270)
New leases	–	–	1,600,143
Interest expenses	–	–	43,454
Interest paid classified as operating cash flows	–	–	(43,454)
Lease modification	–	–	(36,475)
Foreign exchange movement	–	–	(36,978)
Final dividend payable	–	7,100,717	–
At 31 March 2020	8,600,000	–	2,043,316

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	Year ended 31 March 2020
	JPY'000
Within operating activities	351,788
Within financing activities	809,270
	1,161,058

43. Event after the reporting period

On 15 June 2020, the directors proposed a final dividend of JPY1.50 per ordinary share totalling approximately JPY908,464,000 for the second half year of the year ended 31 March 2020, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (note 13).

44. Statement of financial position of the company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	At 31 March	
	2020	2019
	JPY'000	JPY'000
NON-CURRENT ASSET		
Investment in a subsidiary	**466,646**	467,253
Total non-current assets	**466,646**	467,253
CURRENT ASSETS		
Prepayments deposits and other receivables	**4,972**	8,368
Due from subsidiaries	**7,215,648**	8,279,962
Cash and cash equivalents	**6,628,284**	6,964,888
Total current assets	**13,848,904**	15,253,218
CURRENT LIABILITIES		
Other payables and accruals	**150,692**	62,647
Total current liabilities	**150,692**	62,647
NET CURRENT ASSETS	**13,698,212**	15,190,571
TOTAL ASSETS LESS CURRENT LIABILITIES	**14,164,858**	15,657,824
NET ASSETS	**14,164,858**	15,657,824
EQUITY		
Share capital	**153**	154
Reserves (note)	**14,164,705**	15,657,670
Total equity	**14,164,858**	15,657,824

44. Statement of financial position of the company (continued)

Note:

A summary of the Company's reserves is as follows:

	Equity-settled share-based payment reserve	Accumulated losses	Share premium	Total
	JPY' 000	JPY' 000	JPY' 000	JPY' 000
Balance at 31 March 2018	436,579	153,918	16,798,289	17,388,786
Total comprehensive income for the year	–	1,293,762	–	1,293,762
Dividends declared	–	(3,055,452)	–	(3,055,452)
Equity-settled share-based payment expenses	30,574	–	–	30,574
Balance at 31 March 2019	467,153	(1,607,772)	16,798,289	15,657,670
Total comprehensive income for the year	–	5,822,640	–	5,822,640
Cancellation of treasury shares	–	–	(214,281)	(214,281)
Dividends declared	–	(7,100,717)	–	(7,100,717)
Equity-settled share-based payment expenses	(607)	–	–	(607)
Balance at 31 March 2020	466,546	(2,885,849)	16,584,008	14,164,705

45. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 15 June 2020.

HONMA GOLF LIMITED
本間高爾夫有限公司