



HONMA GOLF LIMITED
本間高爾夫有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6858



2020/21
INTERIM REPORT



Contents

	Page
CORPORATE INFORMATION	2
MANAGEMENT DISCUSSION AND ANALYSIS	4
OTHER INFORMATION	35
REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	45
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS	47
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	48
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	50
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	52
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	54
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION	56



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

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

Since 2018, the global golf industry has seen continued recovery with golfers across the globe showing renewed interest and increased participation in this 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 to enrich its TOUR WORLD family clubs to include a performance enhancement series, and to continue with its legacy BERES family clubs with however a modern and sophisticated approach.

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 of its latest new products targeting super-premium and premium-performance segments. The majority of the Group's self-operated stores remained shut for most part of the three months ended 30 June 2020. On a constant currency basis, the Group's revenue decreased by 14.1% as compared to the six months ended 30 September 2019.

Management Discussion and Analysis

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

Overview of Key Operating Results (continued)

Market wise, China and Korea continued to lead the way in terms of growth, delivering a year on year growth of 52.3% and 16.9%, respectively, both on a constant currency basis due to a speedier recovery from the pandemic and the successful activation of products launched before the outbreak. On the other hand, revenue from Japan and North America declined by 59.6% and 36.7%, respectively, on a constant currency basis primarily due to extended and in some parts, worsening impact from the COVID-19 pandemic. Japan, Korea and China contributed 80.9% of total revenue.

Since May 2020, the golf industry started to experience encouraging recoveries, as a good majority of the golf courses in Asia, the US and Europe re-opened for play under social distancing rules. Since then, there have been steady and visible increase in the returned and new golf participation, and rounds played rose in most of the Group's major markets.

Overview of Major Achievements

In the six months ended 30 September 2020, the Company steadfastly followed its growth strategies while protecting the health of its employees and financial status. Among others, the Company delivered 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 all of its digital platforms to promote brand awareness and to appeal to younger golfers. The rapid increase in HONMA's digital communications has generated continued improvement 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 revamped and/or launched customer relationship management ("CRM") systems in multiple markets and added various e-commerce capabilities and consumer-facing custom tools thereon, to provide consumers with the ultimate 360-degree brand experience, to strengthen HONMA's direct to consumer communication and to eventually increase sales both online and offline.

Management Discussion and Analysis

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

Overview of Major Achievements (continued)

- ***Focusing on club products that best represent Japanese traditional craftsmanship and innovative technology in pursuit of players in super-premium and premium-performance segments.*** HONMA remains committed to applying cutting-edge technologies and artisan-style Japanese craftsmanship to the design, development and manufacturing of a comprehensive range of exquisitely crafted and performance-driven golf clubs. In the six months ended 30 September 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. In December 2019, HONMA launched BERES 07 targeting super-premium consumers, and revenue from BERES grew by 18.6% for the six months ended 30 September 2020 year over year on a constant currency basis, reconfirming HONMA's strong brand equity and its ability to withstand economic challenges since HONMA went into the golf business in 1959.
- ***Accelerating growth in golf 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 continues to derive most of its revenue from the sale and distribution of golf clubs. For the six months ended 30 September 2020, golf clubs generated 77.8% of the Company's total sales. Following continued and mid-double-digit growth in revenue from golf balls over the past five years, the Company further prioritized its product development resources and launched golf balls with its own patent in order to meet the HONMA brand positioning and the play preferences and performance demands of its club users. Due to negative impacts of the COVID-19 pandemic on the Company's retail activities in Japan, revenue from golf balls declined by 6.0% on a constant currency basis, as compared to the six months ended 30 September 2019. Nevertheless, golf ball sales expanded by 41.5% and 28.7% in Korea and China for the six months ended 30 September 2020, respectively.

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 six months period ended 30 September 2020 included mostly sales from the 2020 Spring/Summer Collections from 2019. Due to the impact of COVID-19 pandemic on the Company's retail activities, apparel sales decreased by 5.2% on a constant currency basis during this period.

Management Discussion and Analysis

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

Overview of Major Achievements (continued)

- **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 six months ended 30 September 2020, the Company continued implementing elevated store presence with HONMA branded display/custom fixture while rolling out mobile vans to bring total HONMA fitting experience to the golfer's home course. As at the end of September 2020, the Company had 54 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. Between January 2020 and September 2020, the Company increased its mobile van coverage to 14 vans, up from nine vans at the beginning of the year.

Since 2019, the Company made continued investments into its e-commerce website to create another important brand touchpoint for 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. For the six months ended 30 September 2020, the Company has seen site visits almost doubled and average order value climbed to more than one thousand U.S. dollar, which trend continued into September 2020 albeit negative impact from COVID-19. The strong performance is a 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.

In Europe, HONMA continued expanding its distribution network and opened 23 new points of sales ("POS") while closing none in the six months ended 30 September 2020, hence increasing its total POSs to 563 by 30 September 2020.

- **360-degree brand experience built into new retail space and environments.** The Company retained a leading design and marketing agency to renovate its retail space in order to provide ultimate brand experience and customizable consumer journey in major markets. In the six months ended 30 September 2020, the Company opened 2 new stores in Japan, 6 in China and 13 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 in order to ultimately own its consumer space and experience in all of its major markets.

Management Discussion and Analysis

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

Overview 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 six months ended 30 September 2020, HONMA hosted close to 1,400 customer days across its main markets, most of which were held on golf courses with dedicated fitters.
- Sponsoring TEAM HONMA players.** As at 30 September 2020, TEAM HONMA consisted of 12 professional golf players. In July 2019, TEAM HONMA player Feng Shan-Shan claimed the title of Thornberry Creek LPGA Classic. The Company believes her image, endorsement and continued success on professional golf tournaments will continue to help drive its sales growth, especially in China. The Company is also in the process of securing additional and younger players in Asia with visible social media following to anchor brand redefinition and to better appeal to younger and avid golfers.

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. The Group uses 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. The Group leverages its 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

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

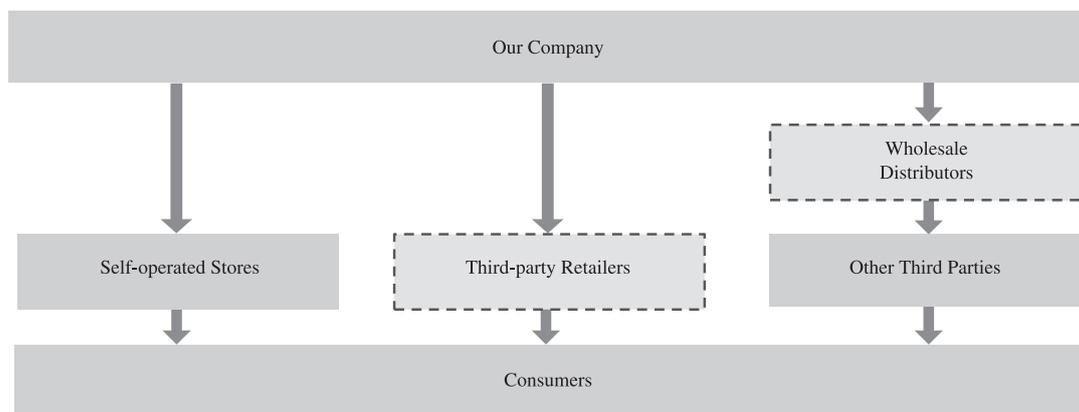
Product Design and Development (continued)

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. In addition, the Company launched BERES 07 in December 2019 to strengthen its market position in the super-premium segment.

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 included retailers and wholesalers. The following diagram illustrates the structure of the Group's sales and distribution network:



 third-party retailers and whole-sellers⁽¹⁾

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

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

Sales and Distribution Network (continued)

HONMA operates the largest number of self-operated stores among major golf companies. Self-operated stores provide consumers with a 360-degree experience with the HONMA brand and its products. As at 30 September 2020, the Group had 77 HONMA-branded self-operated stores, 74 of which were located in Asia and the rest in the US and Europe. The Group opened six new self-operated stores and closed ten stores in China in the six months ended 30 September 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 six months ended 30 September 2020:

	For the six months ended 30 September 2020			
	Period start	Opened	Closed	Period end
Japan	29	2	2	29
China (including Hong Kong and Macau)	37	6	10	33
US	3	–	–	3
Rest of Asia	10	2	–	12
Total	<u>79</u>	<u>10</u>	<u>12</u>	<u>77</u>

To better serve avid golf enthusiasts, certain HONMA-branded self-operated stores offer fitting centers equipped with high-speed cameras and precision software to capture relevant swing data. As at 30 September 2020, the Group had six fitting centers, including two in Japan, two in China, one in Korea and one in the US.

As at 30 September 2020, the Group had approximately 4,077 POS, representing an increase of 158 POSs compared to 31 March 2020. The Group's POSs consist of (a) POS of third-party retailers ("**Retailers**") and (b) POS of wholesale distributors ("**Wholesale Distributors**") that on-sell the Group's products to other third parties and consumers. Retailers include, among others, sports megastores, which are large retailers of sports goods. As at 30 September 2020, the Group's products were sold at 1,559 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.

Management Discussion and Analysis

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

Sales and Distribution Network (continued)

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

Updating E-commerce Capabilities and Creating One Digital Ecosystem

The Group completely rebuilt its website and relaunched its social media platforms in various countries in January 2019. These efforts 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 revamped 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. The Company is the only major golf products company that utilizes professional handcrafted techniques together with significant in-house manufacturing capabilities. The Group conducts all key manufacturing processes for golf clubs at its campus located in Sakata, Yamagata prefecture of Japan (the “**Sakata Campus**”), while outsourcing non-core processes to its well-respected suppliers. This combination of in-house and outsourced manufacturing processes enables the Group to control core technical know-how and intellectual property and ensure the quality of products while controlling production costs.

Located on an approximately 163,000 square metre parcel of land, the Sakata Campus is staffed with approximately 228 craftsmen, 22 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.

Management Discussion and Analysis

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

Employees

As at 30 September 2020, the Group had 787 employees worldwide, a majority of whom were based in Japan.

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

The Group offers competitive remuneration packages, including, among others, salaries, performance-based cash bonus and share-based compensation. The Group reviews its remuneration scheme regularly to ensure its consistency with market practice. Employee benefit expenses amounted to JPY2,352.0 million for the six months ended 30 September 2020.

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

Brand Marketing

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

Management Discussion and Analysis

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

Outlook

Business Outlook

The current financial year began with an extremely challenging operating environment and a lot of uncertainties about the future. Since May, the golf industry recovered and quickly. As the COVID-19 related regulatory restrictions began to ease from Asia to Europe and North America, the Company observed pent-up demand to play golf, visible increase in new and returning golfers and an uptick in new orders from both end consumers and retailers.

For the twelve months ending 31 March 2021, the Group will continue executing its long-term growth strategy to build a world-leading golf lifestyle company leveraging HONMA's brand legacy, its expanding distribution network and innovative technologies and traditional Japanese craftsmanship. And in the face of uncertainties posed by the COVID-19 pandemic, the Company will continue to take active actions to reduce cost, maximize liquidity and protect its employees' health.

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 lies with continuous enhancement of brand awareness and loyalty, HONMA plans to continue upgrading its offline and online retail experiences based on the updated HONMA brand image, retail and visual guidelines. In Asia, HONMA 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, Korea, Taiwan, US and Europe. All these stores will form the centrepiece of HONMA's new consumer touchpoints and will act as the hub to generate traffic to HONMA's extensive shop-in-shop at third-party retailers, golf courses and its online e-commerce platforms.
- **Further increase the Group's market share in home markets by maintaining its leading position in the super-premium segment while making solid inroads into the fast growing premium-performance segment.** Increasing market share in HONMA's home markets, namely Japan, Korea and China will continue to be a key part of the Group's future growth strategy. While the Group already has a strong presence in its home markets of Japan, Korea and China, it believes that there is still significant room to increase its 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.

Management Discussion and Analysis

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

Outlook (continued)

Business Outlook (continued)

- **Pivoting growth in North America based on the updated product and its distribution strategy.** North America accounts for more than half of the global golf market. During the six months ended 30 September 2020, HONMA continued implementing unique direct to consumer distribution strategy, and now possess 54 retail point of sales with elevated retail presence and 14 mobile vans that are capable of performing fitting events at major golf courses in the US. In October 2019, Honma opened its first flagship store in Carlsbad, California, which further increased HONMA's brand awareness. 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.** In 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 its 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 four apparel collections, targeting consumers in Japan, China and Korea. The Group has in parallel upgraded its apparel sales teams in all three markets and created a network of quality and long-term suppliers leveraging its partnership with ITOCHU.
- **Continue product innovation and development to cater for latest market trends.** The Group devotes significant resources to new product development to ensure that its product offerings remain up to date with the latest market trends. The Group's research and development expenses amounted to JPY161.5 million and JPY139.6 million for the six months ended 30 September 2019 and 2020, respectively. The Group has also created a product development hub in North America, to complement its product development capabilities which used to concentrate at the Sakata Campus. The extended research and development team of HONMA thrives to incorporate innovations in ergonomics and material sciences in its designs and collaborates closely with professional golf players to optimize product performance.

Management Discussion and Analysis

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

Outlook (continued)

Industry Outlook

The golf industry will continue to face multiple challenges in the six months ending 31 March 2021 as we have seen in the six months ended 30 September 2020. These challenges included anticipated slowdown of GDP growths in the Company's major markets 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 its self-operated stores and retailers in China and its supply base in China and to some extent Japan have been interrupted by the COVID-19 outbreak in the three months ended 30 June 2020, following the introduction of mandatory restrictive or lockdown measures by governmental authorities.

Since May 2020, the golf industry started to experience encouraging recoveries, as a good majority of the golf courses in Asia, the US and Europe re-opened for play under social distancing rules. Since then, there have been steady and visible increase in the sport, and rounds played rose in most of the Group's active markets. The Group's sales rose robustly in China, Korea, South East Asia and Taiwan for the six months ended 30 September 2020 on the back of a speedier recovery from the pandemic. The Company does expect the golf industry to gradually go back to the new norm as from July 2020.

The Group also believes that the six months ending 31 March 2021 will be a crucial period for it to execute its growth strategies. The Group is confident in its ability to mitigate the adverse impacts of the COVID-19 outbreak and will seize every possible opportunities to preserve cash, to right size its organization to foster a solid foundation for the mid- and long-term development with respect to its 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.

Management Discussion and Analysis

Financial review

The following table is a summary of the Group's consolidated statement of profit or loss with line items in absolute amounts and as percentages of the Group's total revenue for the periods indicated, together with the change (expressed in percentages) from the six months ended 30 September 2019 to the six months ended 30 September 2020:

	Six months ended 30 September				Period-
	2020		2019		to-Period
	JPY	%	JPY	%	Change
	<i>(In thousands, except for percentages and per share data)</i>				
Consolidated Statement of Profit or Loss (unaudited)					
Revenue	9,052,973	100.0	10,590,973	100.0	(14.5)
Cost of sales	(4,418,599)	(48.8)	(5,330,135)	(50.3)	(17.1)
Gross profit	4,634,374	51.2	5,260,838	49.7	(11.9)
Other income and gains	362,048	4.0	36,652	0.3	887.8
Selling and distribution expenses	(4,319,244)	(47.7)	(4,627,977)	(43.7)	(6.7)
Administrative expenses	(832,987)	(9.2)	(691,916)	(6.5)	20.4
Other expenses	(244,568)	(2.7)	(519,534)	(4.9)	(52.9)
Finance costs	(39,108)	(0.4)	(28,476)	(0.3)	37.3
Finance income	8,109	0.1	59,680	0.6	(86.4)
Loss before tax	(431,376)	(4.8)	(510,733)	(4.8)	(15.5)
Income tax (expense)/credit	(372,149)	(4.1)	459,495	4.3	(181.0)
Net loss	(803,525)	(8.9)	(51,238)	(0.5)	1,468.2
Loss per share attributable to ordinary equity holders of the parent:					
Basic and diluted					
– For loss for the period (JPY)	(1.33)		(0.08)		1,558.4
Non-IFRS Financial Measure					
Adjusted SG&A ⁽¹⁾	(5,152,231)	(56.9)	(5,320,608)	(50.2)	(3.2)
Operating loss ⁽²⁾	(548,856)	(6.1)	(28,458)	(0.3)	1,828.7
Net operating (loss)/profit ⁽³⁾	(850,219)	(9.4)	392,072	3.7	(316.9)

Management Discussion and Analysis

Financial review (continued)

Notes:

- (1) Adjusted SG&A is derived from the sum of (a) selling and distribution expenses and (b) administrative expenses by subtracting RSU expenses in relation to sales and marketing staff and administrative staff. For a reconciliation of adjusted SG&A to the sum of (a) selling and distribution expenses and (b) administrative expenses, see "Management Discussion and Analysis – Financial Review – Non-IFRS Financial Measures – Adjusted SG&A".
- (2) Operating loss is derived from loss before tax by (i) subtracting other income and gains, (ii) adding other expenses, and (iii) adding RSU expenses. For a reconciliation of operating loss to loss before tax, see "Management Discussion and Analysis – Financial Review – Non-IFRS Financial Measures – Operating (Loss)/Profit".
- (3) Net operating (loss)/profit is derived from net loss by (i) subtracting other income and gains, (ii) adding other expenses, (iii) adding RSU expenses and (iv) adding impact on tax. For a reconciliation of net operating (loss)/profit to net loss, see "Management Discussion and Analysis – Financial Review – Non-IFRS Financial Measures – Net Operating (Loss)/Profit".

Revenue

The Group's total revenue decreased by 14.5% from JPY10,591.0 million for the six months ended 30 September 2019 to JPY9,053.0 million for the six months ended 30 September 2020.

Constant Currency Revenue

On a constant currency basis, the Group's total revenue decreased by 14.1% from the six months ended 30 September 2019 to the six months ended 30 September 2020. For the purpose of calculating constant currency revenue, the Group has used the average exchange rate of the six months ended 30 September 2019 to translate sales recorded during the six months ended 30 September 2020, to the extent that the original currency for such sales is not in Japanese yen.

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

Management Discussion and Analysis

Financial review (continued)

Revenue (continued)

Revenue by Product Groups

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

	For the six months ended 30 September				Period-to-Period Change	
	2020		2019		on as reported basis	on constant currency basis ⁽¹⁾
	JPY	%	JPY	%	%	%
	<i>(In thousands, except for percentages)</i>					
Golf clubs	7,039,637	77.8	8,077,227	76.3	(12.8)	(12.5)
Golf balls	928,158	10.3	989,945	9.3	(6.2)	(6.0)
Apparels	501,060	5.5	536,117	5.1	(6.5)	(5.2)
Accessories and other related ⁽²⁾	584,118	6.4	987,684	9.3	(40.9)	(40.9)
Total	9,052,973	100.0	10,590,973	100.0	(14.5)	(14.1)

Notes:

(1) For further information, see “– Constant Currency Revenue Growth”.

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

Management Discussion and Analysis

Financial review (continued)

Revenue (continued)

Revenue by Product Groups (continued)

Golf clubs comprise the majority of the Group's business. Revenue for golf clubs decreased by 12.8% from JPY8,077.2 million for the six months ended 30 September 2019 to JPY7,039.6 million for the six months ended 30 September 2020. On a constant currency basis, revenue for golf clubs decreased by 12.5% from the six months ended 30 September 2019 to the six months ended 30 September 2020. The decrease in golf clubs was primarily attributable to negative impacts from COVID-19 on the Company's supply chain, as well as retail activities in markets such as Japan and North America.

Due to unprecedented negative impacts from COVID-19 on the Company's supply chain and retail activities in certain markets, revenue for golf balls and apparels sales decreased by 6.2% and 6.5% from JPY989.9 million and JPY536.1 million for the six months ended 30 September 2019 to JPY928.2 million and JPY501.1 million for the six months ended 30 September 2020, respectively. On a constant currency basis, revenue for golf balls and apparels declined by 6.0% and 5.2% from the six months ended 30 September 2019 to the six months ended 30 September 2020, respectively.

Revenue for accessories and other related products decreased by 40.9% from JPY987.7 million for the six months ended 30 September 2019 to JPY584.1 million for the six months ended 30 September 2020. The decrease was mainly attributed to sales decline in Japan, which used to account for more than 70% of the Company's accessory sales.

Management Discussion and Analysis

Financial review (continued)

Revenue (continued)

Revenue by Geography

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

	For the six months ended 30 September				Period-to-Period Change	
	2020		2019		on as reported basis	on constant currency basis ⁽¹⁾
	JPY	%	JPY	%	%	%
<i>(In thousands, except for percentages)</i>						
Japan	1,855,759	20.5	4,594,454	43.4	(59.6)	(59.6)
Korea	3,115,910	34.4	2,665,441	25.2	16.9	16.9
China (including Hong Kong and Macau)	2,353,412	26.0	1,584,299	15.0	48.5	52.3
North America	305,182	3.4	490,429	4.6	(37.8)	(36.7)
Europe	409,994	4.5	489,693	4.6	(16.3)	(19.4)
Rest of the World	1,012,716	11.2	766,657	7.2	32.1	30.7
Total	9,052,973	100.0	10,590,973	100.0	(14.5)	(14.1)

Note:

(1) For further information, see “– Constant Currency Revenue Growth”.

Management Discussion and Analysis

Financial review (continued)

Revenue (continued)

Revenue by Geography (continued)

For the six months ended 30 September 2020, the Group continued implementing its growth strategy in its home and new markets while the global health crisis posed major challenges. Revenue from its home markets, namely Japan, Korea and China (including Hong Kong and Macau) remained strong and accounted for 80.9% of the Group's total revenue for the six months ended 30 September 2020.

Revenue from Japan decreased by 59.6% from JPY4,594.5 million for the six months ended 30 September 2019 to JPY1,855.8 million for the six months ended 30 September 2020, as a result of negative impact of COVID-19 which affected the economy of Japan for the most part of the six months ended 30 September 2020.

Revenue from Korea recorded a double-digit growth of 16.9% for the seventh consecutive year from JPY2,665.4 million for the six months ended 30 September 2019 to JPY3,115.9 million for the six months ended 30 September 2020. In the six months ended 30 September 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 conversion 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 golf ball and apparel businesses.

Revenue from China (including Hong Kong and Macau) increased by 48.5% from JPY1,584.3 million for the six months ended 30 September 2019 to JPY2,353.4 million for the six months ended 30 September 2020. On a constant currency basis, revenue for China (including Hong Kong and Macau) increased by 52.3%. The abovementioned increases in revenue from Korea and China were mainly attributed to a speedier recovery from the pandemic and the successful activation of products launched before the outbreak.

Revenue from North America and Europe decreased by 37.8% and 16.3% from JPY490.4 million and JPY489.7 million for the six months ended 30 September 2019 to JPY305.2 million and JPY410.0 million for the six months ended 30 September 2020, respectively. On a constant currency basis, revenue for North America and Europe decreased by 36.7% and 19.4%. These decreases were primarily due to extended and in some parts, worsening impact from the COVID-19 pandemic.

Management Discussion and Analysis

Financial review (continued)

Revenue (continued)

Revenue by Sales and Distribution Channels

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

	For the six months ended 30 September				Period-to-Period Change	
	2020		2019		on as reported basis	on constant currency basis ⁽¹⁾
	JPY	%	JPY	%	%	%
	<i>(In thousands, except for percentages)</i>					
Self-operated stores	2,611,905	28.9	2,629,839	24.8	(0.7)	(0.2)
3rd party retailers and wholesalers	6,441,068	71.1	7,961,134	75.2	(19.1)	(18.8)
Total	9,052,973	100.0	10,590,973	100.0	(14.5)	(14.1)

Note:

(1) For further information, see “– Constant Currency Revenue Growth”.

Revenue from self-operated stores remained resilient and slightly decreased by 0.7% from JPY2,629.8 million for the six months ended 30 September 2019 to JPY2,611.9 million for the six months ended 30 September 2020. Although self-operated stores experienced significant disruptions in the three months ended 30 June 2020, sales at such stores for the six months ended 30 June 2020 remained on par with the same period last year, primarily due to increased sales per store and continued operational optimization in Japan, China, Korea and Taiwan. Revenue from sales to third-party retailers and wholesalers decreased by 19.1% from JPY7,961.1 million for the six months ended 30 September 2019 to JPY6,441.1 million for the six months ended 30 September 2020 as these retail partners attempted to reduce inventory while suffering extended business closure as a result of the impact of COVID-19 pandemic.

Management Discussion and Analysis

Financial review (continued)

Cost of Sales

Cost of sales decreased by 17.1% from JPY5,330.1 million for the six months ended 30 September 2019 to JPY4,418.6 million for the six months ended 30 September 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 periods indicated:

	For the six months ended 30 September			
	2020		2019	
	JPY	%	JPY	%
	<i>(In thousands, except for percentages)</i>			
Raw materials	2,517,978	57.0	2,808,040	52.7
Employee benefits	497,560	11.3	603,247	11.3
Manufacturing overhead ⁽¹⁾	274,261	6.2	282,124	5.3
Finished goods purchased from suppliers	1,128,800	25.5	1,636,724	30.7
Total	4,418,599	100.0	5,330,135	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 11.9% from JPY5,260.8 million for the six months ended 30 September 2019 to JPY4,634.4 million for the six months ended 30 September 2020. Gross profit margin increased from 49.7% for the six months ended 30 September 2019 to 51.2% for the six months ended 30 September 2020.

Management Discussion and Analysis

Financial review (continued)

Gross Profit and Gross Profit Margin (continued)

Gross Profit and Gross Profit Margin by Product Groups

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

	For the six months ended 30 September			
	2020		2019	
	JPY	%	JPY	%
	<i>(In thousands, except for percentages)</i>			
Golf clubs	3,580,343	50.9	4,249,693	52.6
Golf balls	453,854	48.9	464,810	47.0
Apparels	348,869	69.6	167,287	31.2
Accessories and other related ⁽¹⁾	251,308	43.0	379,047	38.4
Total	4,634,374	51.2	5,260,837	49.7

Note:

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

Gross profit for golf clubs decreased by 15.8% from JPY4,249.7 million for the six months ended 30 September 2019 to JPY3,580.3 million for the six months ended 30 September 2020. Gross profit margin for golf clubs decreased from 52.6% for the six months ended 30 September 2019 to 50.9% for the six months ended 30 September 2020, primarily due to decrease in Japan's gross margin percentage resulting from extended negative impacts from COVID-19.

Gross profit for golf balls decreased by 2.4% from JPY464.8 million for the six months ended 30 September 2019 to JPY453.9 million for the six months ended 30 September 2020. Gross profit margin for golf balls increased from 47.0% for the six months ended 30 September 2019 to 48.9% for the six months ended 30 September 2020, primarily due to greater sales contribution from self-operated stores compared to third-party retailers and wholesalers.

Management Discussion and Analysis

Financial review (continued)

Gross Profit and Gross Profit Margin (continued)

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

Gross profit for apparels increased by 108.5% from JPY167.3 million for the six months ended 30 September 2019 to JPY348.9 million for the six months ended 30 September 2020, and gross profit margin for apparels increased from 31.2% for the six months ended 30 September 2019 to 69.6% for the six months ended 30 September 2020. The increases were due to increased brand and product recognition for HONMA's apparels, rigorous price management initiatives and upgrade in HONMA's supplier base.

Gross profit for accessories and other related products decreased by 33.7% from JPY379.0 million for the six months ended 30 September 2019 to JPY251.3 million for the six months ended 30 September 2020. The decrease was primarily due to sharp sales decline in Japan, which used to account for more than 70% of the Company's accessory sales. Gross profit margin for accessories and other related products increased from 38.4% for the six months ended 30 September 2019 to 43.0% for the six months ended 30 September 2020. The increase was primarily due to continued sourcing improvement efforts.

Other Income and Gains

Other income and gains further increased significantly from JPY36.7 million for the six months ended 30 September 2019 to JPY362.0 million for the six months ended 30 September 2020. The increase was primarily due to one off contractual compensation received.

Management Discussion and Analysis

Financial review (continued)

Selling and Distribution Expenses

Selling and distribution expenses decreased by 6.7% from JPY4,628.0 million for the six months ended 30 September 2019 to JPY4,319.2 million for the six months ended 30 September 2020. The decrease was primarily due to decreases in employee benefits and advertising and promotion expenses due to discretionary cost control measures taken by the Company to mitigate the negative impact of the COVID-19 pandemic. Selling and distribution expenses as a percentage of revenue increased from 43.7% for the six months ended 30 September 2019 to 47.7% for the six months ended 30 September 2020. The increase was primarily due to the 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 periods indicated:

	For the six months ended 30 September			
	2020		2019	
	JPY	%	JPY	%
	<i>(In thousands, except for percentages)</i>			
Employee benefits	1,582,985	36.6	1,676,928	36.2
Advertising and promotion expenses	1,176,895	27.2	1,390,689	30.0
Depreciation of right-of-use assets	450,383	10.4	384,838	8.3
Rental fees	188,628	4.4	240,693	5.2
Others ⁽¹⁾	920,353	21.4	934,829	20.3
Total	4,319,244	100.0	4,627,977	100.0

Note:

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

Administrative Expenses

Administrative expenses increased by 20.4% from JPY691.9 million for the six months ended 30 September 2019 to JPY833.0 million for the six months ended 30 September 2020, primarily due to increase in bad debt provision of JPY128.2 million as per IFRS 9.

Other Expenses, Net

Other expenses decreased by 52.9% from JPY519.5 million for the six months ended 30 September 2019 to JPY244.6 million for the six months ended 30 September 2020. The decrease was primarily due to reduced foreign exchanges losses.

Management Discussion and Analysis

Financial review (continued)

Finance Costs

Finance costs increased by 37.3% from JPY28.5 million for the six months ended 30 September 2019 to JPY39.1 million for the six months ended 30 September 2020. The increase was primarily due to interest expense relating to increase in interest-bearing bank borrowings and lease liabilities as adoption of IFRS 16.

Finance Income

Finance income decreased by 86.4% from JPY59.7 million for the six months ended 30 September 2019 to JPY8.1 million for the six months ended 30 September 2020. The decrease was primarily due to the decrease in average bank fixed deposit.

Loss Before Tax

As a result of the foregoing, loss before tax for the six months ended 30 September 2020 was JPY431.4 million.

Income Tax (Expense)/Credit

The Group recorded income tax expense of JPY372.1 million for the six months ended 30 September 2020 as compared to the income tax credit of JPY459.5 million for the six months ended 30 September 2019. The Group's effective tax rate increased from negative 90.0% for the six months ended 30 September 2019 to 86.3% for the six months ended 30 September 2020.

Net Loss

As a result of the foregoing, net loss increased from JPY51.3 million for the six months ended 30 September 2019 to JPY803.5 million for the six months ended 30 September 2020.

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 loss and net operating (loss)/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 loss and net operating (loss)/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 loss does not include all items that have impacted loss before tax, the nearest IFRS performance measure, and net operating (loss)/profit does not include all items that have impacted net loss, the nearest IFRS performance measure.

Management Discussion and Analysis

Financial review (continued)

Non-IFRS Financial Measures (continued)

Adjusted SG&A

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

	For the six months ended	
	30 September	
	2020	2019
	<i>(In JPY thousands)</i>	
Selling and distribution expenses	4,319,244	4,627,977
Administrative expenses	832,987	691,916
Adjustment for:		
RSU expenses in relation to sales and marketing staff and administrative staff	—	715
Adjusted SG&A	<u>5,152,231</u>	<u>5,320,608</u>

Operating Loss

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

	For the six months ended	
	30 September	
	2020	2019
	<i>(In JPY thousands)</i>	
Loss before tax	(431,376)	(510,733)
Adjustment for:		
Other income and gains	(362,048)	(36,652)
Other expenses	244,568	519,534
RSU expenses	—	(607)
Operating loss	<u>(548,856)</u>	<u>(28,458)</u>

Management Discussion and Analysis

Financial review (continued)

Non-IFRS Financial Measures (continued)

Net Operating (Loss)/Profit

The Group derives net operating (loss)/profit from net loss 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 (loss)/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 (loss)/profit to net loss for the periods indicated:

	For the six months ended	
	30 September 2020	2019
	(In JPY thousands)	
Net loss	(803,525)	(51,238)
Adjustment for:		
Other income and gains	(362,048)	(36,652)
Other expenses	244,568	519,534
RSU expenses	–	(607)
Impact on tax	70,786	(38,965)
Net operating (loss)/profit	<u>(850,219)</u>	<u>392,072</u>

Working Capital Management

	For the twelve months ended	
	30 September 2020	31 March 2020
Inventories turnover days ⁽¹⁾	309	268
Trade and bills receivables turnover days ⁽²⁾	116	139
Trade and bills payables turnover days ⁽³⁾	70	63

Notes:

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

Compared to the year ended 31 March 2020, Inventories turnover days increased for the twelve months ended 30 September 2020 due to negative impact from COVID-19 where some of the Company's third party retailers and whole-sellers reduced purchase. During the same period, trade and bills payables turnover days increased, primarily due to payment term improvements attained vis-à-vis major suppliers of the Company. Trade and bills receivables turnovers days decreased due to strengthened collection during COVID-19.

Management Discussion and Analysis

Financial review (continued)

Inventories

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

	As at 30 September 2020	As at 31 March 2020
	<i>(In JPY thousands)</i>	
Raw materials	2,038,671	2,200,698
Work in progress	1,057,328	1,105,279
Finished goods	8,032,785	7,106,722
Less: provision	<u>(1,060,837)</u>	<u>(822,734)</u>
Total	<u>10,067,947</u>	<u>9,589,965</u>

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

	As at 30 September 2020	As at 31 March 2020
	<i>(In JPY thousands)</i>	
Within 1 year	4,205,615	5,984,035
1 year to 2 years	3,699,316	1,793,830
2 to 3 years	933,878	1,072,500
3 to 4 years	811,119	435,545
Over 4 years	<u>418,019</u>	<u>304,055</u>
Total	<u>10,067,947</u>	<u>9,589,965</u>

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.

Management Discussion and Analysis

Financial review (continued)

Inventories (continued)

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 six months ended 30 September 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 30 September 2020, the Group had JPY11,202.6 million in cash and cash equivalents, which were primarily held in U.S. dollar, Japanese yen and Renminbi. The Group's cash and cash equivalents primarily consist of cash on hand and demand deposits.

A substantial portion of the Group's operation is based in Japan, and a substantial portion of the Group's revenue and expenditures are denominated and settled in Japanese yen. As a result, the Group's currency risk is limited, and the Group did not use any derivative contracts to hedge against such risk as at 30 September 2020.

Indebtedness

As at 30 September 2020, the Group's interest-bearing bank borrowings amounted to JPY8,624.5 million, mainly of which were denominated in Japanese yen and carry interest at variable rates. All of such borrowings were unsecured and payable within one year. The effective interest rate for the balance of the Group's interest-bearing bank borrowings as at 30 September 2020 ranged from 0.33% to 1.00%.

Gearing Ratio

The Group's gearing ratio is calculated by dividing (i) the sum of interest-bearing bank borrowings and lease liabilities by (ii) total equity. As at 30 September 2020, the Group's gearing ratio was 53.9% (As at 31 March 2020 the Group's gearing ratio was 50.1%).

Management Discussion and Analysis

Financial review (continued)

Capital Expenditures

The Group's capital expenditures for the six months ended 30 September 2020 amounted to JPY401.3 million, which was used primarily to purchase plant machinery and equipments, office equipments and leasehold improvement. In the six months ended 30 September 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 30 September 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 30 September 2020.

Material Acquisitions and Future Plans for Major Investment

During the six months ended 30 September 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.

Use of Proceeds from the Global Offering

The Company was listed on The Stock Exchange of Hong Kong Limited on 6 October 2016. The net proceeds from the Company's global offering amounted to JPY16,798.0 million, which are intended to be applied in compliance with the intended use of proceeds as set out in the section headed "Net Proceeds from the Global Offering" in the Company's Announcement of Offer Price and Allotment Results dated 5 October 2016.

Management Discussion and Analysis

Financial review (continued)

Use of Proceeds from the Global Offering (continued)

The following table sets forth the status of the use of proceeds from the global offering⁽¹⁾:

Intended use of proceeds	Percentage of intended use of proceeds (%)	Intended use of proceeds from the global offering (In JPY millions)	Percentage of used amount as at 30 September 2020 (%)	Percentage of unused balance as at 30 September 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	13.0	–	N/A
Repayment of interest-bearing bank borrowings	17.3	2,906	17.1	0.2	From 1 April 2019 to 31 March 2021
Providing funding for working capital and other general corporate purposes	10.1	1,697	10.1	–	N/A
Total	100.0	16,798	70.4	29.6	

Notes:

- (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 at the date of this report, the Group had not identified, committed to or entered into negotiations with any acquisition targets for its use of net proceeds from the global offering; hence it has no specific expected timeframe for fully utilizing such proceeds. The Group 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 its growth strategies.

Management Discussion and Analysis

Financial review *(continued)*

Use of Proceeds from the Global Offering *(continued)*

As at 30 September 2020, the unused balance of the proceeds from the global offering of approximately JPY4,972.2 million are currently deposited with creditworthy banks with no recent history of default.

Events after the Reporting Period

The Board has declared the payment of an interim dividend of JPY1.5 per share, amounting to approximately a total of JPY908.5 million for the six months ended 30 September 2020 (the “**2020/2021 Interim Dividend**”), representing approximately 7.0% of the Group’s distributable profits as at 30 September 2020.

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 : JPY106.90. 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.

Financial information

The financial information set out below in this report represents an extract from the interim condensed consolidated financial statements, which is unaudited but has been reviewed by the Company’s independent auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, and by the Audit Committee.

Other Information

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

As at 30 September 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Interests in the Company

Name of Director/ Chief Executive	Capacity/Nature of interest	Number of Shares or underlying Shares interested ⁽¹⁾	Approximate percentage of interest ⁽⁶⁾
Mr. Liu Jianguo ⁽²⁾	Founder and the sole beneficiary of a trust/Interest of controlled corporation	233,560,525(L)	38.72%
	Beneficial owner	952,250(L)	
		234,512,775(L)	
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 233,560,525 Shares. As Mr. Liu Jianguo is the founder and the sole beneficiary of the trust as well as the sole director of Kouunn Holdings Limited, by virtue of the SFO, Mr. Liu is deemed to be interested in the Shares held by Kouunn Holdings Limited. Mr. Liu also directly held 666,575 Shares and was interested in 285,675 restricted share units (the "**RSU**'s) granted to him under the RSU Scheme entitling him to receive 285,675 Shares upon vesting.
- (3) Mr. Ito Yasuki directly held 108,856 Shares and was interested in 228,696 RSUs granted to him under the RSU Scheme entitling him to receive 228,696 Shares upon vesting.
- (4) Mr. Murai Yuji directly held 183,468 Shares and was interested in 182,988 RSUs granted to him under the RSU Scheme entitling him to receive 182,988 Shares upon vesting.
- (5) Mr. Zuo Jun directly held 254,020 Shares.
- (6) The calculation is based on the total number of 605,642,500 Shares in issue as at 30 September 2020.

Other Information

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

Interests in Associated Corporation of the Company

Name of Director	Name of associated corporation	Capacity/Nature of interest	Number of shares held	Percentage of the issued share capital
Mr. Liu Jianguo	Kouunn Holdings Limited	Founder and sole beneficiary of a trust	1,000	100%

Save as disclosed above, as at 30 September 2020, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 September 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	233,560,525(L)	38.56%
Dazzling Coast Limited ⁽⁴⁾	Interest of controlled corporation	233,560,525(L)	38.56%
Prize Ray Limited ⁽⁴⁾	Interest of controlled corporation	233,560,525(L)	38.56%
Vistra Trust (Hong Kong) Limited ⁽⁴⁾	Trustee	233,560,525(L)	38.56%
Ms. Huang Wenhuan (黃文歡) ⁽³⁾	Interest of spouse	234,512,775(L)	38.72%
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%
Gold Genius Development Limited ⁽²⁾⁽⁷⁾	Person having a security interest in Shares	42,000,000(L)	6.93%
Splendid Steed Investments Limited ⁽⁷⁾	Interest of controlled corporation	42,000,000(L)	6.93%
Mr. Ma Jianrong ⁽⁷⁾	Interest of controlled corporation	42,000,000(L)	6.93%
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%

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

Notes:

- (1) The letter "L" denotes the person's long position in such Shares or underlying Shares.
- (2) 103,000,000 and 42,000,000 Shares held by Kouunn Holdings Limited were pledged in favour of Yuanta Commercial Bank Co., Ltd. and Gold Genius Development Limited, respectively.
- (3) Ms. Huang Wenhuan (黃文歡) is the wife of Mr. Liu Jianguo and, by virtue of the SFO, is deemed to be interested in the Shares and the underlying Shares in which Mr. Liu was interested.
- (4) Vistra Trust (Hong Kong) Limited ("**Vistra Trust**") is the Trustee of the trust established by Mr. Liu Jianguo who is also the sole beneficiary of the trust. Vistra Trust holds the entire issued share capital of Dazzling Coast Limited ("**Dazzling**"), which in turn holds the entire share capital of Prize Ray Limited ("**Prize Ray**"), which holds the entire share capital of Kouunn Holdings Limited, which beneficially owned 233,560,525 Shares. By virtue of the SFO, Mr. Liu, Vistra Trust, Dazzling and Prize Ray are deemed to be interested in the same parcel of Shares held by Kouunn Holdings Limited.
- (5) Fosun Industrial Holdings Limited (復星產業控股有限公司) was a wholly-owned subsidiary of Fosun International Limited ("**FIL**"). FIL was 71.14% held by Fosun Holdings Limited ("**FHL**"). Fosun International Holdings Ltd. ("**FIHL**") was the beneficial owner of all issued shares in FHL and was in turn owned as to 85.29% by Mr. Guo Guangchang (郭廣昌). By virtue of the SFO, FIL, FHL, FIHL and Mr. Guo Guangchang (郭廣昌) were deemed to be interested in the same parcel of Shares held by Fosun Industrial Holdings Limited (復星產業控股有限公司).
- (6) Yuanta Financial Holding Co., Ltd. was interested in the 103,000,000 Shares held by Yuanta Commercial Bank Co., Ltd., which it controlled 100%. Yuanta Commercial Bank Co., Ltd. had a security interest in 103,000,000 Shares pledged by Kouunn Holdings Limited in its favour.
- (7) Mr. Ma Jianrong holds the entire issued share capital of Splendid Steed Investments Limited, which in turn holds the entire share capital of Gold Genius Development Limited, which had a security interest in 42,000,000 Shares pledged by Kouunn Holdings Limited in its favour. By virtue of the SFO, Mr. Ma Jianrong and Splendid Steed Investments Limited are deemed to be interested in the same parcel of Shares held by Gold Genius Development Limited.
- (8) These Shares were held by Chia Tai Primrose Holdings Limited (正大平樂控股有限公司) which was 100% controlled by Chia Tai Giant Far Limited (正大鉅發有限公司) ("**CGTF**"). CGTF was 100% controlled by CT Bright Group Company Limited (正大光明集團有限公司) ("**CTBG**"). CTBG was 100% controlled by CPG Overseas Company Limited which was in turn 100% controlled by Charoen Pokphand Group Company Limited.
- (9) The calculation is based on the total number of 605,642,500 Shares in issue as at 30 September 2020.

Other Information

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 Group (the “**RSU Eligible Persons**”) for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. The board of Directors of the Company (the “**Board**”) selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion. The RSU Scheme will be valid and effective for a period of ten years from the date of the first grant of the RSUs, being 20 October 2015. As of 30 September 2020, the remaining life of the RSU Scheme is approximately five years and one month. The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of Shares held or to be held by the trustee for the RSU Scheme for the purpose of the RSU Scheme from time to time. There is no maximum entitlement for each RSU Eligible Person under the rules of the RSU Scheme. Further details of the principal terms of the RSU Scheme are set out in the Prospectus.

The Company has appointed The Core Trust Company Limited (the “**RSU Trustee**”) as the trustee to assist in the administration of the RSU Scheme. All the Shares underlying the RSUs granted and to be granted under the RSU Scheme will be transferred, allotted or issued to Taisai Holdings Ltd. (the “**RSU Nominee**”), a company indirectly wholly-owned by the RSU Trustee, which, as of 30 September 2020, held (as the RSU Nominee) 4,153,328 Shares underlying the RSUs granted under the RSU Scheme for the benefit of RSU Eligible Persons pursuant to the RSU Scheme.

As of 30 September 2020, RSUs representing 4,153,328 underlying Shares have been granted to 120 participants in the RSU Scheme pursuant to the RSU Scheme. 3 of the participants in the RSU Scheme are Directors, 2 are directors of the Company’s subsidiaries, 2 of the participants in the RSU Scheme are members of the senior management of the Company and 2 are executive managers of the subsidiaries of the Company.

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

Restricted Share Unit Scheme (continued)

Details of the RSUs granted under the RSU Scheme at the beginning and end of, and movements in the RSUs during, the six months ended 30 September 2020 are set out below:

Name of grantee of RSU	Position held with the Group	Number of Shares represented by RSUs at 1 April 2020	date of grant	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Number of Shares represented by RSUs at 30 September 2020
------------------------	------------------------------	--	---------------	---------------------------	-----------------------------	-----------------------------	--------------------------	---

Directors of the Company

Liu Jianguo	Chairman of the Board, President and Executive Director	285,675	3 November 2015	—	—	—	—	285,675
Ito Yasuki	Executive Director, Chief Marketing Officer and President of Japan Operations	133,341	20 October 2015	—	—	—	—	133,341
		95,355	31 May 2016	—	—	—	—	95,355
Murai Yuji	Executive Director and Chief Sales Officer	144,768	20 October 2015	—	—	—	—	144,768
		38,220	31 May 2016	—	—	—	—	38,220

Other Information

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 2020	date of grant	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Number of Shares represented by RSUs at 30 September 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		243,188	20 October 2015	—	—	—	—	243,188
2 other executive managers of the subsidiaries of the Company		762,060	3 November 2015	—	—	—	—	762,060
		152,100	31 May 2016	—	—	—	—	152,100
Other employees of the Group								
111 other employees of the Group		1,656,759	20 October 2015	—	—	—	(167,115)	1,489,644
		76,245	3 November 2015	—	—	—	—	76,245
		159,198	6 October 2017	—	—	—	—	159,198
Total		3,746,909		—	—	—	(167,115)	3,579,794

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

Restricted Share Unit Scheme (continued)

No exercise price is required for the exercise of the RSUs granted to the participants under the RSU Scheme as referred to in the above. The participants shall serve the exercise notice within three (3) months after receiving the vesting notice. Subject to the vesting conditions, the RSUs granted to the participants during the years ended 31 March 2016 and 2017 under the RSU Scheme shall be vested in accordance with the vesting schedule as follows:

- (i) as to 40% on the date on which the shares of the Company are listed on The Stock Exchange of Hong Kong Limited;
- (ii) as to 30% on 30 April 2018 or the date on which the Company publishes its annual result for the year ended 31 March 2018 (whichever is earlier); and
- (iii) as to 30% on 30 April 2021.

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 April 2021.

Post-IPO Share Option Scheme

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

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

Other Information

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

Post-IPO Share Option Scheme (continued)

No options granted under the Post-IPO Share Option Scheme may be exercised more than 10 years after the date of grant. Subject to the terms of grant of any option, an option granted may be exercised at any time during the option period and in accordance with the vesting schedule and other terms specified in the offer. Further details of the principal terms of the Post-IPO Share Option Scheme are set out in the Prospectus.

During the period from 18 September 2016 to 30 September 2020, no option had been granted or agreed to be granted by the Company pursuant to the Post-IPO Share Option Scheme.

Purchase, sale or redemption of listed securities

During the six months ended 30 September 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Interim dividend

The Board has declared the payment of an interim dividend of JPY1.5 per share for the six months ended 30 September 2020, amounting to approximately a total of JPY908.5 million, representing approximately 7.0% of the Group's distributable profits as at 30 September 2020, to its shareholders whose names appear on the register of members of the Company on Monday, 14 December 2020. The interim dividend will be paid on Monday, 28 December 2020. The interim dividend for the six months ended 30 September 2019 amounted to JPY1,000 million (JPY1.64 per share).

The interim dividend has been declared in Japanese Yen and will be paid in Hong Kong dollars, the exchange rate of which will be calculated based on the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its middle rate of exchange as at the record date for determining such dividend entitlement.

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

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

Compliance with the corporate governance code

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). During the six months ended 30 September 2020, the Company has complied with all applicable code provisions as set out in the CG Code save for the deviation from code provision A.2.1.

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. The positions of the chairman and president of the Company are both held by Mr. Liu Jianguo. With the assistance of Mr. Ito Yasuki and Mr. Zuo Jun, the respective presidents of Japan operations and China operations overseeing the Group's business in Japan and China, the Board believes that this arrangement would allow for effective and efficient planning and implementation of business decisions and strategies under the strong and consistent leadership and should be beneficial to the management and development of the Group's business.

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

Model code for securities transactions by directors

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

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Company's own code of conduct regarding directors' securities transactions throughout the six months ended 30 September 2020.

Audit committee

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

The Audit Committee has reviewed and discussed the unaudited interim results for the six months ended 30 September 2020 and this interim report.

Other Information

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

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

1. Mr. Yang Xiaoping (楊小平), non-executive Director of the Company, retired as a non-executive director of 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), with effect from 19 June 2020; and Mr. Yang ceased to act 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 July 2020.
2. Mr. Lu Pochin Christopher (盧伯卿), independent non-executive Director of the Company, was appointed as an independent non-executive director and chairman of the audit committee of Weibo Corporation (新浪微博公司), a leading social media in China and listed on NASDAQ (Stock Code: WB), with effect from 13 August 2020.

Use of proceeds from the Global Offering

The Company was listed on the Stock Exchange on 6 October 2016. The net proceeds from the Company's global offering amounted to JPY16,798.0 million, which are intended to be applied in compliance with the intended use of proceeds as set out in the section headed "Net Proceeds from the Global Offering" in the Company's Announcement of Offer Price and Allotment Results dated 5 October 2016. Up to 30 September 2020, the Company utilised approximately 70.4%, or JPY11,825.8 million of the net proceeds from the global offering. For details on the percentage of used amount and unused balance of each intended use of proceeds as of 30 September 2020, see "Management Discussion and Analysis — Financial Review — Use of Proceeds from the Global Offering."

As of 30 September 2020, the unused balance of the proceeds from the global offering of approximately JPY4,972.2 million are currently deposited with creditworthy banks with no recent history of default. In the rest of 2020 and the upcoming years, the Group will continue to utilise the net proceeds from the global offering for purposes consistent with those set out in the section headed "Net Proceeds from the Global Offering" in the Company's Announcement of Offer Price and Allotment Results dated 5 October 2016.

Report on Review of Interim Condensed Consolidated Financial Statements



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

To the board of directors of Honma Golf Limited

(Incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 47 to 80, which comprises the condensed consolidated statement of financial position of Honma Golf Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as at 30 September 2020 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “*Interim Financial Reporting*” (“**IAS 34**”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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



Report on Review of Interim Condensed Consolidated Financial Statements

Conclusion

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

Ernst & Young

Certified Public Accountants

Hong Kong

27 November 2020

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 September 2020

	Notes	FOR THE SIX MONTHS ENDED	
		30 SEPTEMBER	
		2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
Revenue	4	9,052,973	10,590,973
Cost of sales		<u>(4,418,599)</u>	<u>(5,330,135)</u>
Gross profit		4,634,374	5,260,838
Other income and gains	4	362,048	36,652
Selling and distribution expenses		(4,319,244)	(4,627,977)
Administrative expenses		(832,987)	(691,916)
Other expenses		(244,568)	(519,534)
Finance costs	5	(39,108)	(28,476)
Finance income		8,109	59,680
LOSS BEFORE TAX	6	(431,376)	(510,733)
Income tax (expense)/credit	7	<u>(372,149)</u>	<u>459,495</u>
LOSS FOR THE PERIOD		<u>(803,525)</u>	<u>(51,238)</u>
Attributable to:			
Owners of the parent		(803,534)	(51,250)
Non-controlling interests		9	12
		<u>(803,525)</u>	<u>(51,238)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	8		
Basic and diluted			
– For loss for the period (JPY)		<u>(1.33)</u>	<u>(0.08)</u>

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2020

	Note	FOR THE SIX MONTHS ENDED	
		2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
LOSS FOR THE PERIOD		<u>(803,525)</u>	<u>(51,238)</u>
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		<u>28,763</u>	<u>(5,621)</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		<u>28,763</u>	<u>(5,621)</u>
Other comprehensive income that will not be reclassified to profit in subsequent periods:			
Defined benefit plans:			
Remeasurement gains	17	<u>21,323</u>	24,272
Income tax effect		<u>-</u>	<u>(8,724)</u>
		<u>21,323</u>	15,548
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		<u>1,437</u>	2,012
Income tax effect		<u>(410)</u>	<u>(53)</u>
		<u>1,027</u>	1,959
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		<u>22,350</u>	<u>17,507</u>

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2020

	Note	FOR THE SIX MONTHS ENDED	
		30 SEPTEMBER	
		2020	2019
		(Unaudited)	(Unaudited)
		(JPY' 000)	(JPY' 000)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		51,113	11,886
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(752,412)	(39,352)
Attributable to:			
Owners of the parent		(752,421)	(39,364)
Non-controlling interests		9	12
		(752,412)	(39,352)

Interim Condensed Consolidated Statement of Financial Position

30 September 2020

	Notes	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
NON-CURRENT ASSETS			
Property, plant and equipment	10	2,580,124	2,634,443
Right-of-use assets		1,809,969	1,897,674
Freehold land	11	1,940,789	1,940,789
Intangible assets		255,154	293,850
Finance lease receivables		74,551	86,953
Other non-current assets		871,829	828,698
Deferred tax assets		1,452,787	1,502,459
Total non-current assets		8,985,203	9,184,866
CURRENT ASSETS			
Inventories	12	10,067,947	9,589,965
Trade and bills receivables	13	5,403,643	8,391,262
Prepayments, deposits and other receivables		649,449	1,238,129
Due from a related party	21(c)	14,849	–
Finance lease receivables		20,412	20,302
Cash and cash equivalents	14	11,202,593	10,472,793
Total current assets		27,358,893	29,712,451
CURRENT LIABILITIES			
Trade payables	15	1,704,706	2,497,969
Other payables and accruals		1,778,931	2,122,465
Interest-bearing bank borrowings	16	8,624,494	8,600,000
Lease liabilities		878,773	837,912
Income tax payable		1,677,113	1,201,467
Total current liabilities		14,664,017	15,259,813
NET CURRENT ASSETS		12,694,876	14,452,638
TOTAL ASSETS LESS CURRENT LIABILITIES		21,680,079	23,637,504

Interim Condensed Consolidated Statement of Financial Position

30 September 2020

	Notes	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
NON-CURRENT LIABILITIES			
Net employee defined benefit liabilities	17	814,554	904,809
Lease liabilities		1,071,442	1,205,404
Deferred tax liabilities		90,137	196,902
Other non-current liabilities		94,573	66,592
		<hr/>	<hr/>
Total non-current liabilities		2,070,706	2,373,707
		<hr/>	<hr/>
Net assets		19,609,373	21,263,797
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	18	153	153
Reserves		19,654,910	21,309,343
		<hr/>	<hr/>
		19,655,063	21,309,496
Non-controlling interests		(45,690)	(45,699)
		<hr/>	<hr/>
Total equity		19,609,373	21,263,797
		<hr/>	<hr/>

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2020

	Attribute to owners of the parent									
	Share capital (JPY' 000) Note 18	Surplus reserve (JPY' 000) *	Exchange translation reserve (JPY' 000) *	Equity-settled share-based payment reserve (JPY' 000) Note 19*	Fair value reserve (JPY' 000) *	Share Premium (JPY' 000) *	Retained profits (JPY' 000) *	Total (JPY' 000)	Non-controlling interests (JPY' 000)	Total equity (JPY' 000)
At 1 April 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
(Loss)/profit for the period	-	-	-	-	-	-	(803,534)	(803,534)	9	(803,525)
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	28,763	-	-	-	-	28,763	-	28,763
Remeasurement gains on defined benefit plans	-	-	-	-	-	-	21,323	21,323	-	21,323
Gain on equity instruments at fair value through other comprehensive income, net of tax	-	-	-	-	1,027	-	-	1,027	-	1,027
Total comprehensive loss for the period	-	-	28,763	-	1,027	-	(782,211)	(752,421)	9	(752,412)
Dividends declared	-	-	-	-	-	-	(902,012)	(902,012)	-	(902,012)
At 30 September 2020 (unaudited)	<u>153</u>	<u>1,038,848</u>	<u>222,109</u>	<u>466,546</u>	<u>2,316</u>	<u>16,584,008</u>	<u>1,341,083</u>	<u>19,655,063</u>	<u>(45,690)</u>	<u>19,609,373</u>

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2020

	Attribute to owners of the parent									
	Share capital (JPY'000) Note 18	Surplus reserve (JPY'000) *	Exchange translation reserve (JPY'000) *	Equity-settled share-based payment reserve (JPY'000) Note 19*	Fair value reserve (JPY'000) *	Share Premium (JPY'000) *	Retained profits (JPY'000) *	Total (JPY'000)	Non-controlling interests (JPY'000)	Total equity (JPY'000)
At 1 April 2019	154	1,038,566	141,224	467,153	963	16,798,289	10,773,832	29,220,181	(45,649)	29,174,532
(Loss)/profit for the period	-	-	-	-	-	-	(51,250)	(51,250)	12	(51,238)
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	(5,621)	-	-	-	-	(5,621)	-	(5,621)
Remeasurement gains on defined benefit plans	-	-	-	-	-	-	15,548	15,548	-	15,548
Gain on equity instruments at fair value through other comprehensive income, net of tax	-	-	-	-	1,959	-	-	1,959	-	1,959
Total comprehensive loss for the period	-	-	(5,621)	-	1,959	-	(35,702)	(39,364)	12	(39,352)
Equity-settled share-based payment expenses	-	-	-	(607)	-	-	-	(607)	-	(607)
Dividends declared	-	-	-	-	-	-	(6,129,187)	(6,129,187)	-	(6,129,187)
At 30 September 2019 (unaudited)	<u>154</u>	<u>1,038,566</u>	<u>135,603</u>	<u>466,546</u>	<u>2,922</u>	<u>16,798,289</u>	<u>4,608,943</u>	<u>23,051,023</u>	<u>(45,637)</u>	<u>23,005,386</u>

* These reserve accounts comprise the consolidated reserves of JPY19,654,910,000 as at 30 September 2020 (30 September 2019: JPY23,050,869,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2020

	Notes	FOR THE SIX MONTHS ENDED	
		2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(431,376)	(510,733)
Adjustments for:			
Provision for impairment of property, plant and equipment	6	3,737	–
Write-down of inventories to net realizable value	6	238,103	115,203
Provision for/(reversal of) impairment of trade receivables	6	129,701	(40,393)
Net losses on disposal of items of property, plant and equipment	6	16,321	4,299
Net losses on disposal of right-of-use assets	6	385	11,790
Depreciation of property, plant and equipment	6	327,183	219,801
Depreciation of right-of-use assets	6	450,383	384,838
Amortisation of intangible assets	6	57,122	60,343
Defined benefit plan expenses	17	42,096	40,475
Equity-settled share-based payment expenses	19	–	(607)
Foreign exchange gains		159,167	331,161
Finance costs	5	39,108	28,476
Finance income		(8,109)	(59,680)
		1,023,821	584,973
Increase in inventories		(716,085)	(656,804)
Decrease in trade and bills receivables		2,857,918	1,056,675
Decrease/(increase) in prepayments, deposits and other receivables		188,400	(125,805)
Increase in an amount due from a related party		(14,849)	–
Increase in other non-current assets		(41,694)	(168,512)
(Decrease)/increase in trade payables		(793,263)	894,548
Decrease in other payables and accruals		(267,330)	(314,060)
Increase in an amount due to a related party		–	12,713
Increase in other non-current liabilities		27,981	292
Payment of the defined benefit obligation	17	(111,028)	(67,100)
		2,153,871	1,216,920
Cash generated from operations		2,153,871	1,216,920
Interest received		8,109	59,680
Interest paid		(39,108)	(28,476)
Japan income tax refund/(paid)		431,571	(791,999)
Overseas income tax refund/(paid)		21,915	(53,677)
		2,576,358	402,448
Net cash flows generated from operating activities		2,576,358	402,448

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2020

	Notes	FOR THE SIX MONTHS ENDED	
		2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		(401,290)	(896,119)
Proceeds from disposal of items of property, plant and equipment and intangible assets		7,155	19,454
Decrease in finance lease receivables		10,026	3,735
Net cash flows used in investing activities		(384,109)	(872,930)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank borrowings		50,824,494	35,300,000
Repayment of bank borrowings		(50,800,000)	(33,500,000)
Principal portion of lease payments		(451,465)	(388,422)
Dividends paid		(902,012)	(5,091,686)
Net cash flows used in financing activities		(1,328,983)	(3,680,108)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		863,266	(4,150,590)
Cash and cash equivalents at beginning of period		10,472,793	14,674,123
Effect of foreign exchange rate changes, net		(133,466)	(301,411)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	14	11,202,593	10,222,122
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	14	11,202,593	10,222,122

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

1. Corporate information

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

The Company is an investment holding company. The Company’s subsidiaries were principally engaged in the manufacture and sales of golf related products.

2.1 Basis of preparation

The interim condensed financial information for the six months ended 30 September 2020 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2020.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 March 2019, except for the adoption of the following revised International Financial Reporting Standards (“**IFRSs**”) for the first time for the current period’s financial information.

Amendments to IFRS 3

Amendments to IFRS 9, IAS 39 and IFRS 7

Amendments to IFRS 16

Amendments to IAS 1 and IAS 8

Definition of a Business

Interest Rate Benchmark Reform

Covid-19-Related Rent Concessions (early adopted)

Definition of Material

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

2.2 Changes in accounting policies and disclosures (continued)

Other than as explained below regarding the impact of Amendments to IFRS 16 *Covid-19-Related Rent Concessions*, the revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of Amendments to IFRS 16 are described below:

Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 September 2020, certain monthly lease payments for the leases of the Group's office buildings and retail stores have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 April 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended 30 September 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of JPY28,637,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 September 2020.

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

3. Operating segment information

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

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

	For the six months ended 30 September	
	2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
Japan	1,855,759	4,594,454
Korea	3,115,910	2,665,441
China (including Hong Kong and Macau)	2,353,412	1,584,299
North America	305,182	490,429
Europe	409,994	489,693
Rest of the world	1,012,716	766,657
	9,052,973	10,590,973

Information about major customers

For the six months ended 30 September 2020, revenue of approximately JPY2,572,348,993 was derived from sales to a single customer (six months ended 30 September 2019: JPY2,277,638,604).

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

4. Revenue, other income and gains

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

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

	For the six months ended 30 September	
	2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
Revenue		
Sale of goods	8,995,210	10,535,583
Rendering of services	57,763	55,390
	<u>9,052,973</u>	<u>10,590,973</u>
Other income and gains		
Compensation income	277,189	–
Government grants	58,461	–
Rental income	622	914
Others	25,776	35,738
	<u>362,048</u>	<u>36,652</u>

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

4. Revenue, other income and gains (continued)

The disaggregation of the Group's revenue from contracts with customers, including the sale of goods and rendering of services above, for the six months ended 30 September 2020 and 2019, respectively are as follows:

	For the six months ended 30 September	
	2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
Types of goods or services		
Sale of golf related products	8,995,210	10,535,583
Rendering of services relating to golf related products	57,763	55,390
	<u>9,052,973</u>	<u>10,590,973</u>
Total revenue from contracts with customers	<u>9,052,973</u>	<u>10,590,973</u>
Timing of revenue recognition		
Goods transferred at a point in time	8,995,210	10,535,583
Services transferred over time	57,763	55,390
	<u>9,052,973</u>	<u>10,590,973</u>
Total revenue from contracts with customers	<u>9,052,973</u>	<u>10,590,973</u>

The disaggregation of the Group's revenue based on the geographical region for the six months ended 30 September 2020 is included in note 3.

5. Finance costs

	For the six months ended 30 September	
	2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
Interest on bank borrowings	18,596	11,297
Interest on lease liabilities	20,512	17,179
	<u>39,108</u>	<u>28,476</u>
Total finance costs	<u>39,108</u>	<u>28,476</u>

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

6. Loss before tax

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

	Notes	For the six months ended	
		2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
Cost of inventories sold		4,385,193	5,286,239
Cost of service provided		33,406	43,896
Depreciation of property, plant and equipment	10	327,183	219,801
Depreciation of right-of-use assets		450,383	384,838
Amortisation of intangible assets		57,122	60,343
Research and development costs		139,641	161,452
Provision for impairment of property, plant and equipment		3,737	–
Provision for/(reversal of) impairment of trade receivables	13	129,701	(40,393)
Expense relating to short term leases and low-value assets		188,628	240,693
Auditors' remuneration		41,040	40,512
Employee benefit expense:			
Wages and salaries		1,836,132	1,952,895
Pension and social security costs		116,538	202,128
Defined benefit plan expenses	17	42,096	40,475
Employee benefits		233,066	273,710
Other benefits		124,125	142,017
Equity-settled share-based payment expenses	19	–	(607)
Foreign exchange losses, net		71,937	496,951
Write-down of inventories to net realizable value		238,103	115,203
Net losses on disposal of items of property, plant and equipment		16,321	4,299
Net losses on disposal of right-of-use assets		385	11,790

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

7. Income tax

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

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

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the six months ended 30 September 2020.

Pursuant to the rules and regulations of Japan, the subsidiary incorporated in Japan is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the aggregate effective statutory tax rates for these taxes were 30.62% for the six months ended 30 September 2020 (six months ended 30 September 2019: 30.62%).

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

During the six months ended 30 September 2020, the Company's subsidiary incorporated and operating in the United States is subject to a federal corporation income tax rate of 21% (six months ended 30 September 2019: 21%), as well as state tax at 8.84% (six months ended 30 September 2019: 8.84%).

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

	For the six months ended 30 September	
	2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
Current income tax – Hong Kong	422,440	335,453
Deferred tax	(50,291)	(794,948)
	<u>372,149</u>	<u>(459,495)</u>

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

8. Loss per share attributable to ordinary equity holders of the parent

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

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 September 2020 and 2019 in respect of a dilution as the Group had no potentially ordinary shares in issue during those periods.

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

	For the six months ended 30 September	
	2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>(803,534)</u>	<u>(51,250)</u>
	Number of shares	
	For the six months ended 30 September	
	2020 (' 000)	2019 (' 000)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>605,643</u>	<u>609,050</u>

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

9. Dividends

	For the six months ended 30 September	
	2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
Final declared – JPY1.50 per ordinary share (2019: JPY1.70)	902,012	1,037,501
Interim declared – Nil (2019: JPY8.21)	–	5,091,686
	<u>902,012</u>	<u>6,129,187</u>

During the period, the Company's shareholders approved 2020 proposed final dividend with a total amount of JPY902,012,000 (six months ended 30 September 2019: JPY1,037,501,000). The amount of the 2020 final dividend was calculated based on the number of shares of the Company as of 10 September 2020.

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

10. Property, plant and equipment

During the six months ended on 30 September 2020, the Group acquired items of property, plant and equipment with a cost of JPY306,914,000 (six months ended 30 September 2019: JPY834,189,000). Depreciation for items of property, plant and equipment was JPY327,183,000 during the period (six months ended 30 September 2019: JPY219,801,000). Assets with a net book value of JPY23,476,000 were disposed of by the Group during the six months ended 30 September 2020 (six months ended 30 September 2019: JPY23,753,000).

11. Freehold land

The carrying amounts of the Group's freehold land is JPY1,940,789,000 as at 30 September 2020 and 31 March 2020. The freehold land, which is located in Japan, is owned by Honma Golf Co., Ltd., a limited liability company incorporated under the laws of Japan.

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

12. Inventories

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Raw materials	2,038,671	2,200,698
Work in progress	1,057,328	1,105,279
Finished goods	<u>8,032,785</u>	<u>7,106,722</u>
	11,128,784	10,412,699
Provision for inventories	<u>(1,060,837)</u>	<u>(822,734)</u>
	<u><u>10,067,947</u></u>	<u><u>9,589,965</u></u>

13. Trade and bills receivables

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Trade receivables	6,212,240	8,887,817
Bills receivable	<u>77,769</u>	<u>260,552</u>
	6,290,009	9,148,369
Impairment of trade receivables	<u>(886,366)</u>	<u>(757,107)</u>
	<u><u>5,403,643</u></u>	<u><u>8,391,262</u></u>

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

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

13. Trade and bills receivables (continued)

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

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Within 1 month	2,814,216	4,193,113
Over 1 and within 3 months	353,318	1,195,788
Over 3 and within 12 months	1,782,338	1,490,551
Over 1 year	376,002	1,251,258
	<u>5,325,874</u>	<u>8,130,710</u>

14. Cash and cash equivalents

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Cash and bank balances	<u>11,202,593</u>	<u>10,472,793</u>

15. Trade payables

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Trade payables	<u>1,704,706</u>	<u>2,497,969</u>

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

15. Trade payables (continued)

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

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Within 3 months	1,684,319	2,373,238
Over 3 months	20,387	124,731
	<u>1,704,706</u>	<u>2,497,969</u>

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

16. Interest-bearing bank borrowings

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Current Bank loans – unsecured	<u>8,624,494</u>	<u>8,600,000</u>
Analysed into:		
Bank loans repayable:		
Within one year	<u>8,624,494</u>	<u>8,600,000</u>

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

16. Interest-bearing bank borrowings (continued)

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

	30 September 2020 (Unaudited)	31 March 2020 (Audited)
Effective interest rates	<u>0.33%-1.00%</u>	<u>0.33%-0.51%</u>

As at 30 September 2020 and 31 March 2020, there were no properties pledged to secure bank borrowings granted to the Group.

17. Employee defined benefit plans

Net employee defined benefit liability:

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Retirement benefit plan	<u>814,554</u>	<u>904,809</u>

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

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

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

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

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

17. Employee defined benefit plans (continued)

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

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

	30 September 2020 (Unaudited) (JPY' 000)	30 September 2019 (Unaudited) (JPY' 000)
Current service cost	40,738	38,706
Interest cost	1,358	1,769
Net benefit expenses	42,096	40,475
Recognised in cost of sales	13,468	12,949
Recognised in selling and distribution costs	14,145	13,600
Recognised in administrative expenses	14,483	13,926
	42,096	40,475

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

17. Employee defined benefit plans (continued)

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

Changes for the six months ended 30 September 2020 in the defined benefit obligation and fair value of plan assets:

	1 April 2020 (JPY' 000)	Service cost (JPY' 000)	Net interest (JPY' 000)	Sub-total included in profit or loss (JPY' 000) (note 6)	Benefits paid (JPY' 000)	Return on plan assets (JPY' 000)	Actuarial changes arising from changes in financial assumptions (JPY' 000)	Sub-total included in other comprehensive income (JPY' 000)	30 September 2020 (JPY' 000)
Defined benefit obligation	2,860,169	40,738	4,449	45,187	(357,508)	-	151,647	151,647	2,699,495
Fair value of plan assets	(1,955,360)	-	(3,091)	(3,091)	246,480	(172,970)	-	(172,970)	(1,884,941)
Benefit liability	904,809	40,738	1,358	42,096	(111,028)	(172,970)	151,647	(21,323)	814,554

Changes for the six months ended 30 September 2019 in the defined benefit obligation and fair value of plan assets:

	1 April 2019 (JPY' 000)	Service cost (JPY' 000)	Net interest (JPY' 000)	Sub-total included in profit or loss (JPY' 000) (note 6)	Benefits paid (JPY' 000)	Return on plan assets (JPY' 000)	Actuarial changes arising from changes in financial assumptions (JPY' 000)	Sub-total included in other comprehensive income (JPY' 000)	30 September 2019 (JPY' 000)
Defined benefit obligation	3,437,388	38,706	2,873	41,579	(130,261)	-	88	88	3,348,794
Fair value of plan assets	(2,140,185)	-	(1,104)	(1,104)	63,161	(24,360)	-	(24,360)	(2,102,488)
Benefit liability	1,297,203	38,706	1,769	40,475	(67,100)	(24,360)	88	(24,272)	1,246,306

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

17. Employee defined benefit plans (continued)

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

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Stocks	909,522	939,727
Bonds	776,761	796,943
General account of life insurance companies	143,316	140,101
Others	55,342	78,589
	<u>1,884,941</u>	<u>1,955,360</u>

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

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Method of allocating projected retirement benefits	Projected unit credit method	Projected unit credit method
Discount rate	0.32%	0.29%
Salary increase rate (aged based, on average)	1.90%	1.90%
Turnover rate (aged based, on average)	4.90%	4.90%
Mortality (Mortality Table published by Ministry of Health, Labour and Welfare dated on)	26 March 2015	26 March 2015

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

17. Employee defined benefit plans (continued)

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

Assumption	Change in assumption	Increase/(decrease) in defined benefit obligations	
		30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Discount rate	Increase by 0.5%	(121,321)	(113,827)
	Decrease by 0.5%	106,333	113,827

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

The average durations of the defined benefit plan obligation as at 30 September 2020 is 6.8 years (31 March 2020: 6.8 years).

The actuarial valuation showed that the market value of plan assets was JPY1,884,941,000 as at 30 September 2020 (31 March 2020: JPY1,955,360,000), and represented 70% (31 March 2020: 68%) of the defined benefit obligation that had accrued to qualifying employees. The deficiency of JPY814,554,000 as at 30 September 2020 (31 March 2020: JPY904,809,000) is expected to be cleared over the remaining service period.

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

18. Share capital

Issued capital (As of 30 September 2020 and as of 31 March 2020:

20,000,000,000 authorised shares of USD0.0000025 each,
605,642,500 ordinary shares in issue) USD

Equivalent to JPY

30 September 2020 (Unaudited)	31 March 2020 (Audited)
1,514	1,514
153,000	153,000

19. Share-based payment

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

2015 and 2016 RSU scheme

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

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 the 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 period ended 30 September 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 April 2021, which was accounted for as cancellation and modification of share-based payment.

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

19. Share-based payment (continued)

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 period ended 30 September 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 April 2021, which was accounted for as cancellation and modification of share-based payment.

The following RSUs were outstanding during the year ended 31 March 2020 and the six months ended 30 September 2020:

	For the six months ended 30 September 2020	For the year ended 31 March 2020
	Number of RSUs	Number of RSUs
At the beginning of the period	3,746,909	4,212,608
Forfeited during the period	(140,400)	(465,699)
At the end of the period	<u>3,606,509</u>	<u>3,746,909</u>

The Group reversed RSU expenses of JPY607,000 during the six months ended 30 September 2019 since the resignation of employees.

20. Capital commitments

At the end of the reporting period, the Group did not have any significant capital commitments (31 March 2020: Nil).

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

21. Related party transactions and balances

(a) Name and relationship

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

(b) Related party transactions

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

	For the six months ended 30 September	
	2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
Rental expense charged by related parties (note (i))		
Shanghai POVOS Enterprise (Group) Co., Ltd.	13,465	13,815

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

(c) Balances with related parties

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
	Due from a related party	
Shanghai POVOS Enterprise (Group) Co., Ltd.	14,849	-

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

21. Related party transactions and balances (continued)

(d) Compensation of key management personnel of the Group

	For the six months ended	
	30 September	
	2020 (Unaudited) (JPY' 000)	2019 (Unaudited) (JPY' 000)
Short term employee benefits	87,985	132,663
Pension scheme contributions	6,085	12,302
	<hr/>	<hr/>
Total compensation paid to key management personnel	94,070	144,965

22. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets – Debt instruments at amortised cost

	30 September	31 March
	2020 (Unaudited) (JPY' 000)	2020 (Audited) (JPY' 000)
Trade receivables	5,325,874	8,130,710
Cash and cash equivalents	11,202,593	10,472,793
Financial assets included in prepayments, deposits and other receivables	65,819	71,786
Due from a related party	14,849	–
Finance lease receivables	94,963	107,255
Other non-current assets	707,039	638,515
	<hr/>	<hr/>
	17,411,137	19,421,059

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

22. Financial instruments by category (continued)

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

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Bills receivables	<u>77,769</u>	<u>260,552</u>

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

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Equity instruments at fair value through other comprehensive income	<u>13,560</u>	<u>12,123</u>

Financial liabilities – at amortised cost

	30 September 2020 (Unaudited) (JPY' 000)	31 March 2020 (Audited) (JPY' 000)
Trade payables	1,704,706	2,497,969
Interest-bearing bank borrowings	8,624,494	8,600,000
Financial liabilities included in other payables and accruals	975,224	1,050,034
Lease liabilities	1,950,215	2,043,316
Financial liabilities included in other non-current liabilities	<u>15,462</u>	<u>1,233</u>
	<u>13,270,101</u>	<u>14,192,552</u>

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

23. Fair value and fair value hierarchy of financial instruments

Financial assets and liabilities not presented at their fair value on the interim condensed consolidated statements of financial position mainly represent cash and cash equivalents, trade 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 payables, interest-bearing bank borrowings, financial liabilities included in other payables and accruals and the current portion of lease liabilities. Their fair values are 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.

The fair values of rental deposits paid as lessee included in other non-current assets and rental deposits received as lessor included in other non-current liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed to be approximate to their carrying amounts.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments require the directors to make estimates about the expected future cash flows from future proceeds when the investments are realized and the fair values have been estimated to be the principal plus estimated interest income. The directors believe that the estimated fair values which are recorded in the interim condensed consolidated statements of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of each of the reporting periods.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the board of directors. At each reporting date, the corporate finance team analyzes the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the vice president responsible for finance. The valuation process and results are discussed with the board of directors once a year for annual financial reporting.

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

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

Fair value hierarchy

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

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

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

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

The Group did not have any financial liability measured at fair value as at 30 September 2020 (31 March 2020: Nil).

Assets measured at fair value:

As at 30 September 2020

Equity instruments at fair value through
other comprehensive income
Bills receivable

Level 1 (Unaudited) JPY' 000	Level 2 (Unaudited) JPY' 000	Level 3 (Unaudited) JPY' 000	Total (Unaudited) JPY' 000
13,460	–	100	13,560
–	77,769	–	77,769
<u>13,460</u>	<u>77,769</u>	<u>100</u>	<u>91,329</u>

Notes to Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2020

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

Assets measured at fair value: (continued)

As at 31 March 2020

	Level 1 (Audited) JPY'000	Level 2 (Audited) JPY'000	Level 3 (Audited) JPY'000	Total (Audited) JPY'000
Equity instruments at fair value through other comprehensive income	12,023	–	100	12,123
Bills receivable	–	260,552	–	260,552
	<u>12,023</u>	<u>260,552</u>	<u>100</u>	<u>272,675</u>

During the six months ended 30 September 2020, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (six months ended 30 September 2019: Nil).

24. Event after the reporting period

On 27 November 2020, the board of directors declared the payment of an interim dividend of JPY1.50 per ordinary share totaling approximately JPY908,464,000 for the six months ended 30 September 2020.

25. Approval of the interim condensed consolidated financial information

The interim condensed consolidated financial information was approved and authorized for issue by the board of directors on 27 November 2020.

HONMA