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Post Hearing Information Pack of

Honma Golf Limited

本間高爾夫有限公司

(Incorporated in the Cayman Islands with limited liability)

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Honma Golf Limited

本間高爾夫有限公司

(Incorporated in the Cayman Islands with limited liability)

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Number of [REDACTED] under the : [REDACTED] Shares (subject to the
[REDACTED] [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to adjustment)
Number of [REDACTED] : [REDACTED] Shares (subject to adjustment
and the [REDACTED])
Maximum [REDACTED] : HK\$[REDACTED] per [REDACTED], plus
brokerage of 1.0%, SFC transaction levy of
0.0027% and Stock Exchange trading fee of
0.005% (payable in full on application in
Hong Kong dollars and subject to refund)
Nominal value : US\$[REDACTED] per Share
Stock code : [REDACTED]

[REDACTED] and Sole Sponsor

Morgan Stanley

[REDACTED] and [REDACTED]

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[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

CONTENTS

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the [REDACTED].

There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set forth in “Risk Factors” of this document. You should read that section carefully before you decide to invest in the [REDACTED].

OVERVIEW

HONMA is one of the most prestigious and iconic brands in the golf industry, synonymous with intricate craftsmanship, dedication to performance excellence and distinguished product quality. We predominantly design, develop, manufacture and sell a comprehensive range of aesthetically-crafted and performance-driven golf clubs. To provide customers with a complete golf lifestyle experience, we also offer HONMA-branded golf balls, apparel, accessories and other related products. Founded in 1959, we have one of the longest histories among brands dedicated to golf currently in the market, and aspire to build a world-leading golf lifestyle company on the foundation of our craftsmanship heritage. Our brand has been further invigorated and strengthened in recent years after Chairman Liu acquired our company in 2010, and implemented new initiatives to broaden our product offerings and expand our market reach. We believe the iconic and premium status of our brand allows many of our products to command a pricing premium. Such pricing premium varies depending on products, with more high-end products generally commanding a larger premium over our competitors’ comparable products.



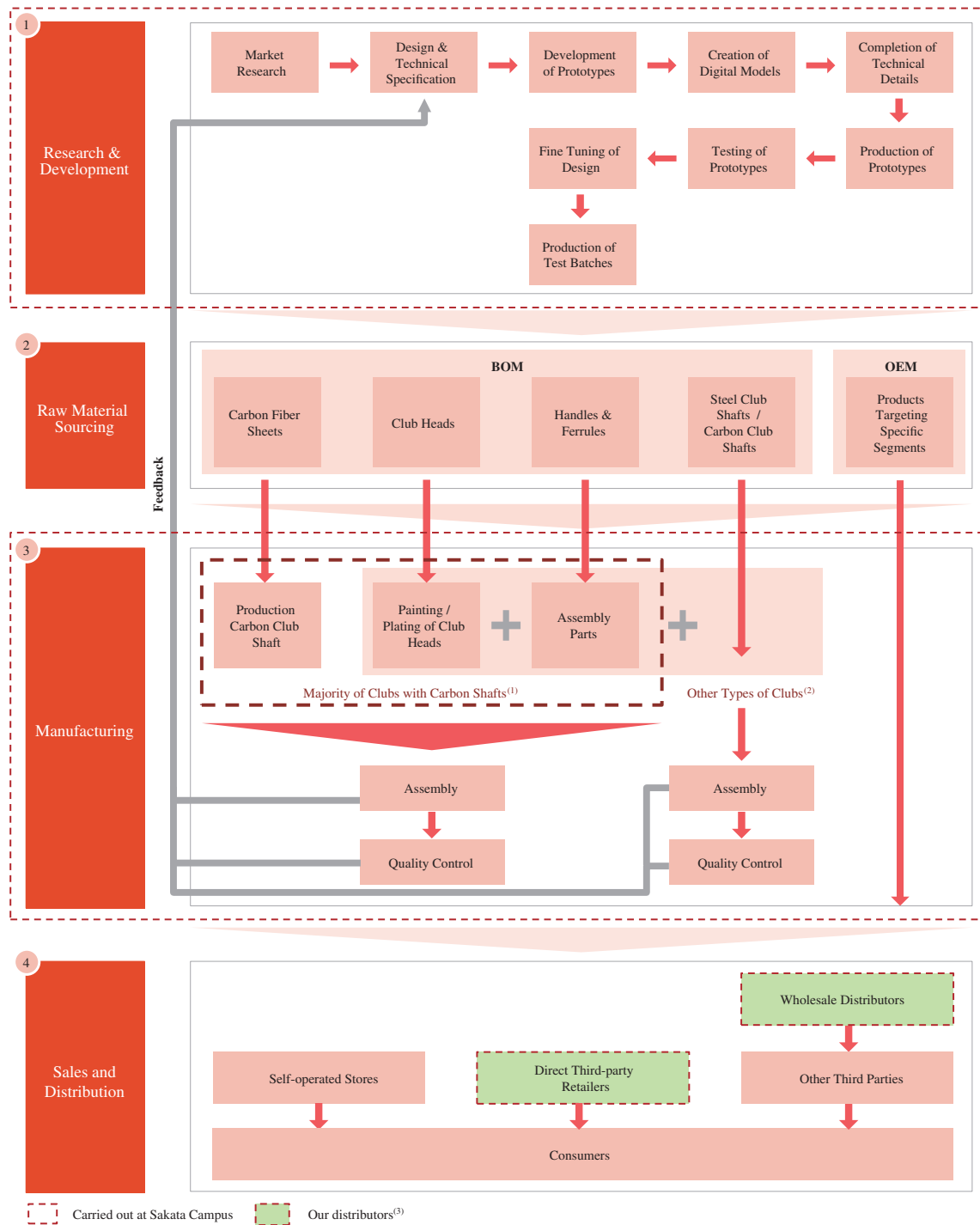
This photograph shows our master craftsmen at work. Our golf clubs are designed by master craftsmen, each with decades of experience and act as our culture carriers.

Our Business Model

We have a vertically integrated business model that provides us control over the most critical elements of the value chain, including design, development, production, marketing and sales and distribution. Our research and development functions and core production processes are centralized at our Sakata Campus, which allows us to create an environment that fosters creativity among our team members. We are the only major golf products company that possesses professional handcrafted techniques together with significant in-house manufacturing capabilities. We produce the vast majority of our carbon club shafts and assemble the vast majority of our golf clubs at our Sakata Campus. We have an extensive sales and distribution network that allows us to reach a broad customer base in our target markets. Our sales and distribution network consists of HONMA-branded self-operated stores as well as distributors. Our distributors include (a) third-party retailers to which we directly sell our products (each a “direct third-party retailer”), including sports megastores, and (b) wholesale distributors that on-sell our products to other third parties (“wholesale distributors”).

SUMMARY

Our business model is illustrated in the following diagram.



Notes:

- (1) We procure carbon fiber sheets to manufacture carbon shafts and produce a vast majority of carbon shaft clubs in-house together with other parts sourced from BOM suppliers.
- (2) We procure other types of shafts (including a limited number of carbon shafts) and assemble the procured parts to produce other types of clubs.
- (3) Our distributors include (a) direct third-party retailers, including sports megastores, and (b) wholesale distributors that on-sell our products to other third parties.

SUMMARY

Our Industry and Market Position

According to the Frost & Sullivan Report, from 2010 to 2015, the global golf products market has expanded steadily at a CAGR of 2.2%, reaching US\$11.8 billion in terms of retail sales value in 2015. This market is expected to grow at a slightly higher rate over the next several years with total market size reaching US\$13.3 billion in terms of retail sales value in 2019, representing a CAGR of 3.0% from 2015 to 2019, according to the same report. In terms of product breakdown, golf clubs constituted the largest market segment with US\$4.7 billion of retail sales in 2015, representing a 39.6% share of the overall golf products market.

According to the Frost & Sullivan Report, HONMA was the seventh largest golf products brand and sixth largest golf club brand in the world, with market shares of 2.7% and 5.7%, respectively, in terms of retail sales in 2015. Nonetheless, HONMA was by far the fastest growing brand within the top 10 brands as measured by year-on-year retail sales growth from 2014 to 2015, demonstrating the growing awareness of and interest in HONMA’s brand and products among consumers. As a testament to its prestigious stature, HONMA was also the number one brand for premium golf clubs in the world, with a market share of 22.6% in terms of retail sales in 2015. Premium golf clubs refer to woods sold above US\$700 per club and irons sold above US\$200 per club.

According to Frost & Sullivan, a key trend in the global golf club market over the next several years will be consumers’ increasing focus on product performance. We believe we are well positioned to capitalize on this market trend as a result of our dedication to innovation and quality.

Our Products

We offer customers a complete golf lifestyle experience through an extensive portfolio of HONMA-branded golf clubs, golf balls, apparel, accessories and other related products. The following table shows the revenue of our product groups by amount and as a percentage of our total revenue for the Track Record Period:

	Year ended March 31,								
	2014			2015			2016		
	¥	HK\$	%	¥	HK\$	%	¥	HK\$	%
	<i>(in thousands, except for percentages)</i>								
Golf clubs	13,274,424	1,006,401	84.5	15,608,625	1,183,368	84.3	18,852,732	1,429,320	84.3
Golf balls	84,965	6,442	0.5	338,181	25,639	1.8	419,891	31,834	1.9
Apparel, accessories and other related products ⁽¹⁾	2,354,068	178,473	15.0	2,578,286	195,473	13.9	3,096,138	234,734	13.8
Total	<u>15,713,457</u>	<u>1,191,316</u>	<u>100.0</u>	<u>18,525,092</u>	<u>1,404,480</u>	<u>100.0</u>	<u>22,368,761</u>	<u>1,695,888</u>	<u>100.0</u>

Note:

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

Sales of golf clubs comprise the majority of our revenue. We currently offer golf clubs mainly under four major product families, namely BERES, TOUR WORLD, Be ZEAL and G1X, each targeting specific consumer segments.

SUMMARY

The following table shows the gross profit and gross profit margin of our product groups for the Track Record Period.

	Year ended March 31,								
	2014			2015			2016		
	¥	HK\$	%	¥	HK\$	%	¥	HK\$	%
	<i>(in thousands, except for percentages)</i>								
Golf clubs	8,506,292	644,905	64.1	9,758,137	739,813	62.5	11,703,958	887,336	62.1
Golf balls	44,171	3,349	52.0	199,175	15,100	58.9	239,161	18,132	57.0
Apparel, accessories and other related products ⁽¹⁾ .	809,257	61,354	34.4	947,730	71,852	36.8	1,251,724	94,899	40.4
Total	<u>9,359,720</u>	<u>709,608</u>	<u>59.6</u>	<u>10,905,042</u>	<u>826,765</u>	<u>58.9</u>	<u>13,194,843</u>	<u>1,000,367</u>	<u>59.0</u>

Note:

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

Our Sales and Distribution Network

Our sales and distribution network consists of HONMA-branded self-operated stores as well as distributors. We develop and manage our sales and distribution network on a country-by-country basis to cater to the specific retail landscape and consumer demographics.

As of March 31, 2016, we had 86 HONMA-branded self-operated stores, the largest number of self-operated stores among major golf companies. Our self-operated stores provide a bespoke “HONMA shopping experience” to our customers and form an integral part of our business model. Our distributors consist of (a) direct third-party retailers and (b) wholesale distributors that on-sell our products to other third parties.

The following table sets forth revenue attributable to our self-operated stores and distributors by amount and as a percent of total revenue for the Track Record Period:

	Year ended March 31,								
	2014			2015			2016		
	¥	HK\$	%	¥	HK\$	%	¥	HK\$	%
	<i>(in thousands, except for percentages)</i>								
Self-operated stores	6,791,400	514,890	43.2	8,413,590	637,876	45.4	8,334,484	631,879	37.3
Distributors									
Direct third-party retailers ⁽¹⁾	5,482,628	415,665	34.9	6,048,205	458,545	32.7	8,410,387	637,634	37.6
Wholesale distributors	3,439,429	260,761	21.9	4,063,297	308,059	21.9	5,623,890	426,375	25.1
Distributors subtotal	<u>8,922,057</u>	<u>676,426</u>	<u>56.8</u>	<u>10,111,502</u>	<u>766,604</u>	<u>54.6</u>	<u>14,034,277</u>	<u>1,064,009</u>	<u>62.7</u>
Total	<u>15,713,457</u>	<u>1,191,316</u>	<u>100.0</u>	<u>18,525,092</u>	<u>1,404,480</u>	<u>100.0</u>	<u>22,368,761</u>	<u>1,695,888</u>	<u>100.0</u>

Note:

(1) Include sports megastores.

Going forward, we expect that sales to distributors (including both direct third-party retailers and wholesale distributors) will continue to increase as a portion of our total revenue as we plan to penetrate new markets by partnering with quality distributors and gradually shift focus towards a distributorship model in certain existing geographic markets.

SUMMARY

Our Global Presence

Our 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 attributable to each region by amount and as a percentage of total revenue for the Track Record Period.

	Year ended March 31,								
	2014			2015			2016		
	¥	HK\$	%	¥	HK\$	%	¥	HK\$	%
	<i>(in thousands, except for percentages)</i>								
Japan	9,099,791	689,901	57.9	9,705,131	735,795	52.3	11,889,359	901,392	53.2
Korea	1,932,702	146,528	12.3	2,233,705	169,348	12.1	2,816,042	213,498	12.6
China (including Hong Kong and Macau)	1,879,086	142,463	12.0	3,335,914	252,912	18.0	4,190,468	317,700	18.7
North America	651,300	49,378	4.1	698,402	52,949	3.8	793,164	60,134	3.5
Europe	542,918	41,161	3.5	626,731	47,516	3.4	665,997	50,493	3.0
Rest of the World	1,607,660	121,885	10.2	1,925,209	145,960	10.4	2,013,731	152,671	9.0
Total	15,713,457	1,191,316	100.0	18,525,092	1,404,480	100.0	22,368,761	1,695,888	100.0

Japan is our key home market and had the largest revenue contribution during the Track Record Period. Our revenue attributable to Japan grew from JPY9,099.8 million in the year ended March 31, 2014 to JPY11,889.4 million in the year ended March 31, 2016, representing a CAGR of 14.3%. Our revenue growth in Japan was primarily due to the strength of our product portfolio, as well as the strong performance of our self-operated stores together with the expansion of our distribution network.

During the Track Record Period, we also experienced strong growth in our other home markets. Revenue attributable to Korea grew from JPY1,932.7 million in the year ended March 31, 2014 to JPY2,816.0 million in the year ended March 31, 2016, representing a CAGR of 20.7%. Our success in Korea was due to the strength of our product portfolio, successful cooperation with our exclusive distributor in the country as well as our effective marketing efforts. Our revenue attributable to China (including Hong Kong and Macau) experienced healthy growth over the Track Record Period due to our continuing efforts in expanding our sales and distribution channels, but is not comparable due to the Reorganization. For more information, see “Our History — Reorganization.” Our revenue growth in other regions during the Track Record Period was relatively stable.

The following table sets forth our gross profit and gross profit margin attributable to each region for the Track Record Period.

	Year ended March 31,								
	2014			2015			2016		
	¥	HK\$	%	¥	HK\$	%	¥	HK\$	%
	<i>(in thousands, except for percentages)</i>								
Japan	5,173,936	392,262	56.9	5,492,267	416,396	56.6	6,984,238	529,510	58.7
Korea	934,523	70,851	48.4	1,055,402	80,015	47.2	1,403,807	106,430	49.9
China (including Hong Kong and Macau)	1,428,433	108,297	76.0	2,349,955	178,162	70.4	2,488,683	188,680	59.4
North America	424,164	32,158	65.1	464,776	35,237	66.5	508,520	38,553	64.1
Europe	342,028	25,931	63.0	372,699	28,256	59.5	348,909	26,453	52.4
Rest of the World	1,056,636	80,109	65.7	1,169,943	88,699	60.8	1,460,686	110,741	72.5
Total	9,359,720	709,608	59.6	10,905,042	826,765	58.9	13,194,843	1,000,367	59.0

During the Track Record Period, the gross profit margin of each region has been relatively stable with the exceptions of China (including Hong Kong and Macau) and Europe.

SUMMARY

Our gross profit margin in China (including Hong Kong and Macau) decreased from 76.0% for the year ended March 31, 2014 to 70.4% for the year ended March 31, 2015 and further declined to 59.4% for the year ended March 31, 2016, primarily due to our efforts to expand our sales through distributors in China during the Track Record Period, which generally entails lower gross profit margins than sales through self-operated stores.

We also experienced a decline in gross profit margin in Europe from 63.0% for the year ended March 31, 2014 to 59.5% for the year ended March 31, 2015 to 52.4% for the year ended March 31, 2016, primarily due to a shift in the product mix of our golf clubs offered in Europe.

Sales and Marketing

Our selling and distribution costs amounted to JPY6,589.0 million (HK\$499.5 million), JPY7,752.3 million (HK\$587.7 million) and JPY8,058.1 million (HK\$610.9 million), or 41.9%, 41.8% and 36.0% of our total revenue, for the years ended March 31, 2014, 2015 and 2016, respectively. Selling and distribution costs consist of (i) benefits for staff directly involved in selling and distribution activities, (ii) advertising and promotion expenses, (iii) rental fees and (iv) other costs related to selling and distribution activities. Our advertising and promotion expenses amounted to JPY1,778.7 million (HK\$134.9 million), JPY2,076.7 million (HK\$157.4 million) and JPY2,367.8 million (HK\$179.5 million), or 11.3%, 11.2% and 10.6% of our total revenue, for the years ended March 31, 2014, 2015 and 2016, respectively. For more information, see “Business — Marketing — Advertising and Promotion” and “Financial Information — Principal Components of Statements of Profit or Loss — Selling and Distribution Costs.” We intend to use approximately [REDACTED]% of the net proceeds of the [REDACTED] for sales and marketing activities in North America and Europe, including (i) advertising and promotional activities such as sales point promotional activities and sponsorship of professional players active in these markets, (ii) benefits for sales staff in these markets, and (iii) fitting equipment for third-party retailers. In addition, we intend to use approximately [REDACTED]% of the net proceeds of the [REDACTED] for sales and marketing activities in our home markets of Japan, Korea and China (including Hong Kong and Macau), which will center around (i) sales point promotional activities, (ii) on-course sales events, typically in connection with tournaments and major product launches, and (iii) creation of additional fitting centers within self-operated stores or in partnership with third-party retailers. For more information, see “Future Plans and Use of Proceeds.”

We advertise our products and promote our brand by (i) entering into sponsorship and endorsement arrangements with professional golf players and (ii) conducting advertising campaigns. As of March 31, 2016, we sponsored and are endorsed by 40 professional golf players. Our advertising campaigns are conducted through both traditional and online media, and are designed regionally according to each region’s customer characteristics but coordinated on a global level to promote a unified brand image.

Our In-house Research and Development Capabilities

HONMA’s core values consist of intricate craftsmanship, dedication to performance excellence and distinguished product quality, which have been consistently reflected in all of our products. Our golf clubs are designed by our master craftsmen, each with decades of experience, and we devote significant resources to new product design, development and innovation. We incurred research and development costs of approximately JPY442.5 million (HK\$33.5 million), JPY503.2 million (HK\$38.2 million) and JPY535.3 million (HK\$40.6 million) in the years ended March 31, 2014, 2015 and 2016, respectively, representing a CAGR of 10.0%. Research and development costs decreased as a percentage of total revenue from 2.8% in the year ended March 31, 2014 to 2.4% in the year ended March 31, 2016. The decrease was primarily due to our efforts to improve cost efficiency in research and development activities, especially with regard to materials used for such activities. For more information, see “Financial Information — Principal Components of Statements of Profit or Loss — Administrative Expenses.” We have continuously developed new products by constantly improving our existing designs and incorporating latest technologies. For example, we launched our TOUR WORLD family of golf clubs, G1X family of golf clubs and Be ZEAL family of golf clubs in 2013, 2015 and 2016, respectively. We intend to continue investing resources in research and development activities in connection with the development of new products.

SUMMARY

Our Manufacturing Processes

We perform the key manufacturing processes for golf clubs at our Sakata Campus and outsource some of the non-core manufacturing processes to our strategic supplier partners, most of whom we have stable and long-term relationships with. This combination of in-house and outsourced manufacturing processes enables us to control our core technical know-how and intellectual property and ensure the quality of our products while controlling our production costs. Our Sakata Campus is located on an approximately 163,000 square meter parcel of land in Sakata, Yamagata Prefecture of Japan, and is staffed with approximately 360 craftsmen, with an average of 27 years of work experience, as well as other support employees. In our in-house manufacturing processes, our craftsmen’s dedication to product quality enables us to maintain our status as one of the most prestigious and iconic brands in the golf industry.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success and will enable us to deliver on our growth strategies:

- Iconic golf brand built upon decades of dedication towards quality and craftsmanship
- High performance and customizable products supported by innovative research and development capabilities
- Vertically integrated business model with an extensive sales and distribution network
- Engrained consumer-centric corporate culture driving strong customer satisfaction and loyalty
- Highly passionate, dedicated and experienced management team
- Track record of sustainable growth and profitability

OUR STRATEGIES

Our vision is to build a world-leading golf lifestyle company on the foundation of our craftsmanship heritage. We aim to achieve this by implementing the following strategies:

- Tap into adjacent consumer segments by continuing to optimize our product mix
- Continue product innovation and development to cater to evolving industry trends
- Further increase market share and enhance brand awareness in existing markets
- Penetrate new markets in North America and Europe, particularly the United States and the United Kingdom
- Continue to invest in the marketing and promotion of our HONMA brand
- Continue to increase operational efficiency and optimize cost structure
- Provide customers with a complete golf lifestyle experience by growing complementary product lines such as golf balls, apparel, accessories and other related products

SUMMARY

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of our consolidated financial information as of and for the years ended March 31, 2014, 2015 and 2016, extracted from the Accountants’ Report set out in Appendix I to this document. The summary below should be read in conjunction with the consolidated financial information in Appendix I.

Summary of Financial Results

The following table sets forth a summary, for the Track Record Period, of our consolidated results of operations. Each item has also been expressed as a percentage of our revenue.

	Year Ended March 31,								
	2014			2015			2016		
	¥	HK\$	%	¥	HK\$	%	¥	HK\$	%
	<i>(in thousands, except for percentages)</i>								
Consolidated Statement of Profit or Loss									
Revenue	15,713,457	1,191,316	100.0	18,525,092	1,404,480	100.0	22,368,761	1,695,888	100.0
Cost of sales	(6,353,737)	(481,708)	(40.4)	(7,620,050)	(577,715)	(41.1)	(9,173,918)	(695,521)	(41.0)
Gross profit	9,359,720	709,608	59.6	10,905,042	826,765	58.9	13,194,843	1,000,367	59.0
Other income and gains . .	925,393	70,159	5.9	90,825	6,886	0.5	77,125	5,847	0.3
Selling and distribution costs	(6,589,045)	(499,549)	(41.9)	(7,752,319)	(587,742)	(41.8)	(8,058,098)	(610,925)	(36.0)
Administrative expenses . .	(922,750)	(69,958)	(5.9)	(1,195,421)	(90,631)	(6.5)	(1,362,533)	(103,300)	(6.1)
Other (expenses)/income, net	(69,151)	(5,243)	(0.4)	(46,248)	(3,506)	(0.2)	104,565	7,928	0.5
Finance costs	(10,776)	(817)	(0.1)	(7,490)	(568)	(*)	(24,073)	(1,825)	(0.1)
Finance income	13,403	1,016	0.1	9,213	698	*	27,307	2,070	0.1
Profit before tax	2,706,794	205,216	17.3	2,003,602	151,902	10.8	3,959,136	300,162	17.7
Income tax (expense)/credit	(118,185)	(8,960)	(0.8)	298,467	22,628	1.6	(394,596)	(29,916)	(1.8)
Net profit	<u>2,588,609</u>	<u>196,256</u>	<u>16.5</u>	<u>2,302,069</u>	<u>174,530</u>	<u>12.4</u>	<u>3,564,540</u>	<u>270,246</u>	<u>15.9</u>
Non-IFRS Financial Measure									
Adjusted net profit ⁽¹⁾	<u>1,762,444</u>	<u>133,620</u>	<u>11.2</u>	<u>2,278,272</u>	<u>172,727</u>	<u>12.3</u>	<u>3,390,234</u>	<u>257,031</u>	<u>15.2</u>

Notes:

* Less than 0.1%

(1) We derive adjusted net profit from net profit by (i) subtracting other income and gains, (ii) adding other (expenses)/income and (iii) adding impact on tax. For a reconciliation of adjusted net profit to net profit, see “Financial Information — Non-IFRS Financial Measures — Adjusted Net Profit.”

SUMMARY

Summary of Consolidated Balance Sheets

The following table sets forth a summary of our consolidated balance sheets as of the dates indicated.

	As of March 31,					
	2014		2015		2016	
	¥	HK\$	¥	HK\$	¥	HK\$
	<i>(in thousands)</i>					
Assets						
Non-current assets	4,567,938	346,318	5,342,040	405,007	5,689,990	431,387
Current assets	11,603,279	879,703	12,268,408	930,129	14,378,784	1,090,128
Total assets	<u>16,171,217</u>	<u>1,226,021</u>	<u>17,610,448</u>	<u>1,335,136</u>	<u>20,068,774</u>	<u>1,521,515</u>
Total equity	<u>8,608,846</u>	<u>652,680</u>	<u>3,515,792</u>	<u>266,550</u>	<u>5,527,297</u>	<u>419,053</u>
Liabilities						
Non-current liabilities	2,299,432	174,331	2,242,367	170,005	2,605,157	197,510
Current liabilities	5,262,939	399,010	11,852,289	898,581	11,936,320	904,952
Total liabilities	<u>7,562,371</u>	<u>573,341</u>	<u>14,094,656</u>	<u>1,068,586</u>	<u>14,541,477</u>	<u>1,102,462</u>
Net current assets	<u>6,340,340</u>	<u>480,693</u>	<u>416,119</u>	<u>31,548</u>	<u>2,442,464</u>	<u>185,176</u>
Total assets less current liabilities	<u>10,908,278</u>	<u>827,011</u>	<u>5,758,159</u>	<u>436,555</u>	<u>8,132,454</u>	<u>616,563</u>

Summary of Statements of Cash Flows

The following table sets forth a summary of our cash flows for the Track Record Period.

	Year Ended March 31,					
	2014		2015		2016	
	¥	HK\$	¥	HK\$	¥	HK\$
	<i>(in thousands)</i>					
Net cash flows generated from/ (used in) operating activities	1,972,960	149,580	(136,842)	(10,375)	1,430,499	108,453
Net cash flows generated from / (used in) investing activities	471,296	35,731	(296,899)	(22,509)	(1,296,126)	(98,266)
Net cash flows used in financing activities	(746,533)	(56,598)	(442,613)	(33,557)	(547,351)	(41,497)
Net increase / (decrease) in cash and cash equivalents . .	1,697,723	128,713	(876,354)	(66,441)	(412,978)	(31,310)
Cash and cash equivalents at the beginning of the year . .	1,230,950	93,324	3,018,000	228,809	2,315,069	175,516
Effect of foreign exchange rate changes, net	89,327	6,772	173,423	13,148	(76,282)	(5,783)
Cash and cash equivalents at the end of year	<u>3,018,000</u>	<u>228,809</u>	<u>2,315,069</u>	<u>175,516</u>	<u>1,825,809</u>	<u>138,423</u>

SUMMARY

MAJOR FINANCIAL RATIOS

The following table sets forth key financial ratios as of and for the period ended the dates indicated.

	For the Year Ended/As of March 31,		
	2014	2015	2016
Profitability:			
Gross margin	59.6%	58.9%	59.0%
Net profit margin	16.5%	12.4%	15.9%
Adjusted net profit margin	11.2%	12.3%	15.2%
Rates of return:			
Return on assets	16.0%	13.1%	17.8%
Return on equity	30.1%	65.5%	64.5%
Liquidity:			
Debt to equity ratio	5.8%	14.2%	30.9%
Current ratio	2.2	1.0	1.2
Quick ratio	1.0	0.4	0.6

For the definitions of certain major financial ratios, see “Financial Information — Major Financial Ratios.”

OUR SHAREHOLDING STRUCTURE

Immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised and without taking into account Shares which may be issued upon the exercise of additional RSUs which may be further granted under the RSU Scheme or options which may be granted under the Post-[REDACTED] Share Option Scheme), Chairman Liu will, through his holding company, Kouunn Holdings, hold and be entitled to exercise in general meetings voting rights attached to Shares representing approximately [REDACTED]% of the issued share capital of our Company. Accordingly, Chairman Liu and Kouunn Holdings will continue to be our Controlling Shareholders under the Listing Rules. In May 2016, Fosun, a strategic investor, acquired [REDACTED]% of the total issued share capital in our Company from Kouunn Holdings and became our Shareholder.

RECENT DEVELOPMENTS

Set forth below are recent developments on our financial condition after March 31, 2016, which is the end of the Track Record Period, prepared based on the unaudited interim consolidated financial information of the Company for the three months ended June 30, 2016, which have been reviewed by our reporting accountant in accordance with the 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:

- Our revenue increased from JPY4,959.6 million for the three months ended June 30, 2015 to JPY5,336.0 million for the three months ended June 30, 2016 at a year-on-year growth rate of 7.6%, primarily due to the continued expansion of our business in our home markets.
- Our gross profit margin increased from 59.8% for the three months ended June 30, 2015 to 60.7% for the three months ended June 30, 2016, primarily due to the continued improvements in production efficiency and pricing.
- For the year ending March 31, 2017, we expect to incur additional expenses in relation to the [REDACTED], including JPY[REDACTED] million of [REDACTED] expenses, of which JPY[REDACTED] million is expected to be recognized as administrative expenses. For more information, see “Financial Information — [REDACTED] Expenses.” In addition, as we expect sales to distributors, which generally entail lower gross profit

SUMMARY

margins as compared to sales through our self-operated stores, will continue to increase as a portion of our total revenue, our gross profit margin may be negatively impacted. As a result, our net profit may experience lower year-on-year growth for the year ending March 31, 2017 as compared to the growth for the year ended March 31, 2016.

After due and careful consideration, our Directors confirm that up to the date of this document, there has been no material adverse change in our financial and trading position or prospects since March 31, 2016, and there is no event since March 31, 2016 which would materially affect the audited financial information as set out in Appendix I to this document.

HONG KONG [REDACTED]

We are applying for the [REDACTED] on the Main Board of the Stock Exchange for the following reasons. The Stock Exchange is a leading listing venue in Asia. We operate a global business, with a focus on Asia. Our key markets are Japan, Korea and China (including Hong Kong and Macau). We believe our brand is especially recognized by Asian investors. Given the Stock Exchange’s stature in global capital markets, it also offers an ideal platform for us to access quality investors from around the world. We expect the [REDACTED] will further enhance our brand recognition around the world and help us grow our presence in markets such as North America and Europe.

[REDACTED] EXPENSES

During the Track Record Period, we incurred [REDACTED] expenses of approximately JPY[REDACTED] million (HK\$[REDACTED] million), all of which was recognized as administrative expenses in our consolidated income statement for the year ended March 31, 2016. We expect to incur additional [REDACTED] expenses (based on the mid-point of our indicative [REDACTED] for the [REDACTED] and assuming that the [REDACTED] is not exercised and all discretionary incentive fees in the [REDACTED] are paid in full) of approximately JPY[REDACTED] million (HK\$[REDACTED] million), of which JPY[REDACTED] million (HK\$[REDACTED] million) is expected to be recognized as administrative expenses for the year ending March 31, 2017 and JPY[REDACTED] million (HK\$[REDACTED] million) is expected to be recognized as a deduction against equity directly.

[REDACTED] STATISTICS

[REDACTED] size:	Initially [REDACTED]% of the enlarged issued share capital of our Company
[REDACTED] structure:	Initially [REDACTED]% for the [REDACTED] (subject to adjustment) and [REDACTED]% for the [REDACTED] (subject to adjustment and the [REDACTED])
[REDACTED]:	Up to [REDACTED]% of the number of [REDACTED] initially available under the [REDACTED]
[REDACTED] per Share:	HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED]

	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]
Our Company’s capitalization upon completion of the [REDACTED] ⁽¹⁾⁽²⁾	HK\$[REDACTED] million	HK\$[REDACTED] million
Unaudited pro forma adjusted net tangible asset per Share ⁽³⁾⁽⁴⁾⁽⁵⁾	JPY[REDACTED] (HK\$[REDACTED])	JPY[REDACTED] (HK\$[REDACTED])

Notes:

(1) All statistics in the table are based on the assumption that the [REDACTED] is not exercised.

SUMMARY

- (2) The calculation of the market capitalization is based on [REDACTED] Shares expected to be in issue and outstanding after completion of the Share Subdivision and the Capitalization Issue and immediately upon completion of the [REDACTED] (but before any exercise of the [REDACTED]).
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company does not take into account a dividend of JPY1,995 million paid by the Company in May 2016. Had the dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED]) and HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED]), respectively.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares are in issue assuming the [REDACTED] has been completed on [REDACTED] and an [REDACTED] of HK\$[REDACTED] per Share, being the low end of the [REDACTED] range, and [REDACTED] Shares are in issue assuming that the [REDACTED] has been completed on [REDACTED] and an [REDACTED] of HK\$[REDACTED] per Share, being the high end of the [REDACTED] range, excluding Shares which may be issued upon the exercise of the [REDACTED].
- (5) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.00 to JPY13.19.

FUTURE PLANS AND USE OF PROCEEDS

We estimate the net proceeds of the [REDACTED] which we will receive, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] range stated in this document), will be approximately HK\$[REDACTED] million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the [REDACTED] and assuming the [REDACTED] is not exercised:

- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to pursue potential strategic acquisitions of businesses or brands and develop strategic alliances to enhance our presence in North America and Europe.
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used for sales and marketing activities in North America and Europe, including (i) advertising and promotional activities such as sales point promotional activities and sponsorship of professional players active in these markets, (ii) benefits for sales staff in these markets, and (iii) fitting equipment for third-party retailers.
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used for sales and marketing activities in our home markets of Japan, Korea and China (including Hong Kong and Macau), which will center around (i) sales point promotional activities, (ii) on-course sales events, typically in connection with tournaments and major product launches, and (iii) creation of additional fitting centers within self-operated stores or in partnership with third-party retailers.
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to finance the capital expenditures related to (i) equipment purchases at our Sakata Campus to expand our production capacity, (ii) enhancement of our supply chain management and (iii) upgrades of our IT infrastructure.
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to repay interest-bearing bank borrowings, including (i) approximately [REDACTED]%, or HK\$[REDACTED] million, to repay JPY[REDACTED] million of borrowings from Mizuho Bank and (ii) approximately [REDACTED]%, or HK\$[REDACTED] million, to repay JPY[REDACTED] billion of borrowings from Tokyo Moin Bank.
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to provide funding for our working capital and other general corporate purposes.

Except for the amount of HK\$[REDACTED] million that we expect to use to repay interest-bearing bank borrowings, the above allocation of the proceeds will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher level or lower level compared to the mid-point of the estimated [REDACTED] range or the [REDACTED] is exercised.

Please see “Future Plans and Use of Proceeds” for further details.

SUMMARY

DIVIDEND POLICY

We may distribute dividends by way of cash or by other means that we consider appropriate. Our Directors currently intend to declare a dividend of no less than 30% of our distributable profit for any particular financial year. Such intention does not amount to any guarantee, representation or indication that we must or will declare and pay dividends in such manner or at all. A decision to declare and pay any dividends would require the approval of the Board and will be at its discretion, subject to applicable laws. In addition, any final dividend for a financial year will be subject to Shareholders’ approval. The Board will review dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid: (i) our results of operations, (ii) our cash flows, (iii) our financial condition, (iv) our Shareholders’ interests, (v) general business conditions and strategies, (vi) our capital requirements, (vii) the payment by our subsidiaries of cash dividends to us, and (viii) other factors the Board may deem relevant.

During the years ended March 31, 2014, 2015 and 2016, we paid JPY1,000.0 million (HK\$75.8 million), JPY463.3 million (HK\$35.1 million) and JPY1,235.0 million (HK\$93.6 million) of dividends, respectively.

RISK FACTORS

There are certain risks involved in our operations and in connection with the [REDACTED], many of which are beyond our control. These risks can be categorized into (i) risks relating to our business, (ii) risks relating to conducting business in Japan, and (iii) risks relating to the [REDACTED] and our Shares. For example, we are dependent on the strength of our HONMA brand. In addition, we may not be able to maintain the high growth rate of our business. A detailed discussion of all the risk factors involved are set forth in “Risk Factors” and you should read the whole section carefully before you decide to invest in the [REDACTED].

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.

[REDACTED]

“Articles” or “Articles of Association”	the Articles of Association of our Company (as amended and restated from time to time), conditionally adopted on [September 18, 2016] with effect from the [REDACTED], a summary of which is set out in Appendix IV
“Board” or “Board of Directors”	the board of directors of our Company
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“Capitalization Issue”	the issue of 75,059,000 Shares to be made upon the capitalization of certain sums of the distributable reserves of our Company as referred to in the paragraph headed “Statutory and General Information — A. Further Information about Our Group — 3. Resolutions in Writing of the Shareholders of Our Company Passed on [September 18, 2016]” in Appendix V
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chairman Liu”	Mr. Liu Jianguo (劉建國)
“China” or “the PRC”	the People’s Republic of China and, unless the context otherwise requires, excluding, for the purpose of this document, Hong Kong and Macau
“Co-Lead Manager”	[REDACTED]
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time

DEFINITIONS

“Company” or “our Company”	Honma Golf Limited (本間高爾夫有限公司), an exempted company incorporated in the Cayman Islands with limited liability on October 7, 2013, and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to the time before it became the holding company of its present subsidiaries, its present subsidiaries
“Controlling Shareholders”	Chairman Liu and Kouunn Holdings
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company
“EIT Law”	Enterprise Income Tax Law of the PRC
“Fosun”	Fosun Industrial Holdings Limited (復星產業控股有限公司), our Shareholder, a company incorporated in Hong Kong and a wholly-owned subsidiary of Fosun International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 00656)
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the industry consultant
“Frost & Sullivan Report”	the market research report issued by Frost & Sullivan on the global golf products industry [REDACTED] [REDACTED]
“Group”, “our Group”, “HONMA” “we”, “our” or “us”	our Company and our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC [REDACTED] [REDACTED] [REDACTED]
“Hong Kong Underwriters”	the underwriters of the [REDACTED] listed in “Underwriting — Hong Kong Underwriters”

DEFINITIONS

“Hong Kong Underwriting Agreement”	the underwriting agreement dated [REDACTED], relating to the [REDACTED] and entered into by, among others, the Sole Global Coordinator, the Hong Kong Underwriters, the Controlling Shareholders and our Company
“Honma Holdings”	Honma Holdings Group Limited (本間控股集團有限公司), formerly known as World Power International Holdings Limited (世力國際集團有限公司), a limited liability company incorporated on November 18, 2013 under the laws of Hong Kong and an indirect wholly-owned subsidiary of our Company
“Honma Hong Kong ”	Hong Kong Honma Golf Co., Limited (香港本間高爾夫有限公司), a limited liability company incorporated under the laws of Hong Kong on April 2, 1996 and our indirect wholly-owned subsidiary
“Honma Japan ”	Honma Golf Co., Ltd. (株式会社本間ゴルフ), formerly known as Tsurumi Golf Center Co. (有限会社鶴見ゴルフセンター), Honma Co. (有限会社ホンマ) and Honma Co., Ltd. (株式会社ホンマ), a limited liability company incorporated on February 18, 1959 under the laws of Japan and our indirect wholly-owned subsidiary
“Honma Macau ”	Honma Golf (Macau) Co., Ltd. (本間高爾夫(澳門)有限公司), a company incorporated on May 29, 2012 under the laws of Macau and our indirect wholly-owned subsidiary
“Honma Shanghai”	Honma Golf (Shanghai) Company Limited (本間高爾夫(上海)有限公司), a limited liability company incorporated under the laws of the PRC on March 30, 2010, 99% equity interest of which is held by Chairman Liu and 1% equity interest of which is held by Ms. Huang Wenhuan, Chairman Liu’s wife
“Honma Taiwan”	Honma Golf Stock Company Limited (本間高爾夫股份有限公司), a company limited by shares incorporated on June 10, 1996 under the laws of Taiwan and an indirect wholly-owned subsidiary of our Company
“Honma Thailand”	Honma Golf (Thailand) Company Limited, a limited liability company incorporated under the laws of Thailand on May 28, 1997. Honma Japan holds 9,798 class A ordinary shares, representing 48.99% of the total issued share capital in Honma Thailand. 10,199 class B preference shares, representing 50.995% of the total issued share capital in Honma Thailand are held by Asia Alliance Partner Co., Ltd., an independent third party. Each of Mr. Hiroo Honma and Mr. Shuichi Honma, members of the Honma family and independent third parties holds one class A ordinary share, representing 0.005% of the total issued share capital of Honma Thailand. Mr. Masaru Takahashi, a director of Honma Thailand, holds one class B preference share representing 0.005% of the total issued share capital of Honma Thailand. Honma Thailand is accounted for as a subsidiary of the Company because Honma Japan has the power to control the board of directors and to govern the financial and operating policies of Honma Thailand

DEFINITIONS

“IFRS”	International Accounting Standards, International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
“independent third party(ies)”	a person or entity who/which is not a connected person or associate of a connected person of the Company under the Listing Rules [REDACTED] [REDACTED]
“International Underwriters”	the group of underwriters, led by the Sole Global Coordinator, that is expected to enter into the International Underwriting Agreement to underwrite the [REDACTED]
“International Underwriting Agreement”	the international underwriting agreement relating to the [REDACTED], which is expected to be entered into by, among others, the Sole Global Coordinator, the International Underwriters, the Controlling Shareholders and our Company on or about [REDACTED]
“Joint Bookrunners” or “Joint Lead Managers”	[REDACTED]
“JPY” or “¥”	Japanese yen, the lawful currency of Japan
“Kouunn Holdings”	Kouunn Holdings Limited, a company incorporated on September 27, 2013 under the laws of the BVI, a controlling shareholder and wholly-owned by Chairman Liu
“KRW”	South Korean Won, the lawful currency of Korea
“Latest Practicable Date”	September 15, 2016, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document [REDACTED] [REDACTED] [REDACTED]
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time

DEFINITIONS

“Macau”	the Macau Special Administrative Region of the PRC
“Memorandum” or “Memorandum of Association”	the Memorandum of Association of our Company (as amended and restated from time to time), conditionally adopted on [September 18, 2016] with effect from the [REDACTED], a summary of which is set out in Appendix IV
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NTD”	the New Taiwan dollars, the lawful currency of Taiwan [REDACTED] [REDACTED] [REDACTED]
“Post-[REDACTED] Share Option Scheme”	our post-[REDACTED] share option scheme conditionally adopted pursuant to resolutions passed by our Shareholders at an extraordinary general meeting held on [September 18], 2016
“PRC Government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“Price Determination Date”	the date, expected to be on or about [REDACTED], on which the [REDACTED] will be determined and, in any event, not later than [REDACTED]
“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the reorganization of the Group in preparation of the [REDACTED], details of which are set out in “Our History”
“RMB”	Renminbi, the lawful currency of the PRC
“RSU”	a restricted share unit awarded to a participant under the RSU Scheme
“RSU Nominee”	Taisai Holdings Ltd., a company incorporated in the BVI on October 2, 2015, an indirect wholly-owned subsidiary of the RSU Trustee

DEFINITIONS

“RSU Scheme”	the restricted share unit scheme of the Company approved and adopted by our Board on October 20, 2015, the principal terms of which are set out in the section headed “Statutory and General Information — D. Share Incentive Schemes — 1. RSU Scheme” in Appendix V
“RSU Trustee”	The Core Trust Company Limited, an independent and professional trustee appointed by our Company to act as the trustee of the RSU scheme
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
“Sakata Campus”	a facility that houses our research and production studio, a testing center with a driving range and state-of-the-art testing equipment and other supporting facilities, located on an approximately 163,000 square meter parcel of land in Sakata, Yamagata Prefecture, Japan
“Seiyou Holdings”	Seiyou Holdings Limited, a company incorporated on October 25, 2013 under the laws of the BVI and a direct wholly-owned subsidiary of our Company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share Subdivision”	the share subdivision referred to in “Statutory and General Information — A. Further Information about Our Group — 3. Resolutions in Writing of the Shareholders of Our Company Passed on [September 18, 2016]” in Appendix V
“Shareholder(s)”	holder(s) of Shares
“Shares”	ordinary shares in the capital of our Company with nominal value of US\$0.0000025 each
[REDACTED] or “Sole Sponsor”	Morgan Stanley Asia Limited (摩根士丹利亞洲有限公司)
“Stabilizing Manager”	[REDACTED]
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Track Record Period”	the years ended March 31, 2014, 2015 and 2016
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“U.S.” or “United States”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time

DEFINITIONS

[REDACTED]

[REDACTED]

“WP International Trading”

World Power International Trading (Shanghai) Company Limited (世力國際貿易(上海)有限公司), a limited liability company incorporated on December 27, 2013 under the laws of the PRC and our indirect wholly-owned subsidiary

In this document, the terms “associate,” “close associate,” “connected person,” “connected transaction,” “core connected person,” “controlling shareholder,” “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC or Taiwan or Japanese names of the entities or enterprises established in Japan mentioned in this document and their English translations, the Chinese names or Japanese names (as appropriate) shall prevail. The English translations of the Chinese names of such PRC or Taiwan entities or enterprises or the Japanese names of such Japan entities or enterprises are provided for identification purposes only.

GLOSSARY

This glossary contains terms used in this document in connection with us. As such, these terms and their meanings may not correspond to standard industry meanings or usages of these terms.

“BOM supplier”	bill of materials supplier, a company that manufactures raw materials or components for its customers
“CAGR”	compound annual growth rate
“golf products”	golf products, including golf clubs, golf balls, apparel, accessories and other related products
“iron”	a golf club designed for shorter-distance shots from the fairway
“master craftsmen”	craftsmen who have been certified as “master craftsmen” by a committee composed of senior members of our management, including our President and the head of our research and development team; each master craftsman has decades of experience and has mastered the handcrafted techniques for the making of golf clubs
“Nine Key Segments”	refers to nine unique types of golf club consumers, which are segmented based on two key dimensions: (i) the willingness to spend and (ii) the degree of enthusiasm for golf and include Segment 1 Consumers, Segment 2 Consumers, Segment 3 Consumers, Segment 4 Consumers, Segment 5 Consumers, Segment 6 Consumers, Segment 7 Consumers, Segment 8 Consumers and Segment 9 Consumers For more information on Nine Key Segments, see “Industry Overview — Analysis of Consumer Performances For Golf Clubs — Overview of Market Segmentation by Types of Consumers.”
“OEM supplier”	an original equipment manufacturer supplier, a company that manufactures a product in accordance with its customer’s designs which ultimately will be branded by its customer for sale
“premium golf clubs”	refers to woods sold at above US\$700 and irons sold at above US\$200 in terms of retail sales value
“putter”	a golf club used to roll the golf ball along the green into the hole
“Segment 1 Consumers”	consumers who are willing to purchase golf clubs at high prices and possess low level of enthusiasm for golf, and therefore value both design and price
“Segment 2 Consumers”	consumers who are willing to purchase golf clubs at high prices and possess medium level of enthusiasm for golf, and therefore assign high priority to design
“Segment 3 Consumers”	consumers who are willing to purchase golf clubs at high prices and possess high level of enthusiasm for golf, and therefore value both design and performance
“Segment 4 Consumers”	consumers who are willing to purchase golf clubs at medium prices and possess low level of enthusiasm for golf, and therefore value both performance and price

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“Segment 5 Consumers”	consumers who are willing to purchase golf clubs at medium prices and possess medium level of enthusiasm for golf, and therefore value both performance and design
“Segment 6 Consumers”	consumers who are willing to purchase golf clubs at medium prices and possess high level of enthusiasm for golf, and therefore assign high priority to performance
“Segment 7 Consumers”	consumers who are willing to purchase golf clubs at low prices and possess low level of enthusiasm for golf, and therefore assign high priority to price
“Segment 8 Consumers”	consumers who are willing to purchase golf clubs at low prices and possess medium level of enthusiasm for golf, and therefore value both price and design
“Segment 9 Consumers”	consumers who are willing to purchase golf clubs at low prices and possess high level of enthusiasm for golf, and therefore value both price and performance
“utility”	a golf club that combines elements of both woods and irons
“wedge”	a specialized iron designed for short and high-angle shots to get the ball onto the green or out of hazards or other difficult positions on the golf course
“wood”	a golf club designed to propel a golf ball the farthest and is generally used for tee shots and long-distance shots from the fairway; woods generally fall into two classes, drivers and fairway woods

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words “aim,” “anticipate,” “believe,” “could,” “expect,” “going forward,” “intend,” “may,” “ought to,” “plan,” “project,” “seek,” “should,” “will,” “would” and the negative of these words and other similar expressions, as they relate to the Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the effects of the global financial markets and economic crisis;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to the cautionary statements in this section.

In this document, statements of or references to our intentions or those of the Directors are made as of the date of this document. Any such information may change in light of future developments.

RISK FACTORS

In addition to other information in this document, you should carefully consider the following risk factors before making any investment decision in relation to the [REDACTED]. If any of the possible events described below occur, our business, financial condition or results of operations could be materially and adversely affected. The market price of the [REDACTED] could fall significantly and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We are dependent on our HONMA brand, and any deterioration in our brand image could have a material adverse effect on our business, results of operations and financial condition.

We are dependent on our HONMA brand for all our revenue and we expect to continue relying heavily on the HONMA brand. Product defects, counterfeit products and ineffective promotional activities are all potential threats to the strength of our brand. If we fail to successfully promote and protect our HONMA brand, our brand image may deteriorate, and we may not be able to maintain our current prices, increase sales volumes, introduce new products or successfully enter into new markets. As a result, our business, results of operations and financial conditions would be materially and adversely affected.

We may not be able to maintain the high growth rate of our business.

We achieved significant revenue and profit growth during the Track Record Period. Our revenue increased from JPY15.7 billion for the year ended March 31, 2014 to JPY22.4 billion (US\$218.9 million) for the year ended March 31, 2016, representing a CAGR of approximately 19.3%. Over the same period, our adjusted net profit increased from JPY1.8 billion for the year ended March 31, 2014 to JPY3.4 billion (US\$33.2 million) for the year ended March 31, 2016, representing a CAGR of approximately 38.7%. For a reconciliation of adjusted net profit to net profit, see “Financial Information — Non-IFRS Financial Measures — Adjusted Net Profit.” Our ability to maintain a high growth rate in the future depends on the implementation of our growth strategies. There can be no assurance that our strategies will continue to be successful. If we are not able to implement our growth strategies effectively or adjust them as market conditions evolve, we will not be able to sustain our growth.

We may not be able to maintain or grow our sales and distribution network.

Our products are currently sold in approximately 50 countries worldwide, primarily in Asia and also across North America, Europe and other regions. We sell our products through a combination of self-operated stores and distribution channels. The success of our self-operated stores depends on a number of factors, such as identifying and securing good locations, managing the costs related to store operations, as well as recruiting and retaining suitable store managers and other staff. We are also focused on identifying, recruiting and retaining quality distributors as part of our growth strategies. If we are unable to maintain or grow our sales and distribution network, we could experience a decline in sales and market share.

Our growth strategies depend in part on our ability to successfully expand into new consumer segments and product categories.

We categorize the golf clubs market into Nine Key Segments according to the priorities we believe golf players place on price, design and performance, which are correlated with their respective levels of affluence and enthusiasm towards the sport. See “Industry Overview” for more information on these consumer segments. Historically, we have focused on Segment 2 Consumers. We have started to expand into new consumer segments by introducing new products that align with these consumers’ preferences. We devote significant resources to developing and marketing golf clubs that appeal to new target consumer segments. However, there can be no assurance that our efforts to expand into new consumer segments will continue to be successful. If our golf clubs fail to attract our target consumers, our business, results of operations and financial condition would be materially and adversely affected.

RISK FACTORS

Our efforts to expand internationally, especially in North America and Europe, may not be successful.

We plan to increase our presence and market share internationally, especially in North America and Europe. We have limited experience operating in countries outside of Asia, and we currently only have a small presence in North America and Europe. As we expand into new geographic markets, we will face competition from competitors who are well established in these markets. In addition, in many of these markets, the retail market conditions, consumer behavior, operating environments and tax and regulatory requirements may differ significantly from those in our home markets of Japan, Korea and China (including Hong Kong and Macau). Moreover, our international expansion may not be successful for a number of other reasons, such as changes in consumer demand and product trends, economic fluctuations, political and social turbulences, changes in legal regulations or other conditions and difficulties. If we are not successful in expanding into new geographic markets, our business, results of operations and financial condition would be materially and adversely affected.

We may not be able to successfully introduce new products.

The success of our new products depends on a number of factors. For example, if we cannot properly anticipate consumer preferences and design products accordingly, our new products will not achieve sufficient market success. In addition, our research and development team and supply chain face constant pressures to design, develop and supply new products with better features compared to those of their predecessors. Our ability to continue offering new and better products depends on a number of factors, including our ability to incorporate technological advancements and innovations in our products. There can be no assurance that we will be able to bring to market new and better products in the future. If we are not able to successfully manage the frequent introduction of new products, our business, results of operations and financial condition would be materially and adversely affected.

We may not be successful in controlling our operating costs or improving our operational efficiency.

We incur various types of costs and expenses, including cost of sales, selling and distribution costs and administrative expenses. A substantial portion of cost of sales consists of cost of manufacturing, which includes, among others, cost of raw materials and benefits for our craftsmen. Selling and distribution costs consist primarily of benefits for sales staff, advertising and promotion expenses and rental expenses for self-operated stores. The success of our growth strategies depends in part on our ability to control operating costs and improve operational efficiency. If we are not able to achieve these objectives, our business, results of operations and financial condition could be materially and adversely affected.

We depend on the quality of our work force.

Our employees include, among others, craftsmen, sales and marketing staff and administrative staff. Our golf clubs are designed by master craftsmen, each with decades of experience and personify our craftsmanship heritage. Most of our in-house manufacturing processes, including the production of carbon club shafts and final assembly of golf clubs, require craftsmen. Due to Japan’s aging and shrinking population, it may be difficult for manufacturers like us to recruit young craftsmen in Japan, especially in regions with low population such as Sakata. We have been focused on recruiting young craftsmen and implementing a rigorous apprenticeship program to train them. However, there can be no assurance that such efforts will continue to be effective in the future. Besides our craftsmen, our sales and marketing staff and administrative staff also play critical roles in maintaining the premium and iconic status of our brand. For example, our self-operated stores are staffed with well trained and highly knowledgeable golf enthusiasts. The majority of them are internally certified golf club fitters, who are able to help customers select the golf clubs that best suit their needs. If we fail to maintain the quality of our work force, or fail to adequately recruit suitable new staff to support our growth, our business, results of operations and financial condition would be materially and adversely affected.

RISK FACTORS

Unfavorable economic conditions could have a negative impact on consumer discretionary spending as well as the financial conditions of us or our distributors, which would negatively impact our results of operations.

We sell golf clubs, golf balls, apparel, accessories and other related products. These products are recreational in nature and are therefore discretionary purchases for consumers. Consumers are generally more willing to make these discretionary purchases during favorable economic conditions and when they feel confident and prosperous. Consumer spending on golf products may also be affected by many other factors, including general business conditions, consumer confidence in future economic conditions and in certain countries, the availability of consumer credit. A severe or prolonged downturn in the general economy could negatively impact the liquidity and cash flows of our distributors, including their ability to obtain credit, which could result in increased delinquent or uncollectible accounts for us. During such a downturn, our business, results of operations and financial condition may also be negatively impacted.

We rely on active golf participation among the population.

We generate all of our revenue from the sale of golf products, including golf clubs, golf balls, apparel, accessories and other related products and the provision for related services. The demand for golf products is directly related to the number of golfers and the number of rounds played by these golfers. If golf participation or the number of rounds played decreases, our business and results of operations could be adversely affected.

We face intense competition in our business.

The global golf products market is highly competitive, and has a number of well-established companies with well recognized brand names. Similar to us, these companies endeavor to increase their market shares through such measures as continued new product introductions, active marketing campaigns and expansion of sales and distribution channels. We expect to face strong competition from both existing and new competitors as we expand our business into new consumer segments, geographic markets and product categories. We also face competition from the market of used golf products. If we fail to compete effectively, we may be unable to retain or expand our market share, which would have a material adverse effect on our business, results of operations and financial condition.

We are subject to risks associated with leasing substantial amounts of space.

We lease our headquarters in Tokyo, branch offices in China, Korea, Taiwan, Thailand and the United States, as well as most of our self-operated stores. With the exception of our branch office located in Shanghai, China, which we lease from an entity affiliated with Chairman Liu, we lease such properties from Independent Third Parties. As our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could require us to close offices or self-operated stores in current locations. Our inability to enter into new leases or renew existing leases on terms acceptable to us or be released from our obligations under leases for self-operated stores that we close could materially and adversely affect our business, results of operations or financial condition.

As of the Latest Practicable Date, we leased ten properties in China from lessors who were unable to provide the applicable building ownership certificates. All of the ten properties were used as self-operated stores. The leases related to such properties may be void and we may be forced to relocate. While we have received undertaking letters from lessors of nine of such properties, which provide that we will be indemnified for all the losses and damages as a result of the title defects, relocation from such properties could still adversely affect our business in China. For more information about our leased properties, see “Business — Properties.”

RISK FACTORS

We are dependent on suppliers for the production of our products.

We depend on our suppliers, whom we view as our strategic partners, to supply raw materials or manufacture certain of our products. In the years ended March 31, 2014, 2015 and 2016, purchases from our five largest suppliers accounted for 61.3%, 66.7% and 70.1% of our total purchases, respectively. Most of the raw materials and products that we purchase require specially developed manufacturing techniques and processes, such as the forging of club heads. In addition, certain raw materials, such as carbon fiber sheets used to make our carbon club shafts, are customized for us. If we were to experience any significant delay or disruption in the delivery of raw materials or finished goods from our suppliers, we may not be able to identify and work with an alternative supplier at short notice. Such delay or disruption may occur for a variety of reasons, such as disruption in the operations of a supplier or termination of a supply contract by the supplier, which could materially and adversely affect our business, results of operations and financial condition.

Unfavorable fluctuations in the price, availability and quality of raw materials could cause material production delays or materially increase our cost of sales.

Our operations depend in part on the ability of our Company and our suppliers to obtain sufficient quantities of necessary raw materials in sufficient quality, at commercially acceptable prices and in a timely manner. Principal raw materials for our in-house manufacturing processes include soft iron club heads, titanium alloy club heads, stainless iron club heads and carbon fiber sheets. Generally, unfavorable fluctuations in price, quality or availability of necessary raw materials could have a negative effect on our ability to deliver our products to the market in a timely manner as well as our gross margin.

We are dependent on distributors for sales of our products.

Distributors (including both direct third-party retailers and wholesale distributors) play a critical role in our sales to key markets. In the years ended March 31, 2014, 2015 and 2016, sales to our five largest distributors during each period accounted for 23.3%, 20.8% and 25.4%, respectively, of our total revenue. A loss of one or more of these distributors or a significant decrease in volume of products ordered by such distributors could have a material adverse effect on our business, results of operations and financial condition.

In addition, we don't have control over our distributors, and there is no assurance that our distributors will not breach their distribution agreements or will comply with their obligations thereunder, including those with respect to our retail policies. If the distribution agreements cannot be renewed or if our distributors breach any of the terms thereunder, our business, results of operations and financial condition may be materially and adversely affected.

We may not be able to effectively manage increases in inventory and trade and bills receivables while we grow our business.

Our inventory and trade and bills receivables both increased during the Track Record Period as we continued sales expansion and penetration into wholesale distribution channels. We reported JPY7,389.3 million of inventory and JPY3,576.6 million of trade and bills receivables as of March 31, 2016. During the period from March 31, 2016 to July 31, 2016, we consumed JPY2,741.5 million of such inventory and settled JPY3,040.0 million of such trade and bills receivables. If we can not manage the increase in our inventory and/or trade and bills receivables, our financial condition could be materially and adversely affected.

Our net operating cash flows are subject to fluctuations.

We reported JPY1,973.0 million, (JPY136.8 million) and JPY1,430.5 million net operating cash flow for the years ended March 31, 2014, 2015 and 2016, respectively. The net cash outflow from operating activities in the year ended March 31, 2015 was primarily due to the decrease in amount due to Honma

RISK FACTORS

Shanghai of JPY1,463.1 million. The repayment was a non-recurring event and was related to the settlement of trade related dues to Honma Shanghai, who acted as the import agent for the Company until January 2016. However, there can be no assurance that we would not report a net cash outflow during a future period for other reasons.

Our operations are subject to economic, social, political and governmental conditions beyond our control that could have an adverse effect on our business.

Our products are currently sold in approximately 50 countries worldwide, primarily in Asia, and also across North America, Europe and other regions. As a result, we are exposed to risks associated with operating an international business, including economic, social or political instabilities and unexpected government actions. Any deterioration of economic, social, political or governmental conditions in our key markets could have a material adverse effect on our business, results of operations and financial condition. For example, diplomatic disputes between China and Japan could affect our sales in the two markets.

China’s anti-graft campaigns might have generated negative publicity for golf, which could have an adverse effect on demand for our products in China.

In recent years, the Chinese government has disciplined officials who played golf at public expenses or received golf course membership cards as gifts. Such disciplinary actions might have generated negative publicity for golf by associating the sport with corruption and may have a negative effect on golf participation in China. If public perception of golf continues to be tainted by corruption cases, demand for our products in China could be adversely affected.

Our business and operating results are subject to seasonal fluctuations.

While we have not experienced significant seasonality with respect to our sales through self-operated stores, our sales to distributors are subject to seasonal fluctuations. The launch of a new product generally has a positive impact on our sales to distributors during the corresponding fiscal quarter. We typically launch new products in January, which falls within our fourth fiscal quarter. Going forward, we plan to move our new product launches to November in line with market practice, which would in turn improve our sales during the third fiscal quarter. As a result of these fluctuations, sales and operating results for any particular period will not necessarily be indicative of our results for the full year or future periods. In addition, as a portion of our costs and expenses are fixed in nature, fluctuations of sales may lead to fluctuations in our profitability throughout our fiscal year.

Our marketing efforts may not be successful.

A key element of our marketing campaign is the sponsorship of professional golf players. We therefore invest significant resources to recruit, support and retain talented professional golf players. As of March 31, 2016, we sponsored and were endorsed by a group of 40 professional golf players, known as TEAM HONMA. If TEAM HONMA players do not perform well in golf tournaments, our marketing strategy may be less effective than expected, which could have a material adverse effect on our business, results of operations or financial condition.

Our competitors also aggressively seek endorsements by professional golf players and offer many inducements, including significant cash incentives and specially designed products. As a result, it is expensive to attract and retain such professional golf players. A loss of popular professional golf players, or a significant increase in the cost to attract or retain professional golf players, could have a material adverse effect on our business, results of operations or financial condition.

In addition, while golf’s reinclusion in the Olympic Games beginning in 2016 is expected to be an opportunity to raise our brand awareness on a global level, there can be no assurance that we will be able to successfully take advantage of such opportunity.

RISK FACTORS

Our business success has been driven by Chairman Liu and our senior management team.

Our performance depends significantly on the efforts and abilities of Chairman Liu and members of our senior management team, most of whom have been with our Company for more than three decades and have made significant contributions to the continuing growth and success of our business. As such, the loss of Chairman Liu or any member of our senior management team could hinder our ability to effectively operate our Company and implement our growth strategies. Moreover, if we are unable to attract appropriately qualified new personnel to our management team as we expand over the next few years, the existing management team may not have the necessary resources to implement our growth strategies, which would materially and adversely affect our business, results of operations and financial condition.

Our business depends on our ability to protect our intellectual property rights.

We rely primarily on a combination of patents, trademarks as well as employee and third-party confidentiality agreements to protect our intellectual property. As of the Latest Practicable Date, we had 107 registered trademarks in Japan and 279 registered trademarks in other countries. As of the same date, we also had 14 pending trademark applications. As of the Latest Practicable Date, we had a total of 6 issued patents and 7 pending patent applications. Such protection may be compromised by, among other things, (i) the expiration of the protection period of our registered intellectual property, (ii) infringement by others of our intellectual property rights including, for example, counterfeiting our brands, designs or products, or (iii) delay or refusal by relevant governmental authorities to approve pending intellectual property registration applications. Any of these events or occurrences could have a material adverse effect on our business, results of operations or financial condition.

We may become subject to lawsuits that could cause us to incur significant costs or pay significant damages or that could cause significant interruptions of our operations.

Third parties may bring lawsuits against us based on claims related to product defects, contractual disputes, infringements of intellectual property rights and other legal issues that arise in the course of our operations. Such lawsuits could (i) cause us to incur significant costs or pay significant damages, (ii) force us to alter our existing products or withdraw them from the market, (iii) delay the introduction of new products or (iv) otherwise cause significant interruption of our operations, and our business, results of operations or financial condition could be materially and adversely affected.

We are subject to a variety of laws and regulations in the jurisdictions where we operate.

Due to our international presence, we are subject to a variety of laws and regulations in the jurisdictions where we operate. The application of existing laws and regulations to our operations relating to issues such as environmental protection, occupational health and safety, consumer privacy and advertising can be unclear. We will also be subject to new laws and regulations that we are unfamiliar with as we enter into new markets or the legal and regulatory regimes in our existing markets evolve. If we fail to comply with existing or new laws and regulations, we could be subject to liabilities, including monetary damages and fines, which could impact our production capabilities, result in suspension of our business operations and have a material adverse effect on our business, results of operations or financial condition.

We rely on the proper function of our information technology and communications systems.

We rely on the uninterrupted operation of our information technology and communications systems for our operations, including manufacturing, sales, logistics, accounting and internal control. Our information technology and communications systems are vulnerable to damage or interruption from:

- earthquake, fire, flood, hurricane and other natural disasters;
- power loss, computer systems failure, Internet and telecommunications or data network failure; and
- hackers, computer viruses, software bugs or glitches.

RISK FACTORS

Any damage or significant disruption in the operation of such systems or the failure of our information systems to perform as expected would disrupt our business, hence materially and adversely affecting our business, results of operations or financial condition.

Fluctuations in exchange rates may lead to volatility in our results of operations.

Although we operate primarily in Japan, we conduct a considerable number of transactions in various currencies worldwide. Conducting business in foreign currencies, including making sales and incurring costs, exposes us to fluctuations in foreign currency exchange rates relative to Japanese yen. The Company records the majority of its revenue in Japanese yen, together with a combination of other currencies that accounted for 35% of revenue for the year ended on March 31, 2016.

Exchange rate fluctuations can affect the prices at which our products are sold in international markets. Significant unanticipated changes in foreign currency exchange rates may give rise to transactional risk. We review our pricing regularly, especially those towards distributors and consumers outside Japan, but we did not adjust pricing solely due to foreign currency fluctuations during the Track Record Period. There can be no assurance that such adjustment would be unnecessary in the future, and our failure to act in a timely manner to counteract the effects of foreign currency fluctuations could have an adverse effect on our financial results in international markets.

We prepare our consolidated financial statements in Japanese yen for the Group’s reporting purposes. Foreign currency-denominated amounts are translated into Japanese yen based upon the applicable foreign currency exchange rates. Fluctuations in these foreign currency exchange rates may positively or negatively affect our reported financial results and affect year-on-year comparisons. We recorded net foreign exchange losses of JPY40.6 million in the year ended March 31, 2016, which was caused by Japanese yen’s appreciation against foreign currencies, particularly U.S. dollars, in the year ended March 31, 2016. Currently, we do not engage in any foreign currency hedging activities. For further information, see “Financial Information — Quantitative and Qualitative Disclosures about Market Risk — Foreign Currency Risk.”

Fluctuations in our effective tax rate may lead to volatility in our profit.

Our effective tax rate fluctuated during the Track Record Period and amounted to 4.4%, (14.9%) and 10.0% for the years ended March 31, 2014, 2015 and 2016, respectively. The fluctuations were partly due to the existence of tax losses carried forward and the recognition of deferred tax assets during the Track Record Period. As of 31 March 2016, the accumulated tax losses arising from Honma Japan were JPY2,301.3 million. As we expect to continue generating taxable profit from Honma Japan in the future, we expect that we will be able to fully utilize such tax losses in the next two to three years. Accordingly, we may experience additional fluctuations in our effective tax rate going forward, which may materially and adversely affect our results of operations. For more information, see “Financial Information — Factors Affecting Our Financial Condition and Results of Operations — Tax.”

Government control over currency conversion may affect our ability to pay dividends.

Currently, the Renminbi is not a freely convertible currency. We conduct our operations in China through our subsidiary WP International Trading and receive a significant portion of our payments from customers in the Renminbi. We may need to convert and remit the Renminbi into foreign currencies for the payment of dividends, if any, to holders of our Shares. Under the PRC’s existing foreign exchange regulations, following the completion of the [REDACTED], we will be able to pay dividends in foreign currencies without prior approval from SAFE or its local branches by complying with certain procedural requirements. However, the PRC government may take measures at its discretion in the future to restrict access to foreign currencies for current account transactions if foreign currencies become scarce in the PRC. WP International Trading may not be able to pay dividends in foreign currencies to its parent Honma Holdings if the PRC government restricts access to foreign currencies for current account transactions. Such restrictions would in turn limit our ability to pay dividends to Shareholders. For more information on our corporate structure, see “Our History — Corporate Structure.”

RISK FACTORS

Our operations in Taiwan may be affected if we are required to restructure our operations in Taiwan.

When Chairman Liu acquired a majority interest in Honma Japan, he also indirectly acquired a majority interest in its wholly-owned subsidiary Honma Taiwan. Honma Taiwan accounted for 3.3% of our total revenue for the year ended March 31, 2016. According to applicable Taiwan law, any individual or entity of the PRC, or any company owned as to 30% or more by such PRC individual or entity in any third territory outside the PRC (a “PRC Investor”) making an investment in a Taiwanese private company should first file an application for approval with the Investment Commission (“TIC”) of the Ministry of Economic Affairs in Taiwan (“Taiwan MOEA”). Further, a PRC Investor may only make an investment in permitted businesses identified in a PRC investment list (the “PRC Permitted Investment List”) issued by Taiwan MOEA from time to time. A failure to obtain approval may result in the TIC imposing penalties on Honma Japan, including a fine of up to NTD600,000 (equivalent to approximately US\$18,904) and/or making a direction to rectify the matter, which may include divesting the relevant investment within a specified period of time, and/or a suspension on exercising shareholder’s rights until the matter is rectified.

At the time, neither Chairman Liu nor Honma Japan was aware of the requirement, nor were they advised by advisors involved in the acquisition, to file an application with the TIC because Honma Taiwan was only indirectly acquired by Chairman Liu. After we became aware of the above requirement, we notified the TIC of the relevant facts. The TIC ordered Honma Japan to pay a fine of NTD120,000 (equivalent to approximately US\$3,781) and to divest Honma Japan’s interest in Honma Taiwan by February 11, 2017. After the payment of the fine mentioned above, Honma Hong Kong, as a new investor, has made an application to invest in Honma Taiwan by acquiring the entire equity interest in Honma Taiwan. The TIC has accepted Honma Hong Kong’s application. Our Taiwan legal advisor, Lee and Li, Attorneys-at-Law has advised that (i) as all of Honma Taiwan’s business scope falls into the PRC Permitted Investment List, Honma Hong Kong, though being indirectly controlled by Chairman Liu (i.e., a PRC person) and therefore deemed a PRC Investor, is permitted to file an application with the TIC for its investment in Honma Taiwan (by acquiring Honma Japan’s interest in Honma Taiwan) and (ii) the previous violation by Honma Japan will not affect the right of Honma Hong Kong to file such investment application. Given the approval is uncertain and if the approval for the transfer cannot be obtained in a timely manner, we will make the necessary arrangements to divest our interest in Honma Taiwan by restructuring our business operations in Taiwan into a distributorship model. In that case, we will consider divesting our investment in Honma Taiwan to qualified distributors and we will continue to sell and service our products in Taiwan indirectly through our distributors. We cannot assure you that our sales in Taiwan would not be affected during the transition period.

RISKS RELATING TO CONDUCTING BUSINESS IN JAPAN

Consumption tax is likely to increase in Japan, which may in turn affect consumer spending.

The Japanese government reviews tax policy annually as part of its budgetary process. The Japanese consumption tax increased from 5% to 8% in April 2014 and may further increase to 10%. While it was proposed to effect the increase in consumption tax to 10% beginning from April 2017, Prime Minister Shinzo Abe announced in June 2016 that the Japanese government is planning to postpone the increase to October 2019. If the consumption tax is increased, it is likely that consumer spending will be adversely affected. For example, after the increase in consumption tax in April 2014, the level of household spending declined and remained depressed even a year after the tax increase. We did not notice any material adverse effect of the tax increase on our business in Japan. For our revenue and gross profit attributable to Japan during the Track Record Period, see “Financial Information — Principal Components of Statements of Profit or Loss.” However, a further increase of the consumption tax might potentially have a material adverse effect on our business, results of operations and financial condition.

RISK FACTORS

We may suffer large losses in the event of a natural disaster, such as an earthquake, terrorist attack, outbreak of infectious disease, industrial accident or other casualty events in Japan.

A substantial portion of our business operations, including a large number of self-operated stores, our headquarters in Tokyo and our Sakata Campus, where we design and develop all of our golf clubs and perform key manufacturing processes, are located in Japan. Japan has historically experienced numerous large earthquakes and tsunamis that resulted in extensive property damages. Additionally, large disasters, outbreaks, terrorist attacks, industrial accidents or other casualty events affecting our suppliers or distribution network in Japan could disrupt our procurement and distribution operations even in the absence of direct physical damage to our properties, which in turn could result in significant interruptions to our business.

The insurance policies we currently maintain do not include coverage for, among other things, earthquakes, volcanic eruptions, tsunamis caused by earthquakes or volcanic eruptions, nuclear accidents, terrorist incidents, civil strife, industrial strikes or other similar events. As a result, we may have to pay out of our funds for financial and other losses, damages and liabilities caused by such events. For more information about our insurance policies, see “Business — Insurance.” With or without insurance, damage to any of our stores, our research and manufacturing facilities at our Sakata Campus, or to our suppliers or distribution network, due to fire, earthquake, tsunami, typhoon, flood, terrorism, outbreaks such as avian flu, industrial accidents or other man-made or natural disasters or casualty events could materially and adversely affect our business, results of operations or financial condition.

The statutory tax rate in Japan is subject to change from time to time.

The statutory tax rates in Japan for the years ended March 31, 2014, 2015 and 2016 were 38%, 35.6% and 33.06%, respectively, of assessable profit. The Japanese government reviews tax policy annually as part of its budgetary process. We cannot predict if and how the statutory tax rate will change in the future or at what rate. Any material increase in the statutory tax rate would have a material adverse effect on our business, results of operations and financial condition.

Costs related to our employee defined benefit plan could increase as a result of revised assumptions or changes in our employee defined benefit plans.

Costs and liabilities related to our employee defined benefit plan are calculated based on assumptions regarding projected returns on plan assets and various actuarial assumptions relating to the plan. If actual results differ from these assumptions or if we change these assumptions or revise our employee defined benefit plan in the future, costs and liabilities related to the plan could change. As a result, our financial condition and results of operations could be materially and adversely affected.

RISKS RELATING TO THE [REDACTED] AND OUR SHARES

There has been no prior [REDACTED] for our Shares, and an active trading market may not develop.

Before the [REDACTED], there was no [REDACTED] for our Shares. The initial [REDACTED] range of our Shares, and the [REDACTED], will be the result of negotiations between the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and us. In addition, while we have applied to have our Shares [REDACTED] on the Stock Exchange, there can be no guarantee that (i) an active [REDACTED] for our Shares will develop or, (ii) if it does, that it will be sustained following the completion of the [REDACTED], or (iii) that the [REDACTED] of our Shares will not decline below the [REDACTED]. You may not be able to resell your shares at a price that is attractive to you, or at all.

RISK FACTORS

The price and trading volume of our Shares may be volatile which could result in substantial losses for investors purchasing our Shares in the [REDACTED].

The price and trading volume of our Shares may be volatile. The market price of our Shares may fluctuate significantly and rapidly as a result of the following factors, among others, some of which are beyond our control:

- variations of our results of operations (including variations arising from foreign exchange rate fluctuations);
- loss of significant distributors or material defaults by our distributors;
- changes in securities analysts’ estimates of our financial performance;
- announcement by us of significant acquisitions, greenfield developments, strategic alliances or joint ventures;
- addition or departure of key personnel;
- fluctuations in stock market price and volume;
- involvement in litigation; and
- general economic and stock market conditions.

Future sale or major divestment of Shares by our Controlling Shareholders could materially and adversely affect the prevailing market price of our Shares.

The future sale of a significant number of our Shares in the public market after the [REDACTED], or the possibility of such sales, by our Controlling Shareholders could materially and adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. Although each of our Controlling Shareholders has agreed to a lock-up on Shares held by Kouunn Holdings, any major disposal of our Shares by our Controlling Shareholders upon expiry of the relevant lock-up periods (or the perception that these disposals may occur) may cause the prevailing market price of our Shares to fall which could negatively impact our ability to raise equity capital in the future.

Our interests may conflict with those of our Controlling Shareholders, who may take actions that are not in, or may conflict with, our or our public shareholders’ best interests.

Immediately following the [REDACTED], Chairman Liu, through Kouunn Holdings, will beneficially own [REDACTED]% of our Company’s outstanding shares on a fully-diluted basis, assuming that the [REDACTED] is not exercised. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, the non-controlling Shareholders could be disadvantaged by the actions that our Controlling Shareholders choose to cause us to pursue.

Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including but not limited to mergers, privatizations, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. Our Controlling Shareholders have no obligation to consider the interests of our Company or the interests of our other shareholders. As such, our Controlling Shareholders’ interests may not necessarily be in line with the best interests of our Company or the interests of our other Shareholders, which may have a material and adverse effect on our Company’s business operations and the price at which our Shares are traded on the Stock Exchange.

Dividends declared in the past may not be indicative of our dividend policy in the future.

For each of the three years ended March 31, 2014, 2015 and 2016, we distributed dividends of JPY1,000.0 million, JPY463.3 million and JPY1,235.0 million, respectively, to our Shareholders. A declaration of dividends is proposed by our Board of Directors and the amount of any dividends will depend on various

RISK FACTORS

factors, including, among others, our results of operations, cash flow situation and other factors which our Board of Directors may determine as important. Accordingly, our historical dividend distributions are not indicative of our future dividend distribution policy and potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis upon which future dividends are determined.

Certain statistics contained in this document are derived from a third-party report and publicly available official sources.

This document, particularly the section headed “Industry Overview” in this document, contains information and statistics, including but not limited to information and statistics relating to the golf products industry and markets. Such information and statistics have been derived from various official government and other publications and from a third-party report commissioned by us. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Sole Sponsor, Sole Global Coordinator, Joint Bookrunners, Joint Lead Managers, Co-Lead Manager, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the [REDACTED] and no representation is given as to its accuracy. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy, as the case may be, in other jurisdictions. Therefore, you should not unduly rely upon the industry facts and statistics contained in this document.

Forward-looking statements contained in this document are subject to risks and uncertainties.

This document contains certain statements and information that are forward-looking and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “going forward”, “intend”, “plan”, “project”, “seek”, “expect”, “may”, “ought to”, “should”, “would” or “will” and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

Purchasers of our Shares in the [REDACTED] will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The [REDACTED] of our Shares is higher than the net tangible asset value per Share immediately prior to the [REDACTED]. Therefore, purchasers of our shares in the [REDACTED] will experience an immediate dilution in the pro forma net tangible asset value of JPY[REDACTED] (HK\$[REDACTED]) per Share based on the maximum [REDACTED] of HK\$[REDACTED].

In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience further dilution in the net tangible asset value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the [REDACTED], our Company has sought the following waiver from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Since substantially all of our Company’s business operations and management are located outside Hong Kong, there is no business need to appoint executive Directors based in Hong Kong. As all of our executive Directors currently reside in Japan or the PRC, we do not and, for the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for[, and the Stock Exchange has agreed to grant,] a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are Mr. Zuo Jun (左軍), our executive Director and Ms. Cheng Pik Yuk (鄭碧玉), our company secretary. Both of the authorized representatives: (i) are, and will be, readily contactable by telephone, facsimile and/or email to deal promptly with any enquiries which may be made by the Stock Exchange; and (ii) are to act at all times as the principal channel of communication between the Stock Exchange and us;
- (b) each of the authorized representatives has means to contact all Directors (including the independent non-executive Directors) promptly at all times, as and when the Stock Exchange wishes to contact the Directors on any matters. The Company will implement a policy whereby:
 - (i) each Director will provide his mobile phone number, office phone number, e-mail address and facsimile number to the authorized representatives;
 - (ii) each Director will provide his phone numbers or means of communication to the authorized representatives when he is travelling; and
 - (iii) each Director will provide his mobile phone number, office phone number, email address and facsimile number to the Stock Exchange;
- (c) Guotai Junan Capital Limited, our compliance adviser, will act as an additional channel of communication with the Stock Exchange for the period commencing from the [REDACTED] and ending on the date that the Company publishes its financial results for the first full financial year after the [REDACTED] pursuant to Rule 13.46 of the Listing Rules;
- (d) any meetings between the Stock Exchange and the Directors may be arranged through the authorized representatives within a reasonable time frame;
- (e) the Company will inform the Stock Exchange promptly in respect of any change in the Company’s authorized representatives; and
- (f) our Directors who are not ordinarily resident in Hong Kong possess or will apply for valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet with the Stock Exchange upon reasonable notice.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
LIU Jianguo (劉建國)	No.9 Huahui Road, Songjiang District, Shanghai, PRC	Chinese
ITO Yasuki (伊藤 康樹)	5-8-17-905, Higashiikebukuro, Toshima-ku, Tokyo, 170-0013, Japan	Japanese
MURAI Yuji (邨井 勇二)	1-5-4-601, Heiwadai, Nagareyamacity, Chiba, Japan	Japanese
ZUO Jun (左軍)	Room 502, No. 1, Lane 926, Xinsongjiang Road, Songjiang District, Shanghai, PRC	Chinese
Independent Non-Executive Directors		
LU Pochin Christopher (盧伯卿)	No. 30, Lane 666, Shebeigong Road, Shanghai, PRC	American
WANG Jianguo (汪建國)	Room 1001-1002 Jin Ling Yu Hua Yuan, No. 6 Taipingmen Street, Nanjing, Jiangsu, PRC	Chinese
XU Hui (徐輝)	Room 1001, No. 15, Shanghai Bay, Lane 1455, Wanpingnan Road Xuhui District, Shanghai, PRC	Chinese

Further information about the Directors and other senior management members are set out in “Directors and Senior Management.”

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor and [REDACTED]

Morgan Stanley Asia Limited
(摩根士丹利亞洲有限公司)
Level 46
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

[REDACTED]

[REDACTED]

Legal Advisors to Our Company

As to Hong Kong and U.S. laws:
Simpson Thacher & Bartlett
35/F, ICBC Tower
3 Garden Road
Central
Hong Kong

As to Japanese law:
Nagashima Ohno & Tsunematsu
JP Tower, 2-7-2 Marunouchi
Chiyoda-ku
Tokyo 100-7036
Japan

As to PRC law:
Commerce & Finance Law Offices
6/F, NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District
Beijing PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<i>As to Cayman Islands law:</i> Maples and Calder 53rd Floor, The Center 99 Queen’s Road Central Hong Kong
	<i>As to Taiwan law:</i> Lee and Li, Attorneys-at-Law 7/F 201 Tun Hua North Road Taipei 10508 Taiwan
Legal Advisors to the Sole Sponsor [REDACTED]	<i>As to Hong Kong and U.S. laws:</i> Paul Hastings 21st - 22nd Floor, Bank of China Tower 1 Garden Road Central Hong Kong <i>As to Japanese law:</i> Mori Hamada & Matsumoto Marunouchi Park Building 2-6-1 Marunouchi Chiyoda-ku Tokyo 100-8222 Japan <i>As to PRC law:</i> Jingtian & Gongcheng Attorneys at Law 34/F, Tower 3, China Central Place 77 Jianguo Road Chaoyang District Beijing, PRC
Auditor and Reporting Accountant	Ernst & Young <i>Certified Public Accountants</i> 22nd Floor, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Independent Property Valuer	AVISTA Valuation Advisory Limited 23rd Floor Siu On Centre No.188 Lockhart Road Wan Chai, Hong Kong
Industry Consultant	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. Room 1014-1018, Tower B No.500 Yunjin Road Xuhui District Shanghai, 200232, China

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Compliance Advisor

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Receiving Bankers

[REDACTED]

CORPORATE INFORMATION

Registered Office in Cayman Islands	The offices of Maples Corporate Services Limited PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Headquarters 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
Company Website	http://www.honmagolf.co.jp <i>(The information on the website does not form part of this document)</i>
Company Secretary	CHENG Pik Yuk (鄭碧玉, alias: Patsy Cheng) (FCIS FCS (PE)) Level 54, Hopewell Centre 183 Queen’s Road East Hong Kong
Authorized Representatives	ZUO Jun (左軍) Room 502, No. 1, Lane 926 Songjiang Road, Xinsongjiang District Shanghai, PRC CHENG Pik Yuk (鄭碧玉, alias: Patsy Cheng) (FCIS FCS (PE)) Level 54, Hopewell Centre 183 Queen’s Road East Hong Kong
Audit Committee	LU Pochin Christopher (盧伯卿) (Chairman) WANG Jianguo (汪建國) XU Hui (徐輝)
Remuneration Committee	WANG Jianguo (汪建國) (Chairman) XU Hui (徐輝) ZUO Jun (左軍)

CORPORATE INFORMATION

Nomination Committee	LIU Jianguo (劉建國) (<i>Chairman</i>) WANG Jianguo (汪建國) LU Pochin Christopher (盧伯卿)
The Cayman Islands Principal Share Registrar and Transfer Agent	[REDACTED]
Hong Kong Share Registrar	[REDACTED]
Compliance Advisor	Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen’s Road, Central Hong Kong
Principal Bankers	Mizuho Bank, Ltd., Aoyama Branch 3-6-12 Kitaayama Minato-ku, Tokyo Japan The Tokyo Tomin Bank, Limited, Setagaya Branch 3-18-11 Kamiuma Setagaya-ku, Tokyo Japan Bank of China Limited, Shanghai Branch, Songjiang Sub-Branch No. 208 Middle Zhongshan Road Songjiang District, Shanghai China The Hongkong and Shanghai Banking Corporation Limited 1/F, Tower 2, HSBC Centre 1 Sham Mong Road, Kowloon Hong Kong

INDUSTRY OVERVIEW

This and other sections of this document contain information relating to the industry in which we operate. Certain information and statistics set forth in this section have been extracted from the Frost & Sullivan Report issued by Frost & Sullivan, an independent market research agency, which we commissioned. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading in any material respect or that any fact has been omitted that would render such information or statistics false or misleading in any material respect. Such information and statistics have not been independently verified by us, the Sole Sponsor, Sole Global Coordinator, Joint Bookrunners, and Joint Lead Managers, the Co-Lead Manager, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the [REDACTED] and no representation is given as to their correctness or accuracy. Accordingly, you should not place undue reliance on such information or statistics.

GLOBAL GOLF PRODUCTS INDUSTRY

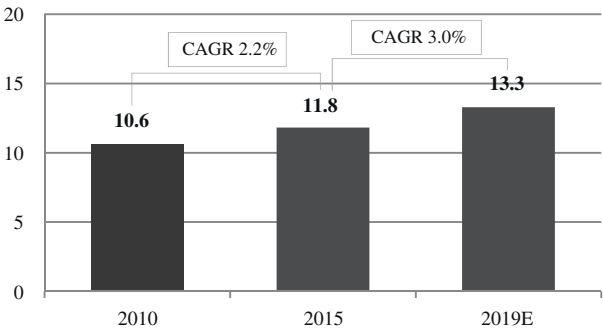
Overview

Golf is a sport which boasts worldwide popularity and is enjoyed by millions globally. The sport involves players using various types of clubs to hit balls into a series of holes with the aim of minimizing the number of strokes required. To play golf, a golfer needs a set of clubs of various lengths and sizes, a set of golf balls and related accessories such as gloves and bags. These products make up the core of the global golf products market. Golf apparel includes clothing and shoes targeted at the golf lifestyle market and forms another important segment of the golf products market.

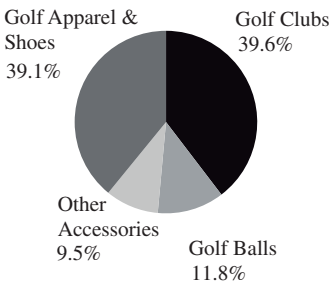
From 2010 to 2015, the global golf products market has expanded steadily at a CAGR of 2.2%, reaching US\$11.8 billion in terms of retail sales value in 2015. This market is expected to grow at a slightly higher rate over the next several years with total market size reaching US\$13.3 billion in terms of retail sales value in 2019, representing a CAGR of 3.0% from 2015 to 2019, according to the Frost & Sullivan Report. For more information, see “— Key Drivers and Trends in Global Golf Products Industry.” In terms of product breakdown, golf clubs constituted the largest market segment with US\$4.7 billion of retail sales in 2015, representing 39.6% of the overall golf products market. Golf balls and other accessories, with US\$1.4 billion and US\$1.1 billion of retail sales, respectively, represented 11.8% and 9.5% of the golf products market, respectively. Golf apparel, including shoes, represented 39.1% of the market with US\$4.6 billion of retail sales in 2015, according to the Frost & Sullivan Report.

The charts below set forth the global golf products market size in terms of retail sales value from 2010 to 2019 and breakdown by product type in 2015, respectively.

Global Retail Sales Value (2010-2019E),
in US\$ billions



Breakdown by Product Type (2015)



Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Regional Breakdown

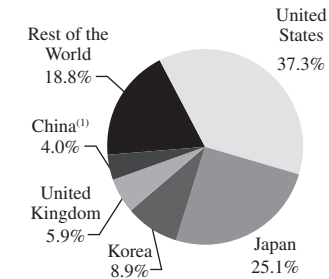
Some of the key golf products markets in the world include the United States, Japan, Korea, the United Kingdom and China. According to the Frost & Sullivan Report:

- *United States.* The largest golf products market in the world, with retail sales of US\$4.4 billion in 2015, representing 37.3% of the global market. The United States golf products market has experienced steady growth in recent years, which growth is expected to continue at a CAGR of 2.3% from 2015 to 2019, reaching US\$4.8 billion in terms of retail sales in 2019;
- *Japan.* The second largest golf products market in the world, with retail sales of US\$3.0 billion in 2015, representing 25.1% of the global market. Japan’s golf products market has been rather stagnant in recent years. With greater representation of Japanese golfers among the professional golf circuit as well as the upcoming Olympic Games in Tokyo in 2020, the market in Japan is expected to rediscover growth at a CAGR of 2.0% from 2015 to 2019, reaching US\$3.2 billion in terms of retail sales in 2019;
- *Korea.* The third largest golf products market in the world, with retail sales of US\$1.0 billion in 2015, representing 8.9% of the global market. Korea’s golf products market has experienced robust growth in recent years, on the back of strong interest among the population in golf, particularly the younger generation, following the success of Korean professional golfers such as Bo-Mee Lee (李寶美) on the JLPGA tour in recent years. These factors are expected to continue to drive the expansion of Korea’s golf products market, which is projected to grow at a CAGR of 5.9% from 2015 to 2019 and reach US\$1.3 billion in terms of retail sales in 2019;
- *United Kingdom.* A mature golf products market, with retail sales of US\$692 million in 2015, representing 5.9% of the global market. The United Kingdom golf products market has experienced steady growth in recent years, which growth is expected to continue at a CAGR of 2.0% from 2015 to 2019, reaching US\$750 million in terms of retail sales in 2019; and
- *China (including Hong Kong and Macau).* One of the fastest growing golf products markets in the world, driven by the emergence of the middle and upper class, increasing disposable income and spending on leisure activities, together with increasing golf participation and per capita expenditure on golf related products. These factors are expected to continue to drive the expansion of China’s golf products market. China’s golf products market reached US\$469 million in terms of retail sales in 2015, representing 4.0% of the global market. It is expected to increase to US\$646 million in 2019, at a CAGR of 8.3% from 2015 to 2019.

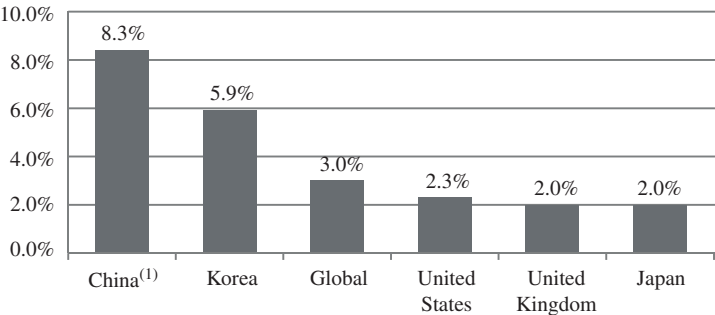
INDUSTRY OVERVIEW

The charts below set forth the breakdown by region of the global golf products market by retail sales in 2015, and comparison of 2015 to 2019 market size measured in CAGR by region, respectively.

Breakdown by Region (2015)



Growth Comparison by Region (2015-2019E CAGR)



Note:

(1) including Hong Kong and Macau

Source: Frost & Sullivan Report

Retail Sales Channels

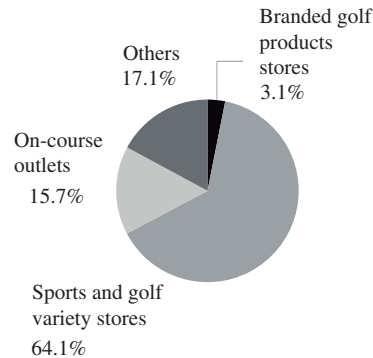
Golf products are generally sold through a variety of retail channels around the world, including:

- *Branded golf products stores.* Stand-alone single brand golf products stores operated by golf brands or golf products distributors. Branded golf product stores constitute a relatively small segment of the overall market, representing 3.1% of the global golf products market in terms of retail sales in 2015;
- *Sports and golf variety stores.* Includes sports megastores that sell a comprehensive range of sports equipment under multiple brands, and traditional sports and golf variety stores that provide various brands of sports and golf equipment. Sports and golf variety stores constitute the largest retail sales channel of the overall market, representing 64.1% of the global golf products market in terms of retail sales in 2015;
- *On-course outlets.* Specialty golf products stores located on golf courses. These stores are typically operated by the respective golf courses and sell a variety of golf and related products. On-course outlets represented 15.7% of the global golf products market in terms of retail sales in 2015; and
- *Other channels.* Includes various ecommerce channels, supermarkets and department stores and other channels such as golf colleges and institutions. Other channels represented 17.1% of the global golf products market in terms of retail sales in 2015.

INDUSTRY OVERVIEW

The chart below sets forth the breakdown by retail sales channel of the global golf products market in terms of retail sales in 2015, according to the Frost & Sullivan Report.

Breakdown by Retail Sales Channel (2015)



Source: Frost & Sullivan Report

Although branded golf products stores represent only a small portion of the overall golf products retail sales market, they can serve a highly important purpose for brands. Such stores are typically staffed with experienced golf advisors, have testing equipment and sometimes even golf simulators and fitting centers to assist consumers with their purchase decisions. Such value added services can translate into a higher degree of satisfaction and brand loyalty for customers, which drive repeat purchases. As of March 31, 2016, HONMA had 86 self-operated golf products stores, the largest number among major golf products companies, according to the Frost & Sullivan Report.

KEY DRIVERS AND TRENDS IN GLOBAL GOLF PRODUCTS INDUSTRY

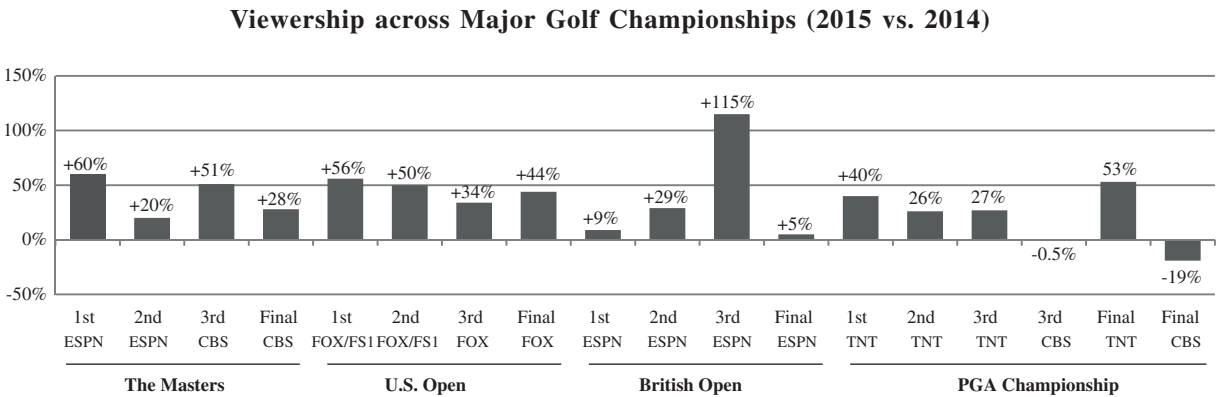
According to the Frost & Sullivan Report, the following factors are expected to be key drivers of growth for the golf products industry over the next several years:

- *New Markets and Demographics.* Golf has traditionally been under-penetrated in emerging markets. In recent years, more people in emerging markets, especially in Asia, have started to play the sport, driven by increasing disposable income, higher standards of living and greater emphasis on leisure activities. Meanwhile, golf has also gained greater popularity among women and the younger generation worldwide, as a result of the increasing perception of golf as a “lifestyle sport”, a new generation of young golfers coming to prominence on the professional circuit, and additional marketing efforts by golf brands towards these demographics.
- *“Lifestyle Sport” Proposition.* Positioned as a “lifestyle sport” with an element of prestige that accommodates competition, entertainment and physical exercise, golf appeals to modern consumers who pursue a higher quality lifestyle with an increasing awareness for health and wellness.
- *New Generation of Professional Golfers.* A new generation of professional golfers, including Jason Day, Jordan Spieth and Rory McIlroy, has helped to renew enthusiasm towards the sport, following the success of premier athletes such as Tiger Woods in the late 1990s and early 2000s.
- *Golf’s Return to the Olympic Games.* The reinclusion of golf in the Olympic Games beginning in 2016 is expected to significantly raise the profile of the sport worldwide. In addition, with Japan hosting the Olympics in 2020, the golf products markets in Japan and Asia are expected to receive a significant boost in the years to come.
- *Expansion of Retail Channels.* Diverse retail channels have been established to address consumers’ purchase preferences, which were predominantly bricks and mortar store focused in the past. In recent years, emerging channels, such as e-commerce channels, have gained increasing importance in capturing previously untapped or underpenetrated consumer segments.

INDUSTRY OVERVIEW

- Technological Innovation. Golf products development has always been driven by technological innovations over the years. Further developments in clubs, balls and related products are expected to make the game more accessible, enjoyable and exciting, while continuing to attract new players.

Reflecting the renewed sense of enthusiasm towards golf, viewership across all major golf championships significantly increased in 2015. Such renewed enthusiasm towards golf is expected to have a positive impact on the demand for golf products. The following chart sets forth the increase in viewership from 2015 vs. 2014 across the major championships.



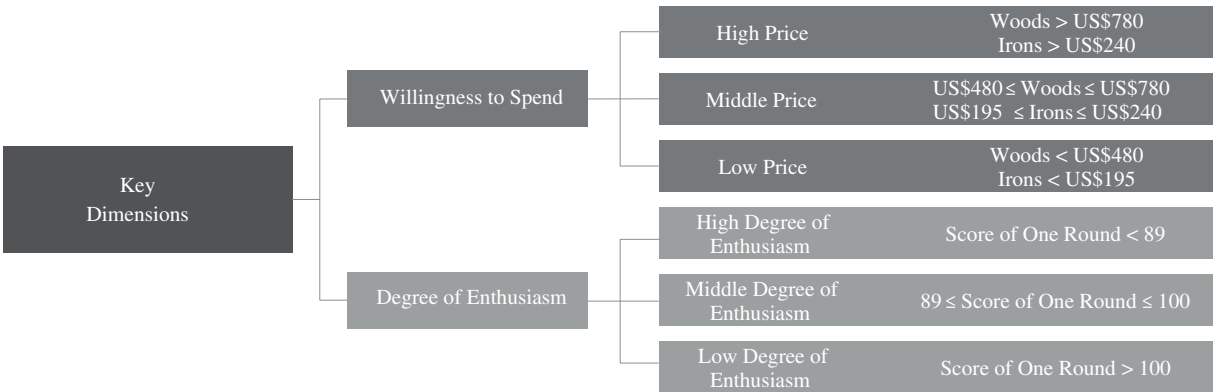
Source: Frost & Sullivan Report

ANALYSIS OF CONSUMER PREFERENCES FOR GOLF CLUBS

Overview of Market Segmentation by Types of Consumers

According to the Frost & Sullivan Report, consumer preferences for golf clubs can be classified under two key dimensions:

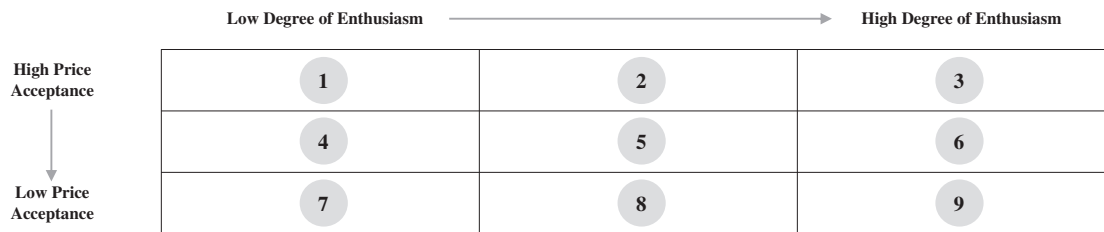
- (i) the willingness to spend, or acceptable price of clubs; and
- (ii) the degree of enthusiasm for golf. The degree of enthusiasm can be measured by the consumer’s skill and participation level, which is score for playing one round of golf, as well as number of rounds played within a particular time period.



Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Based on the two key dimensions described above, the golf clubs market can be segmented into the Nine Key Segments, each consisting of a unique type of golf club consumer.



Source: Frost & Sullivan Report

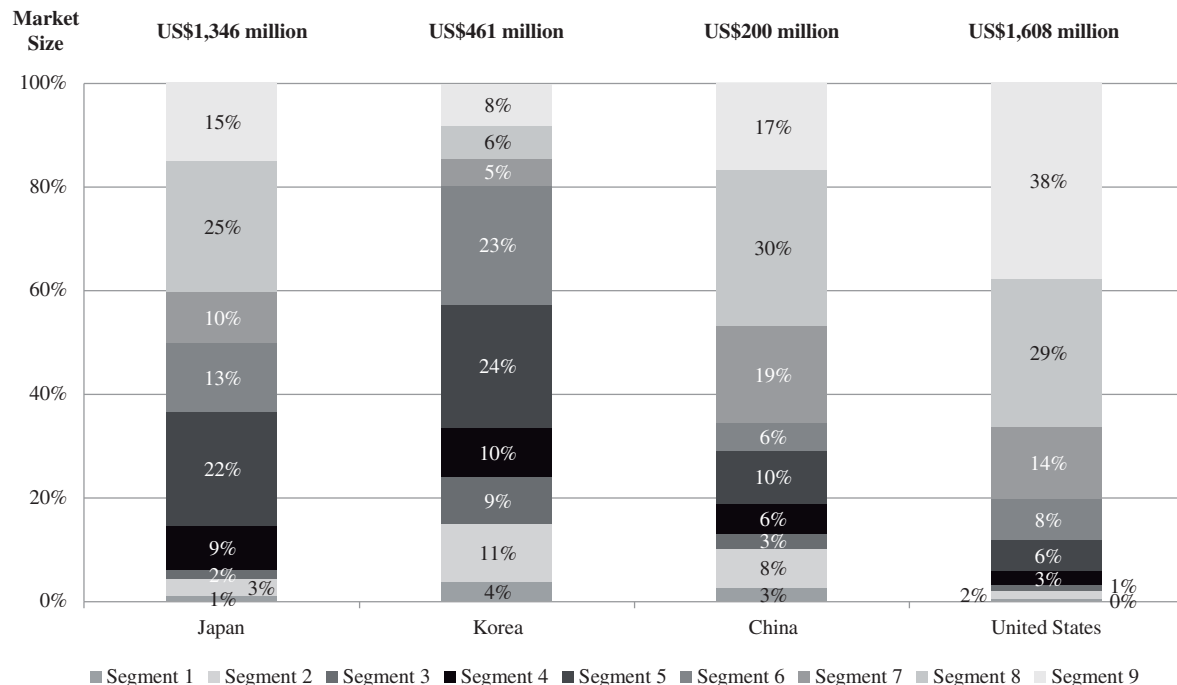
In most major club markets around the world, Segments 5, 6, 8 and 9 constitute the largest consumer pools within the Nine Key Segments, according to the Frost & Sullivan Report.

- *Japan.* Consumers have typically favored higher priced, premium brands. The largest segments were Segments 8, 5, 9 and 6, which represented 25.3%, 22.0%, 15.2% and 13.2% of the overall golf clubs market in terms of retail sales in 2015, respectively.
- *Korea.* Participation in the industry has traditionally skewed towards the upper class who are members of private clubs. The largest segments were Segments 5, 6 and 2, which represented 23.8%, 22.9% and 11.1% of the overall golf clubs market in terms of retail sales in 2015. The Korea market is comparatively more high-end focused and hence Segments 1, 2 and 3 represent greater share of the market as compared to other regions.
- *China.* The largest segments were Segments 8, 7, 9 and 5, which represented 30.2%, 18.6%, 16.7% and 10.1% of the overall golf clubs market in terms of retail sales in 2015, respectively. China is expected to witness the largest shift in segment market representation over the next several years. As average skill levels of golf players gradually improve, Segments 5 and 6 are expected to experience a significant increase in overall market share.
- *United States.* The United States has a mature golf club market with participation across different income groups. The largest segments were Segments 9, 8 and 7, which represented 37.8% and 28.6% and 14.0% of the overall golf clubs market in terms of retail sales in 2015, respectively. The significant market share of Segment 9 and 8 consumers demonstrate the mass market and accessible nature of the golf clubs market in the region.

INDUSTRY OVERVIEW

The charts below set forth the breakdown of each of the Nine Key Segments in Japan, Korea, China and the United States in terms of golf club retail sales in 2015.

Nine Key Segments Breakdown by Region by Retail Sales Value (2015)



Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, consumers belonging to each of the Nine Key Segments place emphasis on different criteria when making their purchase decisions on golf clubs.

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

Source: Frost & Sullivan Report

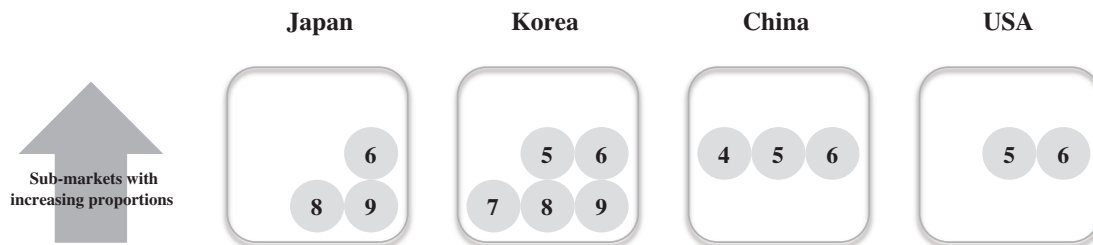
As illustrated in the chart above, consumers who accept higher prices generally have higher requirements on product design. Consumers who have higher degree of enthusiasm generally have higher requirements on product performance. For example, among the Nine Key Segments, consumers belonging to Segment 2 have the highest requirements on the design of golf clubs, while consumers belonging to Segment 6 have the highest requirements on performance. Meanwhile, consumers who accept a middle price range are also focused on performance of the clubs, while having lower requirements on design. On the other hand, consumers who have medium level of enthusiasm tend to place more emphasis on the design of golf clubs.

Golf club manufacturers who are able to identify these trends in consumer preferences and develop different products to best cater to such preferences will be best positioned to gain market share, according to the Frost & Sullivan Report.

INDUSTRY OVERVIEW

Future Outlook on Global Consumer Preferences

The following chart illustrates the segments within the Nine Key Segments of different geographic regions that are expected to experience increases in shares of their respective golf clubs market in terms of retail sales from 2015 to 2019, according to the Frost & Sullivan Report.



Source: Frost & Sullivan Report

- *Japan.* Segments 9, 6 and 8 are expected to experience the fastest growth in terms of retail sales, with expected CAGRs of 7.3%, 5.5% and 2.9% from 2015 to 2019, respectively, outpacing the country’s overall golf clubs market growth of a CAGR of 1.5% expected for the same time period.
- *Korea.* Segments 8, 9, 7, 6 and 5 are expected to experience the fastest growth in terms of retail sales, with expected CAGRs of 11.5%, 11.1%, 9.4%, 9.3% and 7.6% from 2015 to 2019, respectively, outpacing the country’s overall golf clubs market growth of a CAGR of 6.5% expected for the same time period.
- *China.* Segments 6, 5 and 4 are expected to experience the fastest growth in terms of retail sales, with expected CAGRs of 35.1%, 21.2%, and 11.9% from 2015 to 2019, respectively, outpacing the country’s overall golf clubs market growth of a CAGR of 10.9% expected for the same time period. Segments 8, 9, 7 and 3 are also expected to experience significant growth, with respective CAGRs of 8.3%, 7.6% and 6.7% expected for the same time period.
- *United States.* Segments 5 and 6 are expected to experience the fastest growth in terms of retail sales, with expected CAGRs of 7.4% and 6.6% from 2015 to 2019, respectively, outpacing the country’s overall golf clubs market growth of a CAGR of 1.2% expected for the same time period.

There are several emerging trends with respect to global consumer preferences for golf clubs over the next several years, according to the Frost & Sullivan Report:

- *Consumers to become more value conscious.* With Segments 5, 6, 8 and 9 exhibiting the highest growth among many key golf club markets, there is a clear trend that consumers have become more value conscious when making their golf club purchase decisions. As golf becomes increasingly adopted as a mainstream and mass market lifestyle activity, there is expected to be an influx of casual golf players across different income groups who will drive demand for more affordable products;
- *Functionality over form.* Another key theme is an increasing preference towards product functionality and performance. As various golf club markets around the world become more mature, average skill levels of golf players gradually increase and they tend to become more educated regarding golf clubs, driving demand for products that will allow such players to improve their score on the golf course; and
- *Emphasis on product innovation and development.* Leading golf club brands will need to adjust their product strategy to satisfy shifting consumer preferences for golf clubs. It is expected that there will be an increasing emphasis on product innovation and development of more affordable product families. Golf club brands with premium brand positioning are expected to be more successful in moving into new segments in the Nine Key Segments given their well-respected brand image and product development capabilities.

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE

The global golf products industry is relatively concentrated, dominated by several well-established companies with recognized brands and strong sales and marketing forces. According to the Frost & Sullivan Report, the top ten brands for golf products and golf clubs had combined global market shares of 73.7% and 76.7%, respectively, in 2015.

HONMA competes on a global basis with the golf segments of multinational sports products companies from the United States and Germany, specialized golf products companies from the United States, as well as other Japanese peers. According to the Frost & Sullivan Report, HONMA was the seventh largest golf products brand and sixth largest golf club brand in the world, with market shares of 2.7% and 5.7%, respectively, in terms of retail sales in 2015. Nonetheless, HONMA was by far the fastest growing brand within the top ten brands as measured by year-on-year retail sales growth from 2014 to 2015, demonstrating the growing awareness of and interest in HONMA’s brand and products among consumers. As a testament to the Company’s prestigious stature, HONMA was also the number one brand for premium golf clubs in the world, with a market share of 22.6% in terms of retail sales in 2015. Premium golf clubs refer to woods sold above US\$700 per club and irons sold above US\$200 per club.

The following tables set forth the top 10 golf products brands, golf club brands and premium golf club brands in terms of global retail sales in 2015, according to the Frost & Sullivan Report.

Top Golf Products Brands by Retail Sales Value (2015)				Top Golf Club Brands by Retail Sales Value (2015)				Top Premium Golf Club Brands ⁽¹⁾ by Retail Sales Value (2015)		
Rank	Brand/ Company	Market Share	YoY Sales Growth	Rank	Brand/ Company	Market Share	YoY Sales Growth	Rank	Brand/ Company	Market Share
1	Company A	17.8%	4.6%	1	Company C	15.1%	1.7%	1	HONMA	22.6%
2	Company B	11.6%	(5.3%)	2	Company B	14.1%	(4.0%)	2	Company F	12.5%
3	Company C	9.9%	2.2%	3	Company A	11.2%	3.8%	3	Company D	10.3%
4	Company D	9.4%	2.9%	4	Company F	9.9%	3.7%	4	Company A	9.9%
5	Company E	9.2%	3.7%	5	Company D	8.5%	1.3%	5	Company C	9.4%
6	Company F	6.9%	4.5%	6	HONMA	5.7%	16.8%	6	Company B	6.1%
7	HONMA	2.7%	21.0%	7	Company G	3.9%	4.0%	7	Company G	5.1%
8	Company G	2.6%	3.5%	8	Company I	3.1%	1.5%	8	Company J	4.8%
9	Company H	1.9%	3.5%	9	Company H	2.7%	2.5%	9	Company K	3.3%
10	Company I	1.8%	1.1%	10	Company E	2.6%	4.4%	10	Company L	2.2%

Note:

(1) Premium golf clubs refer to woods sold at above US\$700 and irons sold at above US\$200 in terms of retail sales value.

Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

In Honma’s home markets of Japan, Korea and China (including Hong Kong and Macau), we had market shares of 8.7%, 6.8% and 15.4%, respectively, in terms of retail sales value in 2015, ranking fourth, sixth and second, respectively, in the respective country’s golf club markets. The following tables set forth the top 10 golf club brands in terms of retail sales in 2015 in Japan, Korea and China (including Hong Kong and Macau), according to the Frost & Sullivan Report.

Top Golf Club Brands in Japan by Retail Sales Value (2015) **Top Golf Club Brands in Korea by Retail Sales Value (2015)** **Top Golf Club Brands in China⁽¹⁾ by Retail Sales Value (2015)**

Rank	Brand/Company	Market Share	Rank	Brand/Company	Market Share	Rank	Brand/Company	Market Share
1	Company F	13.7%	1	Company B	11.2%	1	Company F	15.5%
2	Company C	11.0%	2	Company F	11.0%	2	HONMA	15.4%
3	Company A	9.4%	3	Company A	8.5%	3	Company B	12.2%
4	HONMA	8.7%	4	Company C	7.4%	4	Company C	8.4%
5	Company B	8.4%	5	Company J	6.8%	5	Company A	6.6%
6	Company D	6.8%	6	HONMA	6.8%	6	Company G	5.6%
7	Company H	6.0%	7	Company D	6.7%	7	Company H	3.7%
8	Company G	3.1%	8	Company G	5.2%	8	Company M	3.3%
9	Company M	2.8%	9	Company E	4.4%	9	Company D	3.1%
10	Company E	1.0%	10	Company H	1.9%	10	Company E	2.7%

Note:

(i) Including Hong Kong and Macau

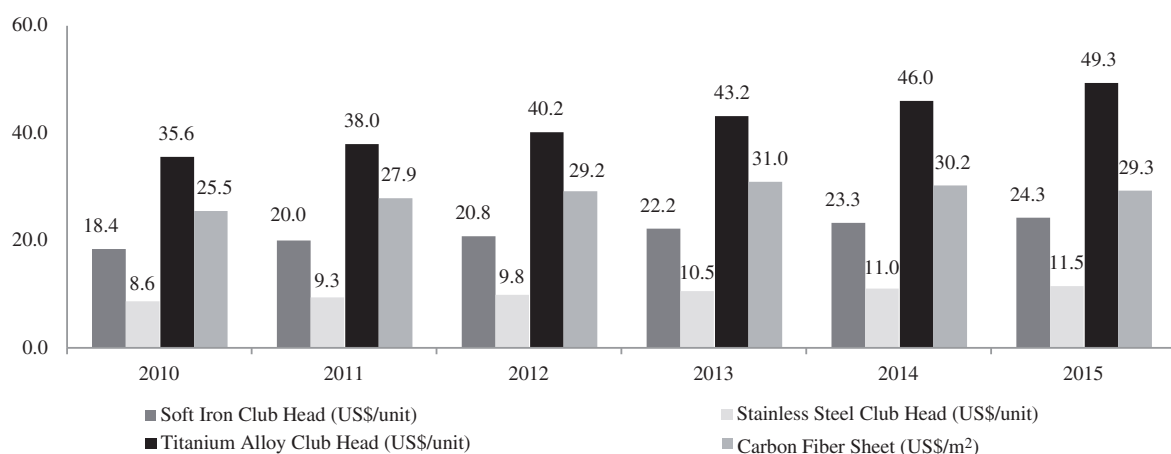
Source: Frost & Sullivan Report

RAW MATERIALS

HONMA’s major raw materials include soft iron club heads, stainless steel club heads, titanium alloy club heads, and carbon fiber sheets. According to the Frost & Sullivan Report, average wholesale prices of soft iron, stainless steel as well as titanium alloy club heads increased steadily from 2010 to 2015, primarily due to improvements in production techniques and rising of labor costs. The average wholesale price of carbon fiber sheets have remained relatively stable over the same time period.

The chart below sets forth the average wholesale prices of HONMA’s key raw materials on a global basis from 2010 to 2015, according to the Frost & Sullivan Report.

Average Wholesale Prices of Key Raw Materials (Global), 2010-2015 (US\$)



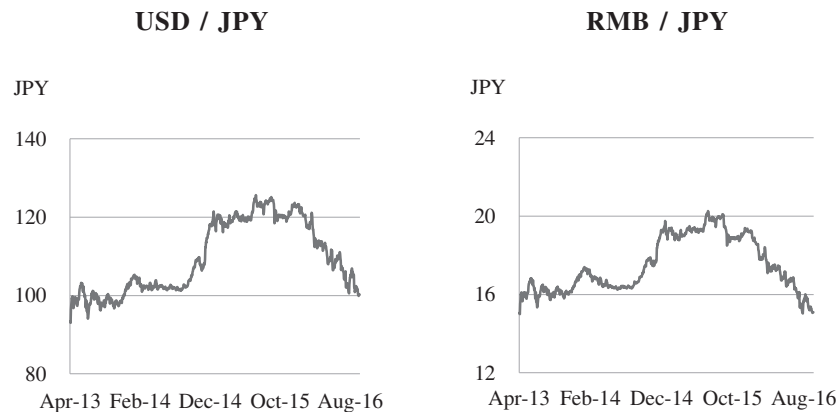
Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

FOREIGN EXCHANGE

A substantial portion of our operations are based in Japan, and a substantial portion of our revenue and expenditures transactions are denominated and settled in JPY. As a result, our foreign exchange risk is limited. Nevertheless, given the global nature of our business, we are exposed to various foreign exchange fluctuations, including movements in the USD and RMB against the JPY.

The charts below set forth the historical fluctuations of the JPY in relation to the USD and RMB for the periods indicated.



Source: Factiva

The table below sets forth a summary of the respective foreign exchange fluctuation ranges during the Track Record Period and for the three months ended June 30, 2016.

	Year ended March 31,									Three months ended June 30,		
	2014			2015			2016			2016		
	Avg.	High	Low	Avg.	High	Low	Avg.	High	Low	Avg.	High	Low
USD / JPY . . .	100.2	105.3	93.0	109.9	121.5	101.2	120.1	125.6	111.4	108.0	111.8	102.0
RMB / JPY . . .	16.4	17.4	15.0	17.7	19.8	16.2	18.9	20.3	17.1	16.5	17.2	15.3

Source: Factiva

SOURCES OF INFORMATION

We commissioned Frost & Sullivan, an independent marketing and consulting agency, for the research and preparation of the Frost & Sullivan Report on Global Golf Products Retail Market, including general economic data, industry data and consumer surveys. The consideration for the research and preparation of the Frost & Sullivan Report is RMB1,000,000, which we believe reflects the market rate for such reports. Founded in 1961, Frost & Sullivan and its affiliates have 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. It offers industry research and market strategies and provides growth consulting and corporate training. Except for the Frost & Sullivan Report, we did not commission any other customized report.

INDUSTRY OVERVIEW

In the regions covered by the Frost & Sullivan Report, Frost & Sullivan adopted a methodology of both primary research and secondary research and obtained knowledge, statistics, information and insights on industry trends within the golf products retail market. Primary research involved interviewing leading industry participants, consumers and third-party industry associations. Secondary research involved reviewing company annual reports, official bureaus’ databases, independent research reports or journals and Frost & Sullivan’s proprietary database built up over the past decades.

Forecast data was obtained from historical data analyses plotted against macroeconomic data as well as specific industry-related drivers, such as purchasing power and consumer expenditure on golf products. Frost & Sullivan developed its forecast on the following bases and assumptions:

- that the social, economic and political environments of the world remain stable during the forecast period, which ensures the sustained and steady development of consumer goods retail market;
- that the purchasing power is expected to continue to rise rapidly in emerging regions and to grow steadily in developed regions; and
- that related industry key drivers are likely to drive the market in the forecast period.

Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report, which may qualify, contradict or have an impact on the information as disclosed in this section.

REGULATIONS

All of our manufacturing operations are located in Japan and a significant part of our sales are derived in Japan. Accordingly, laws and regulations in Japan are most relevant to our business. These include, but are not limited to, laws and regulations relating to environment, antitrust/anti-competitive behavior, consumer protection, protection of personal information, intellectual property rights, the importation and exportation of goods and labor. In addition, we also derive a portion of our revenue from China and Korea, and laws and regulations in China and Korea are also considered relevant.

LAWS AND REGULATIONS IN JAPAN

Environmental Regulations

Our manufacturing operations in Japan are subject to various Japanese environmental regulations including, but not limited to, the Water Pollution Control Act (Act No. 138 of 1970, as amended), Air Pollution Control Act (Act No. 97 of 1968, as amended), Noise Regulation Act (Act No. 98 of 1968, as amended), Vibration Regulation Act (Act No. 64 of 1976, as amended) and Soil Contamination Countermeasures Act (Ac No. 53 of 2002, as amended).

Pursuant to the Water Pollution Control Act, a company that installs a “Specified Facility,” defined as a certain facility that discharges effluents containing certain hazardous chemicals into public water, is subject to a number of requirements including reporting requirements to the governor of the prefecture in which such facility is located. Since our Sakata Campus discharges such effluents into public water and, therefore, is a “Specified Facility” as defined in the Water Pollution Control Act, Honma Japan is subject to certain reporting and other requirements to prevent water pollution under the Water Pollution Control Act and is subject to the supervision of the governor of Yamagata Prefecture.

Under the Soil Contamination Countermeasures Act, owners, administrators or occupiers of land on which facilities using specified harmful chemicals have operated are required to submit to inspections by government-designated inspectors of soil contamination levels upon the termination of the operation of those facilities. In addition, the local governor may order the inspection of any land if the local governor finds that there is a concern that the land is contaminated by specified harmful chemicals in the case of certain changes to the form or nature of the land, or on which a threat of soil contamination which may be harmful to human health exists. If contamination actually or potentially harmful to human health is found, the government may order the owner, administrator or occupier to take measures to remedy the contamination after the government designate the land as an area which requires action. Honma Japan has cyanogen and chrome effluent tanks at Sakata Campus. These chemicals are designated as specified harmful chemicals under the Soil Contamination Countermeasures Act.

Antitrust Regulations

Our manufacturing and sales operations in Japan are subject to Japanese antitrust regulations, including, but not limited to the Act against Delay in Payment of Subcontract Proceeds, Etc. (Act No. 120 of 1956, as amended) and the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No. 54 of 1947, as amended).

The objective of the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors is to ensure the fairness of transactions between contractors and subcontractors and to protect the interests of such subcontractors. The Act requires a contractor to, among others, make payment of subcontract proceeds within as short a period as possible, but in any event no later than the 60th day following the receipt of the subject products or services, regardless of whether the contractor inspects such products or services. Honma Japan outsources the preparation of logos, designs and other golf-related accessories to third-party vendors, and the provisions of the Act are applicable to such transactions.

Honma Japan’s distribution of products to retailers is subject to Japanese regulations relating to resale price restrictions under the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade. Under this Act, it is prohibited from binding retailers to resell the products at the price manufacture requests or refusing transactions with resellers who resell products at discounted price.

REGULATIONS

Consumer Protection Regulations

Our sales operations in Japan are subject to various Japanese consumer protection regulations including, but not limited to, the Act Against Unjustifiable Premiums and Misleading Representations (Act No. 134 of 1962, as amended) and the Consumer Contract Act (Act No. 61 of 2000, as amended).

The objective of the Act Against Unjustifiable Premiums and Misleading Representations is to prevent the solicitation of customers by way of unjustifiable premiums and misleading representations. Pursuant to the Act, when Honma Japan advertises its products for sale, it is prohibited from making representations regarding the quality, standard or any other feature of such products, or price or any other trade terms, as being much better than that of the actual products or trade terms, or making representations without reasonable grounds. In addition, our sale of golf clubs and other equipment is subject to the fair competition rules as set out by the Association of Japan Sporting Goods Industries, which have been approved by the Director-General of the Consumers Affairs Agency and the Fair Trade Commission of Japan and regulate the representations that may be made in connection with the sale of sporting goods. From April 1, 2016, administrative monetary penalty system is introduced to this Act. The administrative monetary penalty system sets forth that a violator should be charged for administrative monetary penalty which amounts to 3% of sales from violating action.

Product Liability Act

The Product Liability Act (Act No. 85 of 1994, as amended) sets forth the manufacturer’s strict liability for damages caused due to defects in such manufacturer’s product. We manufacture and sell golf clubs and other golf-related products, and in the event one of our consumers suffers damages due to a defect in our products, we may be held liable for such damages even if we were not negligent.

Act on the Protection of Personal Information

The Act on the Protection of Personal Information (Act No. 57 of 2003, as amended) imposes various requirements on businesses that use databases containing personal information. Under this Act, any holder of personal information must lawfully use any obtained personal information within the purpose of the specified use and is restricted from providing personal information to third parties, subject to certain narrow exceptions. Since Honma Japan uses customer’s personal information for the purpose of after-sale services, introduction of new products and businesses and so on, it must comply with the requirements of this Act.

Secondhand Articles Dealer Act

The objective of the Secondhand Articles Dealer Act (Act No. 108 of 1949, as amended) is to detect and avoid the purchase and sale of stolen goods and regulate the sale of secondhand articles by dealers. Under the Act, a person engaged in the business of purchasing and selling secondhand articles must obtain a permit issued by prefectural Public Safety Commission authorizing same. This Act requires secondhand articles dealers to verify sellers and to preserve a transaction record. Honma Japan operates a trade-in service whereby customers can exchange secondhand golf products for credit towards the purchase of new golf products. Secondhand products exchanged by customers pursuant to this trade-in service may be resold to third-party distributors or other customers. Honma Japan has obtained the necessary permits under this Act to conduct this trade-in service and to resell the products obtained pursuant to such service.

Intellectual Property

In connection with the manufacture and sale of our golf clubs and other products, Honma Japan owns a number of patents, trademarks and other intellectual property rights, which are protected under the Patent Act (Act No. 121 of 1959, as amended), Trademark Act (Act No. 127 of 1959, as amended), Utility Model Act (Act No. 123 of 1959, as amended) and Design Act of Japan (Act No. 125 of 1959, as amended). For details of our intellectual property portfolio, see “Business — Intellectual Property” and “Appendix V — Statutory and General Information — B. Further Information about Our Business — 2. Material Intellectual Property Rights of the Group.”

REGULATIONS

Export and Import

Our business related to the manufacture and sale of golf-related products is subject to exchange control regulations of Japan, including the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949), Export and Import Transaction Act (Act No. 299 of 1952) and Customs Act (Act No. 61 of 1954).

LAWS AND REGULATIONS IN THE PRC

Foreign Investment in the PRC

Pursuant to Provisions on Guiding the Orientation of Foreign Investment promulgated on 11 February 2002, the Foreign Investment Industrial Guidance Catalogue is the basis of the application of relevant policies in examining and approving foreign investment projects and foreign invested enterprises. The Foreign Investment Industrial Guidance Catalogue sets out “encouraged”, “restricted” and “prohibited” categories for all foreign investment projects in the PRC. For the projects that do not fall into the categories of encouraged, restricted or prohibited projects shall be deemed as permitted foreign investment projects. Pursuant to the Foreign Investment Industrial Guidance Catalogue (2015 Revision) issued on 10 March 2015, and became effective as at 10 April 2015, the business engaged by our PRC subsidiary does not fall into the “restricted” or “prohibited” categories.

Laws and Regulations Relating to Retailing

The Administrative Measures for Fair Transactions Between Retailers and Suppliers (《零售商供應商公平交易管理辦法》) were promulgated by the MOFCOM on October 13, 2006 and came into effect with the approval of the NDRC, the Public Security Bureau (公安部), the State Administration of Taxation (國家稅務總局) and the State Administration of Industry and Commerce (國家工商行政管理總局) of the People’s Republic of China on November 15, 2006. Such Administrative Measures promote the protection of a fair marketplace and the lawful rights of consumers by regulating trading activities between retailers and suppliers.

The departments of commerce, price, tax and administrations for industry and commerce shall supervise and administer the activities stipulated in these Measures within their respective jurisdictions. With regard to the activities possibly deemed as crime, they shall report to public security authorities to handle under the law. The commercial authorities above county level shall dynamically supervise the fair dealing of retailers and suppliers with other relevant department at the same level, make risk warning and timely make countermeasures. Any unit or individual is entitled to report the activities violating the stipulation of these Measures to the aforementioned departments. The relevant departments shall investigate and prosecute according to the law after receiving the report.

Retailers or suppliers violating the provisions of these Measures shall be punished according to the provisions of the law and regulations; if there are not such provisions, otherwise, they shall be ordered to correct their behaviors; in case there is illegal income, they may be fined with below three times of illegal income but not more than RMB30,000; in case there is no illegal income, they may be fined with below RMB10,000 and publicized to the public. If local commercial, price, tax, administration for industry and commerce departments above county level find the retailer suspicious of being involved in obtaining the suppliers’ payment for commodities by deception, they shall transmit the clue of suspected crime to the local public security authorities. The public security authorities shall timely conduct investigation. In case of suspected crime, the case shall be filed and investigation shall be conducted.

The Administrative Measures for Sales Promotion Acts of Retailers (《零售商促銷行為管理辦法》) were promulgated by the MOFCOM on September 12, 2006 and came into effect with the approval of the NDRC, the Public Security Bureau, the State Administration of Taxation and the State Administration of Industry and Commerce of the People’s Republic of China on October 15, 2006. Such Administrative Measures promote a fair and competitive marketplace and the protection of the lawful rights of consumers by regulating and standardizing promotional and sales activities amongst retailer.

REGULATIONS

PRC Consumer Protection Law

Pursuant to the PRC Consumer Protection Law, which was promulgated on 31 October 1993 and came into effect on 1 January 1994, and was subsequently amended in 2009 and 2013, our PRC subsidiary has the obligation to ensure the quality, functionality, application and duration of use of our golf clubs and other products under normal use and ensure that the actual quality of our golf clubs and other products are consistent with that displayed in advertising materials, product descriptions, samples or any other manners. In addition, our PRC subsidiary should perform responsibilities for guaranteed repair, replacement, return or other liability in accordance with regulations or any agreement with consumers. Violations of the above PRC Consumer Protection Law may result in the imposition of fines.

PRC Product Quality Law

Pursuant to the PRC Product Quality Law, which was promulgated on 22 February 1993 and amended on 8 July 2000, our PRC subsidiary has legal obligation to adopt measures to keep products for sale in good quality and make sure the products sold with labels that comply with the relevant provisions. According to the Product Quality Law, if our golf clubs and other products sold are sub-standard but not defective, our PRC subsidiary will be responsible for the repair, exchange, or refund of the sub-standard product and for the compensation to the consumer for its losses. If the product sold is defective and has caused personal injury or damage to assets, the consumer has the option to claim compensation from our PRC subsidiary.

PRC Patent Law and Trademark Law

Pursuant to the PRC Patent Law, there are three kinds of patent protection: Patent for an invention, patent for utility models and design patent. The patent term for a patent for an invention is 20 years as from the date when an patent application is submitted; the patent term for a patent for utility models or a design patent is 10 years as from the date when a patent application is filed and such patent becomes effective after the State Intellectual Property Office makes an announcement of approval. Pursuant to the PRC Trademark Law, the term of a registered trademark is 10 years as from the date on which it is registered and may be extended thereafter, with each extension for 10 years.

If any persons or entities use our patent and registered trademarks or do any other acts that infringe our patent and trademark rights without any authorization of us, such persons or entities will be liable to indemnify such patent owners and will be fined or be investigated for criminal responsibility by relevant administrative authorities.

Labor Protection in the PRC

Pursuant to the PRC Labor Law, the PRC Labor Contract Law of the PRC and the Regulations on the Implementation of the Labor Contract Law of the PRC, our PRC subsidiary must enter into a written labor contract with any employees and the wage or salary must not be lower than the local minimum wage or salary.

Pursuant to the PRC Social Insurance Law, the Provisional Regulations on Collection and Payment of Social Insurance Premiums, the Provisional Measures on Maternity Insurance of Enterprise Employees, the Regulations on Unemployment Insurance and the Regulations on Work Related Injuries, our PRC subsidiary must make contributions to a number of social security funds for their employees, including the basic pension insurance, basic medical insurance, maternity insurance, unemployment insurance and work-related injury insurance. According to the Regulations on Management of Housing Provident Fund, our PRC subsidiary must open a housing fund account with the department responsible for the management of housing fund for its employees and make contributions to such housing fund.

REGULATIONS

LAWS AND REGULATIONS IN KOREA

Import Laws

Our sales operations in Korea are subject to various import related regulations such as Customs Duties Law and the Foreign Trade Act. A person who imports goods into South Korea is obliged to file an import declaration and pay customs duties and import VAT pursuant to Customs Duties Law (Act No. 13548 of 2016, as amended). The golf products largely fall under heading 9506.3 of the Harmonized Tariff Schedule of Korea (“HTSK”) and the golf products under this heading are subject to 8% duty rate.

Pursuant to Foreign Trade Act (Act No. 12285 of 2014, as amended), golf products should indicate the country of origin, which may be reviewed by Korea Customs Office in the course of customs clearance. In the event (i) an importer or exporter knowingly and intentionally trades goods (a) with false or misleading marks of origin, (b) with marks of origin, which were damaged or modified, or (c) without the required marks of origin, or (ii) an importer or exporter intentionally fails to follow the corrective orders from the relevant authorities, such importer or exporter shall be punished by imprisonment of up to 5 years or criminal fine of up to KRW100 million.

Fair Trade Regulations

Our sales operations in Korea are subject to the Monopoly Regulation and Fair Trade Law (“FTL”, Act No. 14137 of 2016, as amended). Under the FTL, certain unfair trade practices such as followings are prohibited: (i) refusing to transact with, or stopping transaction with, a certain party without any justifications, (ii) discriminating against a certain party in price and other terms and conditions, (iii) predatory pricing, (iv) providing customers with unreasonably excessive economic benefits such as premium or alluring them with fraudulent schemes, (v) entering into coerced transaction, (vi) abusing dominant market position for transacting with others, (vii) restricting the counterparty’s transaction (in terms of, for example, scope of territory or customer), (viii) interfering with other company’s business activities, such as using a partner’s technology improperly or improperly enticing away employees of another company, and (ix) unjustly assisting specially related persons. A person committing any of such unfair trade practices may be subject to the following penalties: (i) corrective order (i.e., cease and desist order and public announcement of the violation), (ii) administrative fine of up to 2% of relevant sales amount, or where it is difficult to determine such sales amount, up to KRW500 million, and/or (iii) imprisonment of up to 2 years or criminal fine of up to KRW150 million (provided that with respect to the criminal fine, a company may also be held vicariously liable in addition to the responsible individual).

In addition, the FTL prohibits resale price maintenance, commission of which may be subject to the same penalties listed in the preceding paragraph. However, the FTL permits resale price maintenance for consumer goods which satisfy certain conditions (e.g., such goods being easily identifiable, having uniform quality and existence of free competition in the market with the prior KFTC approval). In addition, maintaining a price cap is allowed if there are reasonable grounds.

Pursuant to Fair Labeling and Advertising Act (“FLAA”, Act No. 12380 of 2014, as amended), (i) deceitful or misleading advertisement which may hamper with fair trade in the market, (ii) false or exaggerating labeling or advertising, (iii) deceptive labeling or advertising, (iv) unduly comparative labeling or advertising, or (v) slanderous labeling or advertising is prohibited. A violator of the foregoing regulations may be subject to the following penalties: (i) corrective order, (ii) administrative fine of up to KRW500 million, and/or (iii) imprisonment of up to 2 years or a criminal fine of up to KRW150 million (provided that with respect to the criminal fine, a company may also be vicariously liable in addition to the responsible individual).

REGULATIONS

Consumer Protection Laws

Our sales operations in Korea are subject to certain consumer protection laws of Korea. Products Liability Act (“PLA”, Act No. 11813 of 2013, as amended) was introduced to allow an easier damage recovery by adopting a principle of no-fault or strict liability to liability of manufacturers and thus alleviating a consumer’s burden of proof. Where there is damage to life, body and/or property (excluding damage to the product itself) due to a defective product of a manufacturer, with the exception of a waiver of liability as set forth below, the manufacturer would be required to compensate for the damage regardless of the existence of its intent or negligence under the PLA.

A manufacturer may be exempt from product liability in the following cases: (i) if the manufacturer did not supply the product; (ii) if the alleged defect could not have been discovered by scientific or technological standards available at the time the product was supplied; or (iii) if the alleged defect was caused by the manufacturer’s compliance with standards required under laws in effect at the time the product was supplied. A supplier of raw materials, parts, or components of defected products may be exempt from product liability if the alleged defect was caused by the manufacturer’s instructions regarding design or manufacture.

In addition, Framework Act on Consumers (“FAC”, Act No. 10678 of 2011, as amended) provides for recall system. If the central administrative agency having jurisdiction over a business operator deems it necessary to guard consumers against dangers from such product, it may recommend or order the business operator (including importer or distributor) to take necessary measures prescribed by FAC. If the business operator refuses to comply with such recommendation without any justifiable reason, the central administrative agency may publicly announce such fact. If the business operator refuses to comply with the agency’s order for a remedial action, the agency may order the business operator to remove, destroy and/or repair the product or stop its supply. In addition, an employee of the company may be punished by imprisonment of up to 3 years or a criminal fine of up to KRW50 million and the company may also be held vicariously liable for criminal fine in addition to the responsible employee.

Intellectual Property Laws

Our sales operations are subject to certain intellectual property laws and regulations. A patent right is exercisable in Korea upon registration thereof with the Korea Intellectual Property Office pursuant to the Patent Law (Act No. 14112 of 2016, as amended). The patent right comes into existence from the date of registration for a period ending on the 20th anniversary of the patent application.

Pursuant to Trademark Act (Act No. 13848 of 2016, as amended), trademark includes all marks that can be visually recognized and serves to distinguish the goods or services related to a person’s business from those of other entities. Trademark registration is valid for ten years after registration date (upon payment of relevant fees). To renew a trademark registration for another ten years, a registrant should file a trademark renewal application within the one year period preceding the expiration of the original registration validity period. A person, who registered a trademark pursuant to Trademark Act, must make commercial use of such registered trademarks in order to avoid any non-use cancellation actions by third parties. Any non-use of a registered trademark for a period of 3 years or longer (without any justifiable reason) constitutes grounds for a cancellation action under Trademark Act.

Recycling Laws

Our sales operations are subject to Act on the Promotion of Saving and Recycling of Resources (Act No. 14230 of 2016, as amended), under which a manufacturer or importer of designated products and packing materials are required to collect and recycle any wastes of such products and packing materials. An importer of the regulated packing materials (such as carton pack and synthetic resin packaging material) for clothing is required to collect and recycle certain portion of such materials or join a recycling cooperative and pay the required share of the charges to the association.

OUR HISTORY

HONMA is one of the most prestigious and iconic brands in the golf industry, synonymous with intricate craftsmanship, dedication to performance excellence and distinguished product quality. This is testament to our founders — the Honma family — and generations of master craftsmen who personify the virtues of Japanese culture of excellence and the making of golf clubs as an art form.



This photograph shows our team of master craftsmen, led by Mr. Hiroshi Suwa. Our golf clubs are designed by our master craftsmen, each with decades of experience and act as our culture carriers.

THE FIRST CHAPTER: EARLIER HISTORY

The Glorious Past of Golf’s Aristocracy

The HONMA brand takes its name from the Honma family who founded Honma Japan in 1959. The Honma family began making golf clubs on the principle that making a golf club is a craft and an art form, rather than just a manufacturing process. This principle has been embedded in the golf clubs produced by HONMA for over 50 years.

The first prototype golf club — a “driver” — was created using persimmon instead of the traditional beech or ash wood. HONMA was the first golf club maker in Japan to use high quality persimmon wood from 200-year old trees imported from North America which, following a three-to-five-year natural drying process and an oil hardening process, produced golf clubs of superior flex that is not found in other persimmon wood or other types of wood. With the establishment of Honma Golf Club Manufacturing Co., the first HONMA branded golf club was introduced to the market in 1963 and became very popular among users for its performance. Throughout the 1960s, HONMA continued to introduce to the market several series of golf clubs.

As carbon graphite-shafted woods were first launched in the world, HONMA was the first in Asia to bring to market such products in 1973, which revolutionized the way golf clubs were made as they offered rigidity and lightness and increased strength over steel shafts.

The landmark event in the 1980s was the relocation of our production facilities to our Sakata Campus, an approximately 163,000 square meters site housing our “design studio” and factory facility in Sakata, Yamagata Prefecture, Japan, where it remains today. During the 1980s, HONMA continued its expansion with the launch of further series of golf clubs.

The 1990s was an important decade for HONMA. HONMA secured patents in twelve countries, including Japan and the United States, for its titanium reinforced carbon shafts, the *Titanium Carbon* shafted clubs, which marked an important endorsement of HONMA’s innovation capabilities, while giving HONMA a competitive edge as players continuously looked for ways to improve their performance. As golf continued to gain popularity during the 1990s, HONMA increased its pace of expansion, first by setting up its corporate headquarters in Setagaya, Tokyo, followed by establishing subsidiaries in Hong Kong, Malaysia, Singapore, Taiwan and Thailand.

OUR HISTORY

Honma Japan’s shares were registered with Japan Securities Dealers Association, traded as over-the-counter (OTC) securities in 1995, and were subsequently migrated to the JASDAQ Securities Exchange in 2004 when the OTC securities market was transformed into the JASDAQ Securities Exchange. During the listing of Honma Japan’s shares on the JASDAQ Securities Exchange, Honma Japan was not subject to any disciplinary action by the JASDAQ Securities Exchange or other regulatory authorities in Japan.

HONMA’s sales and operations reached a historical peak in 1997, with worldwide revenue of approximately JPY34.1 billion.

Decline

A key event for HONMA was the then HONMA management team’s decision to try to capture the soaring real estate prices in Japan and to invest in golf courses and other real estate. Significant investments were made to fund the acquisition of the Aso Takamori Golf Club and to develop the Honma Public Wakayama Course, while using the Company’s fixed assets as collateral for associated borrowings. At around the same time, signs were appearing that HONMA was beginning to lose touch with market trends with its reluctance to move on from persimmon to metal woods, which were fast replacing the dominance of the traditional wooden club heads. As a result, Honma Japan became highly leveraged and its sales started to decline.

As the Japanese economy faltered during the 1990s, Honma Japan’s declining sales and market share, high level of borrowings backed by shrinking collateral value, together with the high costs of its investment in golf courses, meant Honma Japan found itself in financial difficulty. With debts totaling approximately JPY43.7 billion, Honma Japan filed a petition for “commencement of civil rehabilitation” under the Japanese Civil Rehabilitation Law (Court Protection of Assets for Restructuring) in 2005. Following the approval of the application of the Japanese Civil Rehabilitation Law by the Japanese court, Honma Japan’s shares were delisted from the JASDAQ Securities Exchange in July 2005. As part of the civil rehabilitation plan, the Honma family ceased to be shareholders of Honma Japan and two Japanese based financial investors (the “Financial Investors”) became the sponsors of Honma Japan’s court approved civil rehabilitation plan as well as its shareholders in March 2006. The Japanese court approved the completion of the civil rehabilitation in July 2006.

Following the civil rehabilitation, the Financial Investors oversaw a period of cautiousness, including the scaling back of marketing and promotional spending, which resulted in a further decline in sales. HONMA’s fortunes and performance in these years were further exacerbated by the global financial crisis and the period of austerity that followed.

THE NEW CHAPTER: REINVENTING HONMA

Acquisition of HONMA by Chairman Liu

In late 2009, Chairman Liu, a successful entrepreneur and golf aficionado, came across the opportunity to acquire HONMA. Chairman Liu was already familiar with HONMA’s heritage and brand, and saw the opportunity to realize his vision of restoring HONMA’s status as an elite golf brand.

With financial backing from China Import-Export Bank, Chairman Liu (through his then beneficially wholly-owned investment vehicle, Honma Shanghai) partnered with Creat Fund Management Company Limited (科瑞基金管理有限公司) (through its investment entity, Creat Fund I, L.P.), and together acquired initially in aggregate 85% of Honma Japan, through an investment holding vehicle named Marlion Holdings Limited in June 2010. At the time, Honma Shanghai and Creat Fund I, L.P. held 63.6% and 36.4% of Marlion Holdings Limited, respectively. Honma Shanghai further acquired Honma Hong Kong in December 2010 and the remaining 15% of Honma Japan in August 2011. Honma Shanghai subsequently bought out Creat Fund I, L.P.’s interest in Marlion Holdings Limited, and Chairman Liu became the 100% owner of HONMA in June 2012.

OUR HISTORY

Repositioning and Restoring an Ailing Brand that Has Reinvented Itself as Today’s “HONMA”

Chairman Liu found HONMA in a state that belies its heritage and brand, with the stigma of the civil rehabilitation process as well as the subsequent period of cautiousness under a new ownership by the Financial Investors taking a toll on the pride as well as energy of HONMA, including the incumbent team of management and craftsmen. The long-serving team found Chairman Liu with a long-term vision for success and expansion, reflecting his desire to realize the dreams of the incumbent team, to restore HONMA’s status as an elite golf brand and also power it into “Japan’s New Corporate Generation” — a new generation of energetic, innovative and well-managed Japanese companies. This gave the long-serving team both the comfort as well as confidence that HONMA was about to embark on a trajectory that would result in sustainable long-term growth and profitability.

Chairman Liu initiated a review of HONMA’s business by critically evaluating its history, strengths and deficiencies. He formulated a systematic plan that would rejuvenate HONMA through, first, a period of consolidation and integration, followed by a period of expansion and growth that would ultimately reinvent HONMA into an energetic, international and market-driven golf lifestyle brand. In order to implement his plan, Chairman Liu developed a simple yet effective “3R’s” — ***Retain***, ***Restore*** and ***Reinvent*** — strategy, a strategy that required investment and prioritization through a combination of achievable short-term targets and visionary long-term objectives with the ultimate goal of achieving long-term sustainability and prosperity. This “3R’s” strategy is summarized as follows:

1. RETAIN

Retain HONMA’s traditions, its uncompromising quality and craftsmanship as well as its long-serving team of management and employees. Specifically, we:

- Oversaw a period of zero turnover among the long-serving team of management and key personnel;
- Entrusted the business with HONMA’s incumbent management without installing any appointees to the management team in Japan;
- Preferred internal promotions over lateral hires (where appropriate). For example, HONMA promoted internally to replace the previous appointee of the Financial Investors to become the President of Japan Operations, the first home grown employee to take this position;
- Garnered support for incentive systems by setting performance targets that were suitable and achievable for different stages of HONMA’s development plan; and
- Recently implemented a company-wide share ownership program (the RSU Scheme) to further incentivize the HONMA team on a performance basis.

2. RESTORE

Restore pride and motivation back into the corporate culture and restore HONMA as a brand associated with golfing success. Specifically, we:

- Moved our corporate headquarters to Roppongi, Tokyo — a new and vibrant business district that is a symbol of “Japan’s New Corporate Generation;”
- Encouraged a strong sense of entrepreneurship among HONMA’s Japanese management team; and

OUR HISTORY

- Increased investments in marketing and promotional programs. In particular, HONMA stepped up the scouting for young and talented professionals to join TEAM HONMA for sponsorship — with their images, endorsement and successes on tour helping drive sales growth:
 - Tour victories by TEAM HONMA professionals increased from ten in 2013 to 21 in 2015;
 - TEAM HONMA produced leading money winners for both men’s (Koumei Oda 小田孔明, 2014) and ladies’ (Bo-Mee Lee 李寶美, 2015) on the Professional Golfers’ Association of Japan (“JPGA”) tours, both having joined TEAM HONMA in 2013; and
 - As part of the Korea market strategy (see below), the number of Korean professionals in TEAM HONMA increased from six in 2012 to nine in 2015, winning a total of four tour victories on the Korean Ladies Professional Golf Association (“KLPGA”) Ladies Korean Tour in 2015.

3. REINVENT

Reinvent HONMA as an energetic, international and market-driven golf lifestyle brand through a progressive strategic plan aimed at products, geographical markets and sales and distribution channels, with a view to building a solid foundation for sustainable long-term growth and profitability, following a successful period of integration and consolidation under the first two “R”s.

A. Products

- **New Product Launches:** We focused on the development of performance driven golf clubs that catered to a broader range of consumer segments and price points, and have:
 - Launched the *TOUR WORLD* family in February 2013 targeted at Segment 6 Consumers — the highest performance golf clubs HONMA has launched. Developed together with TEAM HONMA professionals, the family is targeted at younger, more skilled players who are attracted to the concept of “gain a yard and save a shot.” Tour professionals using the *TOUR WORLD* 717 series achieved 13 tour wins in 2014;
 - Launched the *GIX* family in July 2015 targeted at Segments 8 and 9 Consumers — a family targeted initially at the North American market as part of our strategy to increase global presence;
 - Launched the *Be ZEAL* family in January 2016 targeted at Segment 5 Consumers — a family targeted at intermediate level golf enthusiasts as “the difference between scoring over and under 100 shots per round,” with 2015 Ladies Professional Golfers’ Association of Japan (“JLPGA”) leading money winner and the TEAM HONMA member Bo-Mee Lee (李寶美) acting as the product ambassador; and
 - Been committed to continued development and innovation and launched the *BERES 05* series in January 2016 targeted at Segment 2 Consumers — a series created for golfers seeking pure enjoyment combined with improved performance.

See “Business — Our Strategies — Tap into adjacent consumer segments by continuing to optimize our product mix” for details of categorization of the golf clubs market into nine segments.

- **Accessories:** Overhauled the portfolio of HONMA apparel and began to include designs that are not just suited to playing golf but can be worn as casual lifestyle apparel and introduced HONMA golf balls manufactured by our Taiwan-based strategic supplier partner. See “Business — Manufacturing — Suppliers.”

OUR HISTORY

B. Geographic Markets

- Defined Korea, the third largest golf products market in the world in terms of retail sales, as a key growth market, and have:
 - Increased the number of Korean players in TEAM HONMA from six in 2012 to nine in 2015;
 - Appointed an exclusive distributor in Korea;
 - Expanded our sales and distribution network in Korea significantly during the Track Record Period; and
 - Seconded a master craftsman to Korea in 2011 and opened a HONMA Total Fitting Center in Korea in 2015.

C. Sales and Distribution Channels

- Expanded our presence rapidly by increasing the number of sports megastores that offer our products to ensure that HONMA products are visible to consumers:
 - The number of sports megastores, such as Xebio and Nikigolf, that offer HONMA products in Japan grew from 340 as of March 31, 2014 to 625 as of March 31, 2016.

Since Chairman Liu became chairman and owner of HONMA, he has worked closely with the management team to implement his vision. In recent years, HONMA has enjoyed a period of robust growth. Our revenue increased from JPY15.7 billion for the year ended March 31, 2014 to JPY18.5 billion for the year ended March 31, 2015, and further to JPY22.4 billion for the year ended March 31, 2016, representing a CAGR of approximately 19.3%, far outpacing overall industry growth and also making us the fastest growing company among our peers in the global golf products industry.

REORGANIZATION

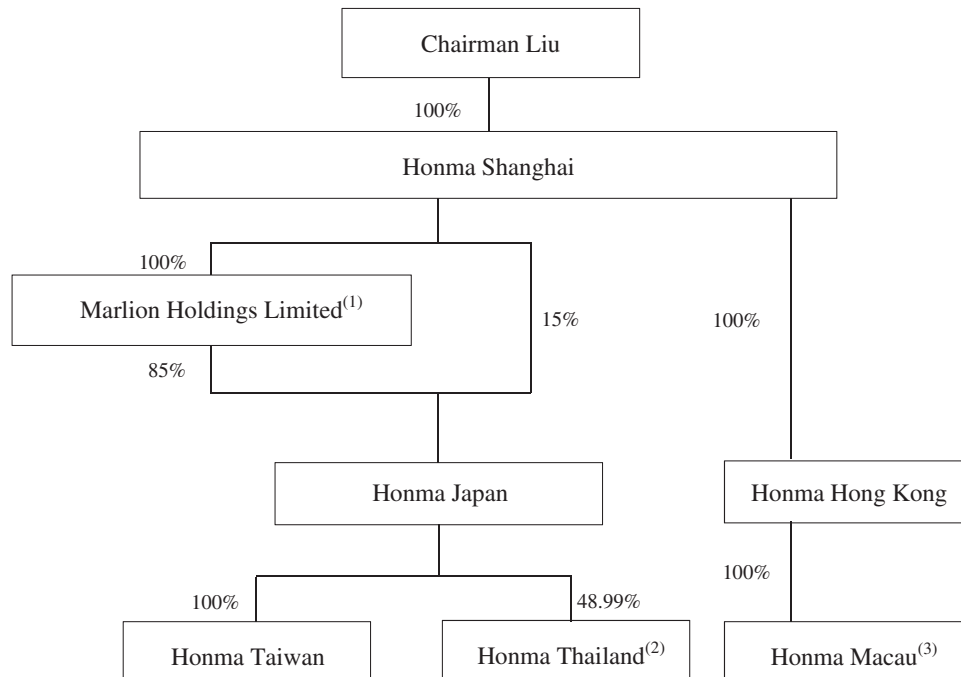
Following Chairman Liu’s acquisition, HONMA implemented a corporate restructuring plan in preparation of its next phase of growth. Pursuant to this restructuring, our Company became the holding company of our Group, and Chairman Liu held 100% of our Company through Kouunn Holdings, an investment holding company incorporated in the BVI and wholly-owned by him. After the offshore holding company structure was established, our Company then established Seiyu Holdings, a BVI-incorporated holding company wholly-owned by our Company, which in turn established Honma Holdings, a Hong Kong-incorporated holding company wholly-owned by Seiyu Holdings.

Subsequent to the acquisition of 85% ownership of Honma Japan by Chairman Liu and Creat Fund I., L.P. in June 2010, Honma Shanghai, a company established in the PRC in March 2010 and beneficially wholly-owned by Chairman Liu, started to purchase golf products from Honma Japan for distribution in China. In order to further streamline the business operations of our Company, Honma Holdings subsequently established WP International Trading in Shanghai on December 27, 2013 to succeed Honma Shanghai and engage in the marketing and sales of HONMA products in China. Starting from January 2016, Honma Shanghai ceased to purchase golf products from our Group for distribution purposes.

To complete the corporate restructuring, Honma Holdings acquired 100% ownership of Honma Hong Kong on June 4, 2014 for a consideration of US\$6.79 million, which was fully settled in June 2014, and further acquired 100% ownership of Honma Japan on July 12, 2014 for a consideration of US\$70.61 million, which was fully settled in July 2015.

OUR HISTORY

Set forth below is our corporate structure immediately before the corporate restructuring:

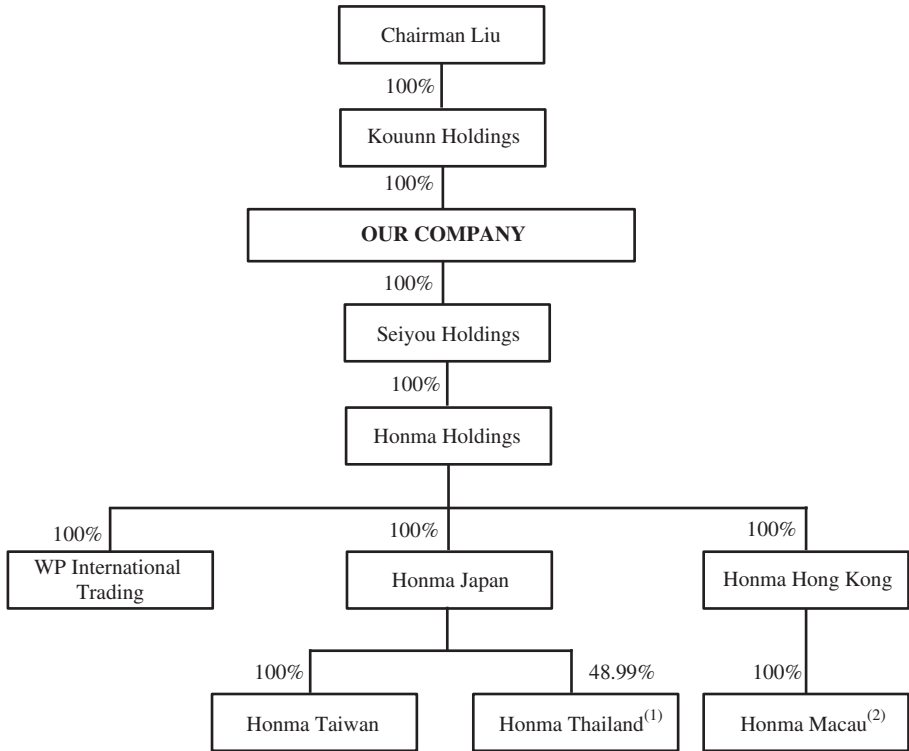


Notes:

- (1) Marlion Holdings Limited is an investment holding vehicle used by Creat Fund I, L.P. and Honma Shanghai to acquire Honma Japan from the Financial Investors. Upon the exit of Creat Fund I, L.P. in June 2012, Marlion Holdings became wholly-owned by Honma Shanghai.
- (2) Honma Japan held 9,798 class A ordinary shares, representing 48.99% of the total issued share capital in Honma Thailand. 10,199 class B preference shares, representing 50.995% of the total issued share capital in Honma Thailand were held by Asia Alliance Partner Co., Ltd., an independent third party. Each of Mr. Hiroo Honma and Mr. Shuichi Honma, members of the Honma family and independent third parties, held one class A ordinary share, representing 0.005% of the total issued share capital of Honma Thailand. Mr. Masaru Takahashi, a director of Honma Thailand, held one class B preference share representing 0.005% of the total issued share capital of Honma Thailand. Honma Thailand is accounted for as a subsidiary of Honma Japan because Honma Japan has the power to control the board of directors and to govern the financial and operating policies of Honma Thailand. Each class B preference share is entitled to one fifth of the voting right as compared to each class A ordinary share. As a result, Honma Japan controls more than 60% of the shareholders' voting rights in Honma Thailand and thus may elect all directors of Honma Thailand at the shareholders' general meetings according to the articles of association of Honma Thailand which provide that a resolution of the shareholders may be passed by 60% of the votes of all shareholders.
- (3) 1% of the total issued share capital of Honma Macau was then held by Mr. Shigeru Kyuma, the sole director of Honma Macau, as a nominee of Honma Hong Kong.

OUR HISTORY

Set forth below is our corporate structure immediately after the corporate restructuring:



Notes:

- (1) Honma Japan held 9,798 class A ordinary shares, representing 48.99% of the total issued share capital in Honma Thailand. 10,199 class B preference shares, representing 50.995% of the total issued share capital in Honma Thailand were held by Asia Alliance Partner Co., Ltd., an independent third party. Each of Mr. Hiroo Honma and Mr. Shuichi Honma, members of the Honma family and independent third parties, held one class A ordinary share, representing 0.005% of the total issued share capital of Honma Thailand. Mr. Masaru Takahashi, a director of Honma Thailand, held one class B preference share representing 0.005% of the total issued share capital of Honma Thailand. Honma Thailand is accounted for as a subsidiary of Honma Japan because Honma Japan has the power to control the board of directors and to govern the financial and operating policies of Honma Thailand.
- (2) 1% of the total issued share capital of Honma Macau was then held by Mr. Shigeru Kyuma, the sole director of Honma Macau, as a nominee of Honma Hong Kong.

OUR HISTORY

RSU SCHEME

We adopted the RSU Scheme on October 20, 2015 in order to incentivize our Directors, senior management and employees. As at the Latest Practicable Date, RSUs in respect of underlying Shares representing approximately [REDACTED]% of the total issued share capital of the Company after the completion of the Share Subdivision and the Capitalization Issue and immediately following the completion of the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED], additional RSUs which may be further granted under the RSU Scheme or options which may be granted under the Post-[REDACTED] Share Option Scheme) had been granted to 152 RSU Participants pursuant to the RSU Scheme. Assuming the total number of Shares in issue on the [REDACTED] will be [REDACTED], the RSUs granted to the RSU Participants as of the Latest Practicable Date will represent [REDACTED] underlying Shares. On [●], 2016, Kouunn Holdings transferred [REDACTED] Shares to the RSU Nominee for nil consideration to satisfy the RSUs granted under the RSU scheme.

PRE-[REDACTED] INVESTMENT

Investment by Fosun

Pursuant to a sale and purchase agreement dated May 9, 2016 entered into between Kouunn Holdings, Chairman Liu, the Company and Fosun (the “Sale and Purchase Agreement”), Kouunn Holdings agreed to sell and Fosun agreed to purchase 7.5% in the total issued share capital of the Company.

Details of the investment by Fosun are set forth below:

Amount of consideration paid:	US\$60,000,000
Payment date:	May 10, 2016
Cost per Share ⁽¹⁾ :	HK\$13.07
[REDACTED] to the [REDACTED] ⁽²⁾ :	[REDACTED]%
Shareholding in the Company immediately after the investment:	7.5%
Shareholding in the Company immediately after the [REDACTED] ⁽³⁾ :	[REDACTED]%
Strategic benefits to the Company:	Knowledge and experience in the development of business strategy

Notes:

- (1) [Assuming] 633,412,000 Shares [will be] in issue and outstanding after the completion of the Share Subdivision and the Capitalization Issue.
- (2) Assuming the [REDACTED] is fixed at HK\$[REDACTED], being the mid-point of the indicative [REDACTED] range.
- (3) Assuming that the [REDACTED] is not exercised.

Pursuant to the Sale and Purchase Agreement, Fosun is, subject to certain limitations, entitled to certain special rights including (i) rights to receive periodic financial and other information, (ii) veto rights on certain significant corporate matters; (iii) preemptive right with respect to certain securities issuance by the Company and (iv) an option to sell the shares purchased by Fosun to the Controlling Shareholders at a 15% annual investment return if the [REDACTED] does not occur by [REDACTED]. All special rights will terminate on the [REDACTED].

The purchase price paid by Fosun was determined on an arm’s length basis as a result of negotiations among the parties.

OUR HISTORY

Information regarding the Pre-[REDACTED] Investor

Fosun is a wholly-owned subsidiary of Fosun International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 00656). Fosun International Limited’s businesses include two major segments, integrated finance (wealth) and industrial operations.

Lock-up and Public Float

As Fosun is not a core connected person of the Company, Shares held by Fosun will be counted towards the public float after the [REDACTED].

Fosun will enter into a lock-up undertaking in favour of our Company, pursuant to which Fosun will not, at any time during the period of six months following the [REDACTED], dispose of any of Shares held by it.

Compliance with Interim Guidance

The Sole Sponsor has determined that the terms of the pre-[REDACTED] investment by Fosun are in compliance with the Interim Guidance on Pre-[REDACTED] Investments issued by the Stock Exchange on October 13, 2010 as the consideration for the pre-[REDACTED] investment was settled more than 28 clear days before the date of our first submission of the [REDACTED] to the Listing Division of the Stock Exchange in relation to the [REDACTED], the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 as the special rights granted to the pre-[REDACTED] investor will terminate upon [REDACTED].

INFORMATION ON OUR GROUP COMPANIES

We set forth below information regarding our subsidiaries:

Company Name	Date and Place of Incorporation	Principal Activity	Ownership by our Group	Shareholding Changes during the Track Record Period
Seiyou Holdings Limited	October 25, 2013 BVI	Intermediate holding company	100%	None
Honma Holdings Group Limited	November 18, 2013 Hong Kong	Intermediate holding company	100%	None
Honma Golf Co., Ltd.	February 18, 1959 Japan	Manufacture and sales of golf clubs and equipment	100%	None except as disclosed in “— Reorganization.”
World Power International Trading (Shanghai) Company Limited	December 27, 2013 PRC	Sales of golf clubs and equipment in China	100%	None
Hong Kong Honma Golf Co., Ltd.	April 2, 1996 Hong Kong	Sales of golf clubs and equipment in Hong Kong	100%	None except as disclosed in “— Reorganization.”
Honma Golf Stock Company Limited	June 10, 1996 Taiwan	Sales of golf clubs and equipment in Taiwan	100%	None
Honma Golf (Macau) Co., Ltd.	May 29, 2012 Macau	Sales of golf clubs and equipment in Macau	100%	None ⁽¹⁾
Honma Golf (Thailand) Company Limited ⁽²⁾	May 28, 1997 Thailand	Sales of golf clubs and equipment in Thailand	48.99%	None

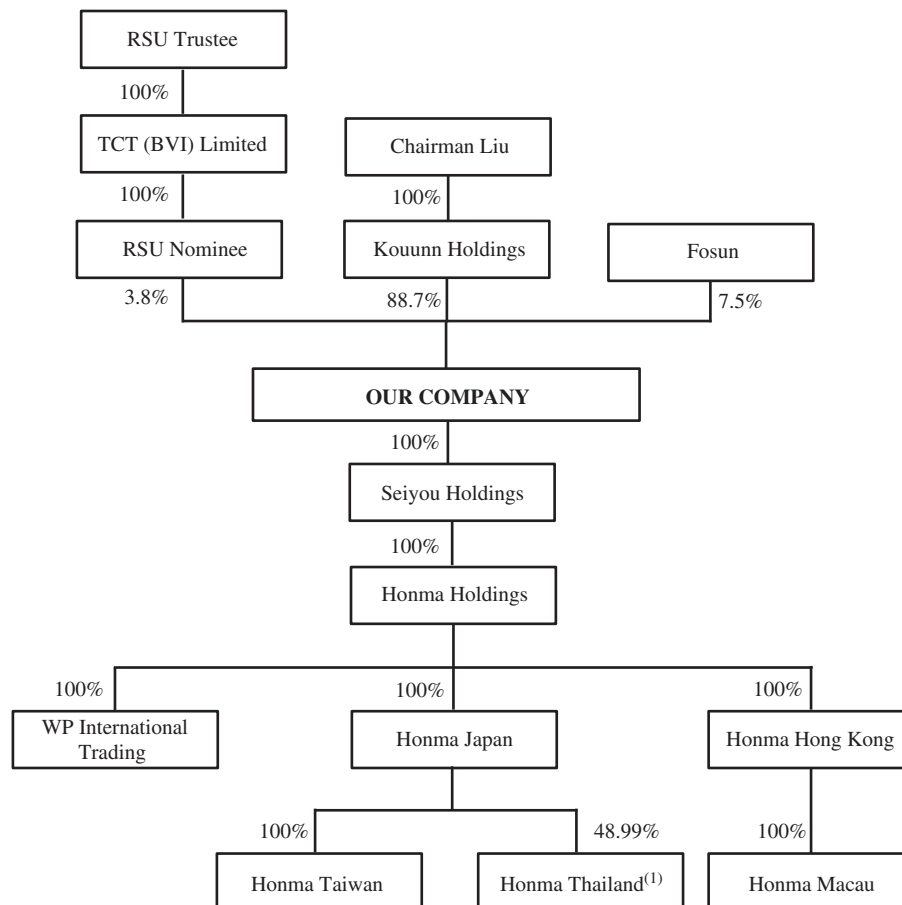
OUR HISTORY

Notes:

- (1) Mr. Shigeru Kyuma transferred the 1% of the total issued share capital of Honma Macau held by him as a nominee of Honma Hong Kong back to Honma Hong Kong on June 16, 2016.
- (2) Honma Thailand is accounted for as a subsidiary of Honma Japan because Honma Japan has the power to control the board of directors and to govern the financial and operating policies of Honma Thailand.

CORPORATE STRUCTURE

Set forth below is our corporate and shareholding structure immediately prior to the [REDACTED]:

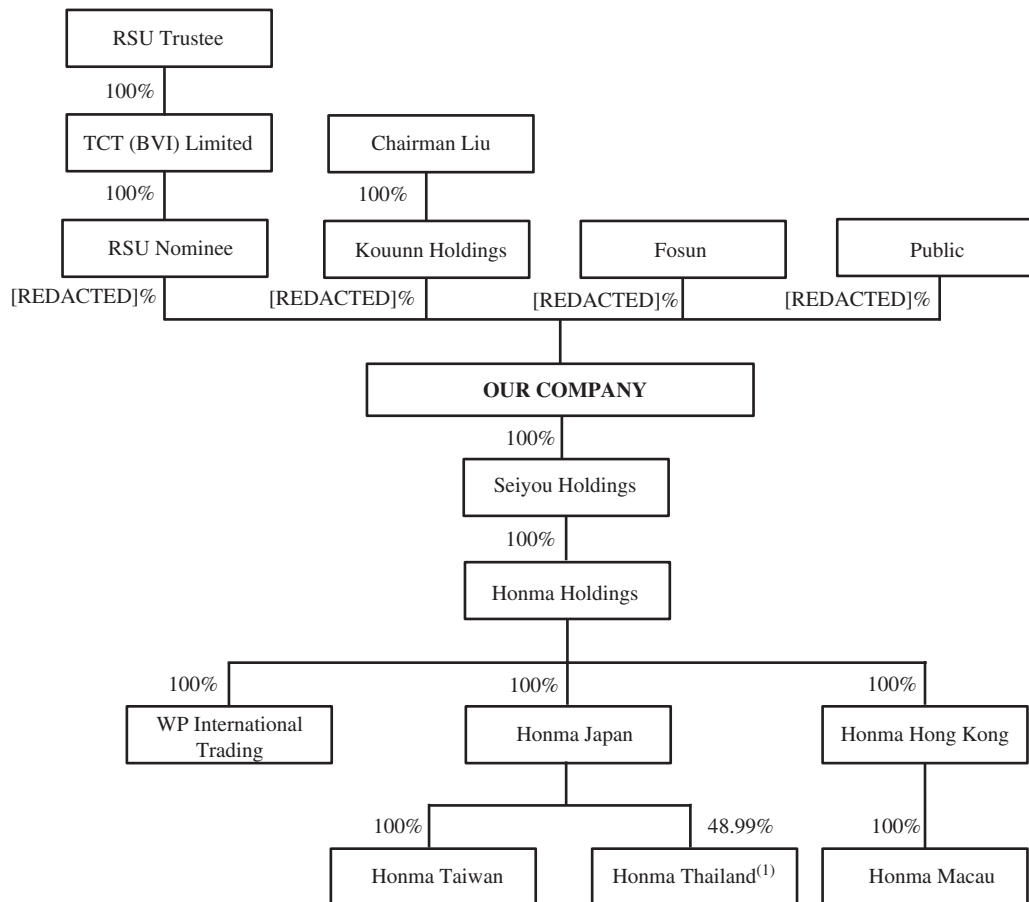


Note:

- (1) Honma Japan holds 9,798 class A ordinary shares, representing 48.99% of the total issued share capital in Honma Thailand. 10,199 class B preference shares, representing 50.995% of the total issued share capital in Honma Thailand are held by Asia Alliance Partner Co., Ltd., an independent third party. Each of Mr. Hiroo Honma and Mr. Shuichi Honma, members of the Honma family and independent third parties, holds one class A ordinary share, representing 0.005% of the total issued share capital of Honma Thailand. Mr. Masaru Takahashi, a director of Honma Thailand, holds one class B preference share representing 0.005% of the total issued share capital of Honma Thailand. Honma Thailand is accounted for as a subsidiary of Honma Japan because Honma Japan has the power to control the board of directors and to govern the financial and operating policies of Honma Thailand.

OUR HISTORY

Set forth below is our corporate and shareholding structure immediately after the [REDACTED] (assuming the [REDACTED] is not exercised):



Note:

- (1) Honma Japan holds 9,798 class A ordinary shares, representing 48.99% of the total issued share capital in Honma Thailand. 10,199 class B preference shares, representing 50.995% of the total issued share capital in Honma Thailand are held by Asia Alliance Partner Co., Ltd., an independent third party. Each of Mr. Hiroo Honma and Mr. Shuichi Honma, members of the Honma family and independent third parties, holds one class A ordinary share, representing 0.005% of the total issued share capital of Honma Thailand. Mr. Masaru Takahashi, a director of Honma Thailand, holds one class B preference share representing 0.005% of the total issued share capital of Honma Thailand. Honma Thailand is accounted for as a subsidiary of Honma Japan because Honma Japan has the power to control the board of directors and to govern the financial and operating policies of Honma Thailand.

OUR HISTORY

COMPLIANCE

According to the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (the “Circular No. 75”) issued by the SAFE on October 21, 2005 (which came into effect on November 1, 2005) and other relevant PRC regulations, PRC residents who establish or control offshore companies and inject assets or equity interests into offshore companies for the purposes of overseas investment and financing (referred to as an “offshore special purpose vehicle”) is required to register with a competent local SAFE branch. Our PRC legal advisor has advised that Chairman Liu has completed registrations under the Circular No. 75 and the relevant PRC regulations.

Our PRC legal advisor has confirmed that the acquisition of Honma Japan and Honma Hong Kong by Chairman Liu and the Reorganization have obtained all relevant approvals and permits from relevant authorities in the PRC and the procedures involved are in accordance with PRC laws, rules and regulations.

Our Japan legal advisor has confirmed that no approvals or permits were necessary to be obtained from the relevant authorities in Japan under Japanese laws and regulations to validly implement (i) the transfers of shares in Honma Japan from the Financial Investors to Marlion Holdings Limited completed in June 2010 and the transfer of shares in Honma Japan from one Financial Investor to Honma Shanghai completed in August 2011 and (ii) the transfers of shares in Honma Japan from Honma Shanghai and Marlion Holdings Limited to Honma Holdings completed in July 2014.

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OVERVIEW

HONMA is one of the most prestigious and iconic brands in the golf industry, synonymous with intricate craftsmanship, dedication to performance excellence and distinguished product quality. According to Frost & Sullivan, HONMA ranks among the top ten golf product brands in the world and is the number one brand for premium golf clubs, in each case in terms of retail sales in 2015. Founded in 1959, we have one of the longest histories among brands dedicated to golf currently in the market, and aspire to build a world-leading golf lifestyle company on the foundation of our craftsmanship heritage. Our brand has been further invigorated and strengthened in recent years after Chairman Liu acquired our company in 2010 and implemented new initiatives to broaden our product offerings, expand our market reach and enhance our operational efficiency. Our mission is to create aspirational yet accessible golf products of exquisite quality and outstanding performance that appeal to a large and diverse customer base by applying the highest levels of quintessential craftsmanship and innovation.

We predominantly design, develop, manufacture and sell a comprehensive range of aesthetically-crafted and performance-driven golf clubs. Sales of golf clubs represented approximately 84.3% of our total revenue in the year ended March 31, 2016. We currently offer four major families of golf club brands, namely BERES, TOUR WORLD, Be ZEAL and G1X, each targeting specific consumer segments and comprising different product series to appeal to a wide range of user preferences and skill levels. To provide customers with a complete golf lifestyle experience, we also offer HONMA-branded golf balls, apparel, accessories and other related products.

HONMA’s founders were craftsmen who passionately believed that making a golf club is an art form. Today, we remain committed to the heritage that embodies pride in our legacy and products, relentless pursuit of perfection, exultation of product enhancement and perseverance in achieving the highest levels of design and manufacturing standards. We are the only major golf products company that possesses professional handcrafted techniques together with significant in-house manufacturing capabilities. The heart of our design, development and manufacturing lies within our campus located in Sakata, Yamagata prefecture of Japan. The facility is located on an approximately 163,000 square meter parcel of land and staffed with approximately 360 craftsmen and research and development personnel, where we design and develop all of our golf clubs and perform key manufacturing processes. We design technologically advanced golf clubs and constantly strive to provide our customers with the tools capable of delivering the effortless shots dreamed by every golfer. We incorporate innovations in ergonomics and material sciences in our designs and also collaborate closely with professional golf players to better understand and fulfill the diverse preferences of our customers and to maximize product performance. We have also developed a proprietary customization system that enables us to mix and match our wide variety of club heads and club shafts to provide customers with golf clubs personalized for their skill levels, playing styles and personal preferences.

Our craftsmanship heritage, innovative research and development capabilities, undivided attention to detail in manufacturing, ability to provide personalized products and customer-centric corporate culture have helped to make HONMA one of the most desirable golf brands. We believe the iconic and premium status of our brand helps us attract and retain a diverse range of customers and also allows many of our products to command a pricing premium. Such pricing premium varies depending on products, with more high-end products generally commanding a larger premium over our competitors’ comparable products.

HONMA’s products are currently sold in approximately 50 countries worldwide, primarily in Asia and also across North America, Europe and other regions. Our sales and distribution network consists of HONMA-branded self-operated stores as well as distributors. As of March 31, 2016, we had 86 HONMA-branded self-operated stores, the largest number of self-operated stores among major golf companies. Our distributors consist of (a) direct third-party retailers, including sports megastores and (b) wholesale distributors that on-sell our products to other third parties. We develop and manage our sales and distribution network on a country-by-country basis to cater to the specific retail landscape and consumer demographics and are constantly evaluating our existing channels and exploring new channels to optimize our network.

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Prior to our recent success, the decade between 2000 and 2010 was a challenging period in our history with our revenue tumbling from a peak of JPY34.1 billion in 1997. Since then, we have undertaken a series of initiatives and emerged as an energetic, international and market-driven company, well-positioned for sustainable long-term growth and profitability. These initiatives were put in place after Chairman Liu, a successful entrepreneur and golf aficionado, acquired our Company, and implemented a “3R’s” approach to (i) **retain** HONMA’s traditions, its uncompromising quality and craftsmanship as well as its long-serving team of management and employees, (ii) **restore** pride and motivation back into the corporate culture and restore HONMA as a brand associated with golfing success, and (iii) **reinvent** HONMA as an energetic, international and market-driven golf lifestyle brand.

Driven by our recent initiatives and the rejuvenation of the HONMA brand, we achieved significant revenue and profit growth during the Track Record Period. Our revenue increased from JPY15.7 billion for the year ended March 31, 2014 to JPY22.4 billion (US\$218.9 million) for the year ended March 31, 2016, representing a CAGR of approximately 19.3%, far outpacing overall industry growth, and also making us the fastest growing company among our peers in the global golf products industry. Our adjusted net profit increased from JPY1.8 billion for the year ended March 31, 2014 to JPY3.4 billion (US\$33.2 million) for the year ended March 31, 2016, representing a CAGR of approximately 38.7%. For a reconciliation of adjusted net profit to net profit, see “Financial Information — Non-IFRS Financial Measures — Adjusted Net Profit.”

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success and will enable us to deliver on our growth strategies:

Iconic golf brand built upon decades of dedication towards quality and craftsmanship

HONMA is one of the most prestigious and iconic brands in the golf industry, synonymous with intricate craftsmanship, dedication to performance excellence and distinguished product quality. Our history, one of the longest among brands dedicated to golf currently in the market, dates back nearly 60 years to 1959 when the Honma family founded Honma Japan. Ever since our early years, we have been making golf clubs under the principle that making a golf club is an art form and a craft, rather than a manufacturing process. Today, we remain committed to the heritage that embodies pride in our legacy and products, relentless pursuit of perfection, exultation of product enhancement and perseverance in achieving the highest levels of design and manufacturing standards. Our golf clubs are designed by master craftsmen, each with decades of experience and act as culture carriers at our company. We believe our heritage, as well as our research and development capabilities, ability to provide personalized products and undivided attention to detail in manufacturing, can only be cultivated over time. These qualities have helped form a highly desirable brand image and represent key competitive advantages for us. The desirability of HONMA’s products is demonstrated by the pricing premium we are able to achieve for many of our products as compared to similar products of our competitors. We have proven our ability to capitalize on the iconic status of our brand to become the leading player in the global premium golf clubs market, with a market share of 22.6% in 2015 in terms of retail sales, according to Frost & Sullivan.

We believe the prominence and desirability of a golf brand can be strengthened by its popularity and exposure among professional golf players, whose opinions can be highly influential to golf enthusiasts who value product performance. Accordingly, we strive to continually enhance the appeal of the HONMA brand through our marketing initiatives, particularly sponsorships of and endorsements by professional golf players and sponsorships of golf tournaments. TEAM HONMA, which as of March 31, 2016 consisted of 40 professional golf players sponsored by us, includes a number of prominent and highly ranked Asian players such as So-Yeon Ryu (柳籥然) and Shan Shan Feng (馮珊珊), who were ranked 8th and 9th on the USLPGA in 2015, respectively, Bo-Mee Lee (李寶美), who was ranked 1st on the JLPGA in 2015 and

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Koumei Oda (小田孔明), who was ranked 1st on the Japan Golf Tour Organization (“JGTO”) in 2014. In 2013, 2014 and 2015, TEAM HONMA players won a total of 10, 13 and 21 championships in professional golf tournaments, respectively, demonstrating the increasing success of TEAM HONMA and contributing to the increasing prominence of the HONMA brand. We also sponsored a number of golf tournaments around the world, including the HONMA TOURWORLD CUP AT TROPHIA GOLF in 2015, a fixture on the JGTO. As golf becomes increasingly mainstream, we believe our marketing initiatives will gain us additional exposure and strengthen our brand recognition in our target market segments.

High performance and customizable products supported by innovative research and development capabilities

Our product portfolio comprises an extensive range of HONMA-branded golf clubs, golf balls, apparel, accessories and other related products, providing customers with a complete golf lifestyle experience. We offer a comprehensive selection of golf clubs, from drivers, fairway woods, irons, utilities, wedges to putters. To optimize performance as well as user pleasure, we incorporate innovations in ergonomics and material sciences in our design and manufacturing processes that are aimed to enhance the playing experience and carry distance of each shot for our customers.

Through a proprietary customization system that enables us to mix and match our wide variety of club heads and club shafts, we are able to provide our customers with golf clubs personalized for their skill level, playing style and personal preferences. For example, drivers under our TOUR WORLD family offer nine different driver heads with different shapes and loft angles that can be combined with 30 different shafts with varying weight and flex specifications for a total of 270 possible combinations, without taking into account different color and shaft length combinations. We believe that our ability to provide such personalized products in short lead times best fulfills our customers’ needs and demands and sets us apart from our competitors.

Our extensive product portfolio and customization capabilities are made possible by our innovative research and product development capabilities. Product development is a coordinated effort among our research and development and manufacturing teams, together with TEAM HONMA. All of our golf clubs are developed at our Sakata Campus by our in-house team of master craftsmen, who on average have more than 30 years of experience, and dedicated research and development personnel. The research and development team collaborates closely with TEAM HONMA players who provide advice on desired features and technical specifications and test our prototypes. Our strong research and product development have helped make HONMA one of the most desirable golf brands. We also work closely with strategic supplier partners to jointly develop new technology aimed at providing superior performance and a more enjoyable playing experience. For example, we and Nissei Co., Ltd., one of our suppliers, jointly develop carbon fiber sheets which are used in one of our series of club shafts and contain high-strength and high-resilience amorphous heavy metal fiber. The amorphous metal fiber club shafts offer both the strength of impact and playability of a steel shaft and the ease of swing of a carbon shaft.

According to the Frost & Sullivan Report, a key trend in the global golf club market over the next several years will be consumers’ increasing focus on product performance. We believe we are well positioned to capitalize on this market trend as a result of our dedication towards product innovation, development and quality.

Vertically integrated business model with an extensive sales and distribution network

We have a vertically integrated business model that provides us control over the most critical elements of the value chain, including design, development, production, marketing and sales and distribution. We are the only major golf products company that possesses professional handcrafted techniques together with significant in-house manufacturing capabilities. We produce the vast majority of our carbon club shafts and assemble the vast majority of our golf clubs at our Sakata Campus, which also houses our research and

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development team. By centralizing our research and development functions and core production processes under one roof, we gain a number of important advantages over our competitors. First, by developing our club heads and club shafts at the same location, we are able to develop club shafts that maximize the performance of our club heads in a cost effective manner. Second, by integrating our product development and manufacturing processes, we are able to react quickly to feedback from our production team and continuously improve the design throughout the entire development process. In addition, our high degree of control over prototype production enables us to establish detailed production specifications for each product, which in turn allows for effective control over the quality and cost of our outsourced production. Having our personnel in one location also creates an environment that fosters creativity where team members frequently exchange ideas and know-how. This also helps us maintain our heritage and craftsmanship as senior craftsmen are able to directly pass down their knowledge and experience to the younger generation through our apprenticeship program.

We sell our products through an extensive sales and distribution network consisting of HONMA-branded self-operated stores as well as distributors. As of March 31, 2016, we had 86 HONMA-branded self-operated stores, the largest number of self-operated stores among major golf companies. Our self-operated stores provide a bespoke “HONMA shopping experience” to our customers and form an integral part of our business model. Our research and develop team uses performance data collected as part of custom fitting services provided by our self-operated stores to design better performing products. Our self-operated stores also help us manage our sales and distribution network by providing training and other support to our distributors. In addition, prices set by our self-operated stores serve as reference points for third-party retailers.

Our distributors consist of (a) direct third-party retailers, including sports megastores such as Xebio and Nikigolf in Japan as well as PGA and Worldwide Golf in the United States and (b) wholesale distributors that on-sell our products to other third parties. Our extensive sales and distribution channels provide significant opportunities to engage with our customers and collect feedback. We are also able to apply the experience gained through managing our extensive sales and distribution channels as we expand our geographic presence.

We believe our vertically integrated business model is unique within the golf products industry and enables us to maintain and refine our premium craftsmanship, invest in and protect our core technical know-how and intellectual property, ensure high product quality while controlling costs and effectively managing and growing our sales and distribution channels.

Engrained consumer-centric corporate culture driving strong customer satisfaction and loyalty

We strive to provide a bespoke “HONMA shopping experience” to our customers. We operate the largest number of self-operated stores among major golf products companies. Our self-operated stores are staffed with well trained and highly knowledgeable golf enthusiasts, the majority of whom are internally certified golf club fitters, who are able to help customers select the golf clubs that best suit their needs. Most of such stores are equipped with golf simulators to assist customers with their purchase decisions. For avid golf enthusiasts who demand a higher level of performance, certain of our self-operated stores also offer specialized fitting centers equipped with high-speed cameras and precision software to capture relevant swing data such as angle of stroke, posture, distance and trajectory. As of March 31, 2016, we operated four fitting centers, two in Japan, one in Korea and one in China. At these fitting centers, specially trained golf club consultants work with customers to help them select the golf clubs that will optimize their performance on the golf course. We believe such services resonate well with customers and differentiate us from many of our competitors, creating a long-lasting impression of our brand. We are evaluating providing such services in more self-operated stores as well as third-party retailers. In addition, our sales staff are trained in relationship selling, rather than transaction-based results, and our culture encourages them to maintain regular contact with our customers to provide personalized updates about our products.

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We believe our ability to perform customized fitting for our customers and our emphasis on relationship selling has translated into a high degree of customer satisfaction and brand loyalty, which drives repeat purchases. For example, based on data collected through a membership program for customers of our self-operated stores, among approximately 169,000 members who purchased at our self-operated stores from April 2008 to March 2016, approximately 62% of them made two or more purchases over the time period, with an average of 5.7 purchases. Approximately 47% of members made two or more golf club purchases over the same time period, with an average of 2.4 golf club purchases. Our dedication towards building long-term customer relationships is also evidenced by our strong base of approximately 190,000 members enrolled in our customer membership programs as of March 31, 2016. As we seek to continue our development in existing markets and expand into new markets, we believe that our bespoke shopping experience and consumer-centric corporate culture will help us attract and retain customers and gain market share.

Highly passionate, dedicated and experienced management team

We have an experienced senior management team that embodies our passion and dedication. Chairman Liu is a highly driven and successful Chinese entrepreneur who has over 20 years of experience running branded consumer and retail-oriented businesses. He is supported by our senior management team, most members of which have been with our company for more than three decades and identify strongly with our brand heritage and values. President Yasuki Ito of Honma Japan has been with our company for over 30 years. Prior to assuming his current position in December 2015, he was the General Manager of the marketing division and was the architect of our strategy to expand into new consumer segments. Our research and development team is headed by Hiroshi Suwa, who has been with our Company for over 37 years and responsible for many of our product innovations during his tenure. Other members of our senior management team are also highly experienced industry veterans with a deep understanding of business.

Since Chairman Liu acquired our company in 2010, he has implemented a “3R’s” approach to (i) **retain** HONMA’s traditions, its uncompromising quality and craftsmanship as well as its long-serving team of management and employees, (ii) **restore** pride and motivation back into the corporate culture by encouraging a strong sense of entrepreneurship among HONMA’s Japanese management team, and (iii) **reinvent** HONMA as an energetic, international and market-driven golf lifestyle brand. The execution capabilities of our senior management team have been instrumental in HONMA’s rejuvenation in recent years. We believe that their passion, dedication and wealth of experience will be invaluable to our future growth and profitability.

Track record of sustainable growth and profitability

We believe our strong financial performance over recent years across geographies and products can be attributed to the strength of our brand, business model as well as the successful implementation of our “3R’s” approach and growth strategies. Our revenue increased from JPY15.7 billion for the year ended March 31, 2014 to JPY22.4 billion (US\$218.9 million) for the year ended March 31, 2016, representing a CAGR of approximately 19.3%, far outpacing overall industry growth and also making us the fastest growing company among our peers in the global golf products industry. Our adjusted net profit increased from JPY1.8 billion for the year ended March 31, 2014 to JPY3.4 billion (US\$33.2 million) for the year ended March 31, 2016, representing a CAGR of approximately 38.7%. For a reconciliation of adjusted net profit to net profit, see “Financial Information — Non-IFRS Financial Measures — Adjusted Net Profit.”

Such strong financial performance in recent years has been driven by introduction of new products that target new consumer segments, our geographic expansion efforts and the expansion and diversification of our sales and distribution channels. We believe our proven track record of successful growth and profitability in the Track Record Period is a testament to our operational excellence and strong management capabilities.

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OUR STRATEGIES

Our vision is to build a world-leading golf lifestyle company on the foundation of our craftsmanship heritage. We aim to achieve this by implementing the following strategies:

Tap into adjacent consumer segments by continuing to optimize our product mix

We aim to increase our sales and market share by managing our product offerings to align with our target consumers’ preferences. Based on extensive market research, we categorize the golf clubs market into the Nine Key Segments according to the priorities golf players place on price, design and performance, which are correlated with their respective levels of affluence and enthusiasm towards golf, as illustrated in the chart below. See “Industry Overview” for more information on these consumer segments. Each of our four families of golf clubs is targeted at specific consumer segments.

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

Historically, we focused on Segment 2 Consumers, who are consumers willing to pay a premium price for golf clubs. Our BERES family of golf clubs, which emphasize aesthetics and exclusivity, are designed with these consumers in mind. When we were evaluating new target segments, we recognized that Segment 2 Consumers, Segment 6 Consumers and Segment 7 Consumers are unique among the Nine Key Segments, as each assign high priority to a specific attribute of golf clubs. We believe it is relatively straightforward to design products that satisfy consumers from these segments due to their focus on specific attributes. We decided to design golf clubs for Segment 6, as Segment 2 represented our existing customer base and Segment 7 did not represent an attractive market to us. In addition, we strategically targeted Segment 6 Consumers in the early stages of our expansion as they are generally passionate golfers willing to try new products and spread their opinions. We believe opinions of Segment 6 Consumers are well-respected in the golf community and highly influential to the purchasing decisions of consumers in other segments. We were confident of our ability to win Segment 6 Consumers because of our premium brand name and strength in product innovation.

Since launching the TOUR WORLD family of golf clubs in February 2013, we have established a strong market position among Segment 6 Consumers. TOUR WORLD golf clubs sell at relatively lower prices and place higher emphasis on performance as compared to BERES golf clubs. Based on our success with Segment 6 Consumers, we are also expanding into Segment 5, Segment 8 and Segment 9. In July 2015, we introduced our G1X family of golf clubs that are designed specifically for consumers in Segment 8 and Segment 9, whose purchasing decisions are more driven by price. In January 2016, we introduced the Be ZEAL family of golf clubs, whose fashionable appearance and ease-of-use are intended to appeal to Segment 5 Consumers.

Together, Segments 5, 6, 8 and 9 constitute the vast majority of the global golf products market. According to Frost & Sullivan, in 2015, these segments accounted for 75.7% of retail sales in Japan, our largest golf club market and 61.2%, 62.5% and 80.2% in Korea, China and the United States, respectively. In 2015, the aggregate size of these four markets amounted to approximately US\$2.9 billion in retail sales. We believe the desirability and iconic status of the HONMA brand positions us well to expand into and gain market share in these segments going forward. We also remain committed to serving Segment 2 Consumers by continuously improving the quality of our BERES family of golf clubs. Revenue attributable to the BERES family of golf clubs grew from JPY6,905.9 million in the year ended March 31, 2014 to JPY9,912.2 million in the year ended March 31, 2016, representing a CAGR of 19.8%.

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Continue product innovation and development to cater to evolving industry trends

We believe the strength of our HONMA brand is built on a history of developing and bringing to market innovative and high-quality products that combine performance and design. By leveraging our research and development capabilities, we intend to regularly introduce new and improved series of golf clubs that appeal to our target consumer segments and ensure that our offerings remain up to date with the latest market trends. For example, our TOUR WORLD family of golf clubs, launched in February 2013, has enjoyed great success. TOUR WORLD golf clubs incorporate a number of designs and technical innovations, such as a proprietary club face design with variable thickness that aim to enhance the playing experience and carry distance of each shot. Encouraged by our success with TOUR WORLD, we launched the G1X and Be ZEAL families of golf clubs in July 2015 and January 2016, respectively.

We plan to maintain a high level of investment in developing new products and continue to apply our experience and expertise in research and development to build on our existing product portfolio. To this end, we will continue to strengthen the research and development capabilities at our Sakata Campus and maintain a close working relationship with our suppliers and TEAM HONMA. As a result of continued improvements to our product development process, we are able to bring a new golf club design to market within 12 to 14 months.

Further increase market share and enhance brand awareness in existing markets

Enhancing brand awareness and gaining market share in Asia will continue to be a key part of our future growth strategies. During the Track Record Period, we experienced robust revenue growth in our home markets of Japan, Korea and China (including Hong Kong and Macau), with our aggregate revenue attributable to these markets growing from JPY12,911.6 million in the year ended March 31, 2014 to JPY18,895.9 million in the year ended March 31, 2016, representing a CAGR of 21.0%. Although we already have a strong presence in our home golf club markets, with market shares in terms of retail sales of 8.7%, 6.8% and 15.4% in Japan, Korea and China (including Hong Kong and Macau), respectively, in 2015, we believe there remains significant room for us to increase our market share. We intend to facilitate this by further expanding our product portfolio to attract consumers, particularly those in Segment 5 and Segment 6.

We also intend to expand our distribution channels across Asia, particularly by (i) growing sales to existing distributors and (ii) working with new distributors to expand our sales and distribution network. In order to meet the growing adoption of e-commerce and also to reach more customers, we also intend to expand our online distribution channels and develop capabilities to allow customers to place custom golf club orders online through partnerships with leading online retailers. In addition, we plan to continue enhancing our brand awareness by leveraging the success and exposure provided by TEAM HONMA.

Penetrate new markets in North America and Europe, particularly the United States and the United Kingdom

North America and Europe account for a significant share of the global golf products market. In particular, the United States, which according to Frost & Sullivan accounted for 37.3% of global golf products retail sales in 2015, is the largest golf products market in the world. We currently only have a small presence in the North American and European golf products markets. Our expansion into these markets will form a key component of our future growth, and we are evaluating and implementing strategies designed to significantly increase our market shares in the future. We plan to initially focus our efforts on the United States and the United Kingdom. In April 2016, we completed our North America golf consumer research and business development plan with the assistance of a U.S. consulting firm and have moved into the implementation phase.

We believe that our TOUR WORLD and Be ZEAL products have strong appeal to avid golfers in North America and Europe who are focused on improving their performance. We believe our dedication to quality and innovation together with our premium brand image differentiates us from the competitors who focus on the mass market. In addition, we have developed our new G1X family of golf clubs, which target

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Segment 8 and Segment 9 Consumers in North America and Europe. We intend to support our expansion into these markets by aggressively promoting our brand and products, including by recruiting additional professional golfers from North America and Europe to TEAM HONMA. We plan to partner with quality retailers in these markets. To control production costs, we outsource the production of certain product families to our strategic supplier partners while maintaining our focus on product quality. Because we maintain the research and development of our golf clubs in-house, we are able to establish detailed production specifications, which in turn enables us to effectively control the quality of our outsourced golf clubs. Currently, our G1X family of golf clubs are manufactured by our strategic supplier partners, and we plan to outsource the production of TOUR WORLD golf clubs for sales to North America and Europe. As part of our expansion strategy, we may also from time to time consider attractive and complementary acquisition opportunities. For example, we may selectively acquire golf companies that enjoy higher brand awareness in our target markets to leverage such companies’ brand recognition and distribution networks. As of the Latest Practicable Date, we have not identified any acquisition targets.

The expected withdrawal of the United Kingdom from the European Union (the “Brexit”) may or may not affect the United Kingdom’s economy in general and/or the golf products market in particular. We are monitoring the impact of Brexit on consumer confidence, retail landscape and other market conditions in the United Kingdom. Nonetheless, we do not expect the Brexit to materially affect or deter our expansion plan, as the United Kingdom has been the fourth largest golf products market in the world and presents significant market opportunities for us.

Continue to invest in the marketing and promotion of our HONMA brand

We believe that the iconic and premium status of the HONMA brand has strong appeal to customers beyond affluent golf participants and will attract new customers as we seek to expand in Asia and internationally. We plan to further increase the exposure and recognition of our HONMA brand, primarily by continuing to add prominent professional golf players to TEAM HONMA and sponsor high-profile golf tournaments. We will continue to utilize traditional media such as television and print media while tapping into online media and social networking websites to increase our media exposure globally. For example, we use social media platforms such as Facebook and WeChat to publicize new products and promotional activities and interact with customers and TEAM HONMA fans.

Golf’s reinclusion in the Olympic Games beginning in 2016 and, in particular, the hosting of the Olympics in Japan in 2020 is also expected to generate additional international exposure for the sport of golf as well as our brand. For example, TEAM HONMA players, including Shan Shan Feng (馮珊珊), have participated in the 2016 Olympics, and Shan Shan Feng won bronze medal in women’s golf. Leading up to and during the 2016 Olympics, we also conducted a series of marketing campaigns and promotional sales aimed at popularizing the sport of golf and further raising the profile of our brand and products.

Continue to increase operational efficiency and optimize cost structure

While we pursue our growth strategies, we are also focused on increasing our operational efficiency and optimizing our cost structure. For example, during the Track Record Period, we continuously enhanced the operational efficiency at our Sakata Campus to meet the rising demand for our products while controlling costs. We achieved this mainly through (i) rationalizing our manufacturing process to increase productivity; and (ii) outsourcing the manufacturing of non-critical components, while maintaining our high quality standards. The average number of golf clubs produced per member of our manufacturing department increased by 14.0% from 2,179 in the year ended March 31, 2014 to 2,483 in the year ended March 31, 2015, and further increased by 44.2% to 3,581 in the year ended March 31, 2016.

In addition, we believe there is room to reduce our expense base. We regularly evaluate the performance of our self-operated stores across regions and have closed or relocated stores that fail to meet our targets, while improving same store sales in the meantime. We are also in the process of conducting a strategic review of our distribution network and sales force, with the goal of eliminating inefficiencies and maximizing performance. As a result of our efforts to increase operational efficiency and control costs, our adjusted net profit margin increased from 11.2% in the year ended March 31, 2014 to 15.2% in the year

BUSINESS

ended March 31, 2016. For more information on adjusted net profit margin, see “Financial Information — Non-IFRS Financial Measures — Adjusted Net Profit Margin.” Going forward, we will continue to design and implement measures that will improve the utilization of our work force, manufacturing facility, stores and other resources to maximize operational efficiency and achieve an optimal cost structure.

Provide customers with a complete golf lifestyle experience by growing complementary product lines such as golf balls, apparel, accessories and other related products

Historically, we achieved our success by focusing on designing, manufacturing and selling golf clubs. We plan to leverage the strength of our brand to continue expanding our business to related product lines such as golf balls, apparel, accessories and other related products to complement our future growth.

Golf balls have the highest repurchase rate among golf products and we believe there are attractive growth opportunities in the golf balls market. We have partnered with Foremost Golf Mfg., Ltd., one of the largest OEM golf ball manufacturers in Asia, to jointly develop our HONMA-branded golf balls. We launched the first series of these golf balls in 2014 and have since expanded our offerings to six different lines of golf balls. Consistent with our philosophy of combining performance and design, our golf balls are technically-advanced multilayer golf balls, which are designed to deliver longer carry distances, higher spin rates and a more tactile feel when hitting the ball. Our golf balls compete at the premium price level in the golf ball market and revenue attributable to the sales of golf balls amounted to JPY419.9 million in the year ended March 31, 2016, accounting for approximately 1.9% of our total revenue in the period. We intend to accelerate our golf ball business by aggressively marketing the technical superiority of our golf balls, working with golf courses and driving ranges to introduce our golf balls to customers and raising the media exposure of our golf balls by including them in professional tournaments. We historically sold our golf balls using the sales teams and distribution channels that we maintained for golf clubs. To grow our market shares more effectively, we are in the process of building dedicated sales teams and distribution channels for golf balls.

We believe that golf apparel is another area with significant growth potential, especially because the target market extends beyond people who play golf. In addition, selling HONMA branded golf apparel is another means through which we can raise brand awareness. In the year ended March 31, 2016, revenue attributable to the sales of apparel, accessories and other related products amounted to JPY3,096.1 million, or approximately 13.8% of our total revenue during the period. We intend to continue to grow our apparel business by expanding our sales and distribution channels beyond the traditional channels for golf products, such as by opening specialty stores in shopping centers.

OUR VISION

We aspire to build a world-leading golf lifestyle company on the foundation of our craftsmanship heritage.

OUR BRAND

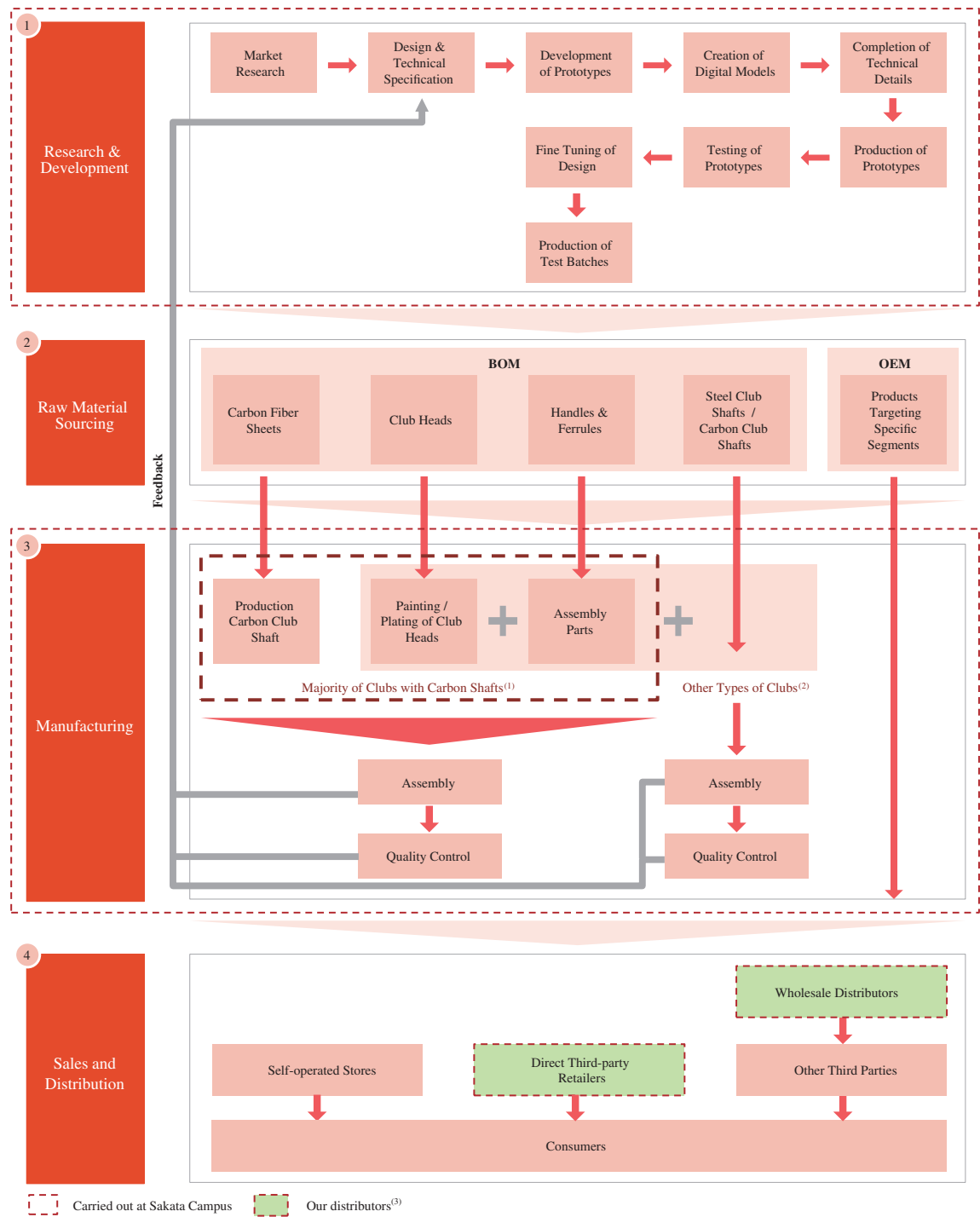
HONMA is one of the most prestigious and iconic brands in the golf industry, synonymous with intricate craftsmanship, dedication to performance excellence and distinguished product quality. According to Frost & Sullivan, HONMA ranks among the top ten golf brands in the world and is the number one brand for premium golf clubs, in each case in terms of retail sales in 2015. We have one of the longest histories among brands dedicated to golf currently in the market. Founded in 1959 by craftsmen who passionately believed that making a golf club is an art form, we are committed to the heritage that embodies pride in our legacy and products, relentless pursuit of perfection, exultation of product enhancement and perseverance in achieving the highest levels of design and manufacturing standards. We believe that the iconic and premium status of our brand helps us attract and retain a diverse range of customers and also allows many of our products to command a pricing premium over our competitors' comparable products.

OUR BUSINESS MODEL

We have a vertically integrated business model that provides us control over the most critical elements of the value chain, including design, development, production, marketing and sales and distribution. For further information on our business model, see “— Our Competitive Strengths — Vertically integrated business model with an extensive sales and distribution network.”

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Our business model is illustrated in the following diagram.



Notes:

- (1) We procure carbon fiber sheets to manufacture carbon shafts and produce a vast majority of carbon shaft clubs in-house together with other parts sourced from BOM suppliers.
- (2) We procure other types of shafts (including a limited number of carbon shafts) and assemble the procured parts to produce other types of clubs.
- (3) Our distributors include (a) direct third-party retailers, including sports megastores, and (b) wholesale distributors that on-sell our products to other third parties.

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OUR PRODUCTS

We offer customers a complete golf lifestyle experience through an extensive portfolio of HONMA-branded golf clubs, golf balls, apparel, accessories and other related products. Sales of golf clubs comprise the majority of our revenue. The following table shows the revenue of our product groups by amount and as a percentage of our total revenue for the Track Record Period:

	Year ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
Golf clubs	13,274,424	84.5	15,608,625	84.3	18,852,732	84.3
Golf balls	84,965	0.5	338,181	1.8	419,891	1.9
Apparel, accessories and other related products ⁽¹⁾	2,354,068	15.0	2,578,286	13.9	3,096,138	13.8
Total	<u>15,713,457</u>	<u>100.0</u>	<u>18,525,092</u>	<u>100.0</u>	<u>22,368,761</u>	<u>100.0</u>

Note:

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

Golf Clubs

A golf lifestyle begins with golf clubs, which have been our Company’s traditional strength. There are many different types of golf clubs that are used to hit golf balls for varying distances and at different angles. The five main types of golf clubs, woods (including drivers and fairway woods), irons, wedges, utilities and putters, are illustrated in the following pictures.



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Woods, which include drivers and fairway woods, are designed to propel a golf ball the farthest and are generally used for tee shots and long-distance shots from the fairway. Woods have large and rounded club heads with flat bottoms and big club faces, and are typically made from steel, titanium or other metal alloys. Irons are designed for shorter-distance shots from the fairway. The club heads of irons are generally made from steel and are shaped like blades, flat and thin from front to back, with grooved club faces. Wedges are specialized irons designed for short and high-angle shots to get the ball onto the green or out of hazards or other difficult positions on the golf course. Utilities are golf clubs that combine elements of both woods and irons, which can be used in a wide variety of situations on the golf course. The club heads of utilities are similar in construction and appearance to those of woods, but have smaller club faces and loft angles that are closer to irons. Putters are used to roll the golf ball along the green into the hole. There are a wide variety of putter designs, but the club heads of putters generally take the form of a flat blade or a mallet with a flat surface, and are typically made of steel.

In addition to the club head, another important component of a golf club is the club shaft. Almost all golf club shafts today are made from either carbon or steel. Carbon shafts are lighter than steel shafts, which enables faster swings that generate more power. Steel shafts are stiffer and heavier than carbon shafts, which results in more accurate and controlled shots. Typically, woods use carbon shafts, irons, utilities and wedges use either carbon or steel shafts, and putters use steel shafts.

Sales Volumes and Price Ranges for Golf Clubs

The following table sets forth the sales volume and range of average price of our golf clubs by sales and distribution channels during the Track Record Period.

	Year ended March 31,							
	2014		2015		2016		Price range	
	<i>pieces</i>	<i>%</i>	<i>pieces</i>	<i>%</i>	<i>pieces</i>	<i>%</i>	<i>(JPY/piece)</i>	
Self-operated stores.	121,215	24.9	145,148	28.5	178,313	23.5	36,098	193,908
Distributors.	366,447	75.1	364,092	71.5	579,272	76.5	16,068	111,027
Total	487,662	100.0	509,240	100.0	757,585	100.0	—	—

The following table sets forth the sales volume and range of average price of our golf clubs in each region during the Track Record Period.

	Year ended March 31,						Price range	
	2014		2015		2016			
	<i>pieces</i>	<i>%</i>	<i>pieces</i>	<i>%</i>	<i>pieces</i>	<i>%</i>	<i>(JPY/piece)</i>	
Japan	301,974	62.0	282,344	55.3	400,260	52.9	24,016	45,243
Korea	97,978	20.1	113,317	22.3	160,732	21.2	16,068	110,235
China (including Hong Kong and Macau)	13,789	2.8	39,578	7.8	94,069	12.4	36,098	193,908
North America	18,398	3.8	19,133	3.8	29,688	3.9	26,717	36,502
Europe	18,758	3.8	20,840	4.1	25,721	3.4	25,893	30,073
Rest of the World	36,765	7.5	34,028	6.7	47,115	6.2	31,767	73,468
Total	487,662	100.0	509,240	100.0	757,585	100.0	—	—

Principal Families of Golf Clubs

We currently offer golf clubs mainly under four major product families, namely BERES, TOUR WORLD, Be ZEAL and G1X, each targeting specific consumer segments. Based on extensive market research, we categorize the golf clubs market into Nine Key Segments according to the priorities golf players place on

BUSINESS

price, design and performance, which are correlated with their respective levels of affluence and enthusiasm towards golf. See “Industry Overview — Analysis of Consumer Preferences for Golf Clubs — Overview of Market Segmentation by Types of Consumers” for more information on these consumer segments. BERES golf clubs target consumers in Segment 2, which is our traditional customer base. During the Track Record Period, we have successfully expanded beyond Segment 2 with additional product offerings. TOUR WORLD golf clubs target consumers in Segment 6. Be ZEAL golf clubs target consumers in Segment 5. G1X golf clubs target consumers in Segment 8 and Segment 9. Together, Segments 5, 6, 8 and 9 constitute the vast majority of the global golf clubs market.

We design technologically advanced golf clubs and constantly strive to deliver effortless shots dreamed by every golfer. We are continually developing and introducing new and better golf clubs. By leveraging our superior research and development capabilities, we manage our product life cycle to continually generate customer interest, ensure our product offerings remain up to date with the latest market trends and meet the preferences of our target customers.

The following table sets forth the revenue of our golf club families by amount and as a percentage of total golf club revenue for the Track Record Period:

	Year ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
BERES	6,905,873	51.9	8,840,941	56.6	9,912,207	52.5
TOUR WORLD	2,742,770	20.7	3,158,343	20.2	4,330,562	23.0
Be ZEAL	—	—	—	—	1,173,221	6.2
G1X	—	—	—	—	58,939	0.3
Others						
Specialized models ⁽¹⁾	3,127,463	23.6	3,133,235	20.1	2,878,115	15.3
Putters	498,318	3.8	476,106	3.1	499,688	2.7
Total	<u>13,274,424</u>	<u>100.0</u>	<u>15,608,625</u>	<u>100.0</u>	<u>18,852,732</u>	<u>100.0</u>

Note:

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

BERES



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The BERES family of golf clubs showcases aesthetics and craftsmanship while also offering excellent playability. BERES golf clubs are characterized by artistic designs that project a sensuous and refined image. For example, the BERES Art series feature irons engraved with beautiful Japanese sceneries in the style of traditional Ukiyo-e paintings. In addition, we use the HONMA star system to provide each BERES golf club with a bespoke identity. Star ratings range from two stars to five stars. Higher star ratings indicate higher end designs, with gold used in golf clubs with higher star ratings, and higher levels of craftsmanship. Our five-star golf clubs are personally assembled by our master craftsmen. We believe our four- and five-star golf clubs are among the most exclusive golf clubs in the world. BERES golf clubs are engineered to maximize ease of swing by incorporating designs that make hitting the ball easier and maximize the carry distance for the average golfer. All of our BERES golf clubs are finished at our Sakata Campus and bear the distinct “Made in Japan, Sakata” mark.

Our latest iteration of BERES golf clubs, the BERES 05 series, was introduced in January 2016. We position the BERES golf clubs at the highest price points among our golf clubs. Recommended retail prices of golf clubs in Japan for our latest BERES 05 series range approximately from JPY35,000 (US\$342) (per two-star iron, excluding tax) to JPY500,000 (US\$4,887) (per five-star iron, driver or fairway wood, excluding tax).

TOUR WORLD



The TOUR WORLD family of golf clubs, launched in February 2013, delivers the high-level performance required by skilled golfers and professional golf players along with a sharp and stylish look. TOUR WORLD golf clubs feature many designs and technical innovations that enhance play performance, which have enabled TEAM HONMA to win multiple championships in professional golf tournaments. For example, TOUR WORLD woods use our proprietary club face design with variable thickness that both significantly increases the sense of hitting and carry distance and enhances performance. In 2013, 2014 and 2015, TOUR WORLD golf clubs won gold and silver awards from the Golf Digest Hot List Japan, which grants multiple awards to recognize the best new golf clubs of each year. Like our BERES golf clubs, all of our TOUR WORLD golf clubs are currently finished at our Sakata Campus and bear the distinct “Made in Japan, Sakata” mark. Going forward, we plan to selectively outsource the production of TOUR WORLD golf clubs for sales to specific geographic markets, such as North America and Europe, to offer competitive prices.

We position the TOUR WORLD golf clubs at prices that are relatively lower than BERES golf clubs. Recommended retail prices in Japan for golf clubs in our latest TW727 series, introduced in January 2015, range approximately from JPY19,000 (US\$186) (per iron, excluding tax) to JPY80,000 (US\$782) (per driver, excluding tax).

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Be ZEAL



The Be ZEAL family of golf clubs, launched in January 2016, combines ease-of-play with a fashionable appearance. Designed for players who aim to enhance performance, the family incorporates a number of designs and technical innovations of TOUR WORLD. Be ZEAL golf clubs feature bigger club heads with wider club faces and lower centers of gravity, which result in greater accuracy, higher loft and longer carry distance for the average golfer. In addition, the shafts are produced with materials that increase strength and stability, which also result in greater accuracy and longer carry distance. In 2016, the Be ZEAL driver and fairway wood won gold and silver awards, respectively, from the Golf Digest Hot List Japan. All of our Be ZEAL golf clubs are finished at our Sakata Campus and bear the distinct “Made in Japan, Sakata” mark.

We position the Be ZEAL golf clubs at prices that are comparable to TOUR WORLD golf clubs. Recommended retail prices in Japan for Be ZEAL golf clubs range approximately from JPY19,000 (US\$186) (per iron, excluding tax) to JPY80,000 (US\$782) (per driver, excluding tax).

G1X



The G1X family of golf clubs, launched in July 2015, offers the quality design and high performance of HONMA golf clubs at relatively lower prices. Developed to target the North American and European markets, G1X golf clubs have designs and features that are popular in these markets, such as adjustable shaft length and club face angles. In particular, we have developed a unique angle adjustment system that allows golfers to easily and precisely set club face angles without needing to remove and reinsert the shaft, and we have received patents for the system in China, Hong Kong and Japan. To offer competitive prices, G1X golf clubs are produced by our manufacturing partners outside of Japan.

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We sell G1X golf clubs at lower prices relative to our BERES and TOUR WORLD golf clubs. Recommended retail prices in North America for G1X golf clubs range approximately from US\$100 (per steel-shaft iron, excluding tax) to US\$430 (per driver, excluding tax).

Others

Specialized Models

Besides the four major families described above, we historically also marketed golf clubs that are produced for specific geographic regions or events. As we currently design our clubs primarily based on consumer segmentation, instead of geographic regions, we plan to introduce fewer specialized models going forward, with the expectation that sales of golf clubs targeted at specific consumer segments, such as BERES and TOUR WORLD, will increase. Retail prices for our specialized models vary among different series.

Putters

Putters are used to roll the golf ball along the green into the hole. There are a wide variety of putter designs, but the club heads of putters generally take the form of a flat blade or a mallet with a flat surface, and are typically made of steel. The shafts of putters are also typically made of steel. Compared to other types of golf clubs, putters are replaced less frequently by golfers. As a result, we market our putters without specific life cycles in mind. Because of the unique consumption and marketing patterns, we treat putters as a separate class of products. Recommended retail prices in Japan for our putters range approximately from JPY25,000 (US\$244) to JPY60,000 (US\$586) (per putter, excluding tax).



Our Principal Series of Carbon Club Shafts

HONMA golf clubs are equipped with either carbon or steel club shafts. We develop and produce all of the carbon club shafts used for our BERES, TOUR WORLD and Be ZEAL families of golf clubs at our Sakata Campus. Carbon club shafts used for our G1X family of golf clubs are produced by our strategic supplier partners outside of Japan. We also source all of our steel club shafts from strategic supplier partners. Our carbon club shafts employ technologically-advanced materials and designs to enhance play

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performance. Currently, we produce two principal series of carbon club shafts, VIZARD and ARMRQ[∞], each with a wide range of weight and flex specifications. Consistent with the industry norm for branded golf products manufacturers, our carbon club shafts are not sold separately as standalone products.



This photograph shows our craftsman making a carbon club shaft.

VIZARD

Designed based on data and feedback gathered from professional players, VIZARD club shafts are high performance club shafts targeted at skilled golfers and professional golf players. VIZARD club shafts are constructed using cutting-edge carbon fiber that increases the strength and stability of the shaft without sacrificing flexibility, which in turn enables more accurate and powerful swings. VIZARD club shafts are used with our TOUR WORLD and Be ZEAL families of golf clubs.



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ARMRQ[∞]

Constructed using tough but elastic carbon fiber sheets that feature carbon fiber layered on top of each other in eight different directions in a mosaic-like pattern, ARMRQ[∞] club shafts reduce wobbling at impact, thereby enhancing both the accuracy and distance of a golfer’s shot. ARMRQ[∞] club shafts are used with our BERES families of golf clubs.



Our Proprietary Customization System

We offer a comprehensive range of golf clubs, from woods, irons, wedges, utilities to putters, using a wide range of club heads and club shafts to appeal to a wide range of user preferences. We have developed a proprietary customization system that enables us to mix and match our wide variety of club heads and club shafts to provide customers with golf clubs personalized for their skill levels, playing styles and personal preferences. For example, drivers under the TOUR WORLD family offer nine different club heads with different shapes and loft angles that can be combined with 30 different shafts with varying weight and flex specifications for a total of 270 possible combinations, without taking into account different color and shaft length combinations.

Golf Balls



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We have partnered with Foremost Golf Mfg., Ltd., one of the largest OEM golf ball manufacturers in Asia, to jointly develop our HONMA-branded golf balls. We launched our first series of these golf balls in 2014 and have since expanded our offerings to six different lines of golf balls, the intellectual property rights of which are shared between us and Foremost Golf Mfg., Ltd. Consistent with our philosophy of combining performance and design, our golf balls are technically-advanced multilayer golf balls, which are designed to deliver longer carry distances, higher spin rates and a more tactile feel when hitting the ball. Our golf balls feature three to six layers consisting of different materials, as compared to recreational golf balls that consist of only two layers, the cover and the core. They are marketed and sold around the world and compete at premium price levels in the golf ball category. Recommended retail prices in Japan for our golf balls range approximately from JPY2,400 (US\$23) to JPY7,200 (US\$70) (per 12-ball box, excluding tax).



Apparel, Accessories and Other Related Products



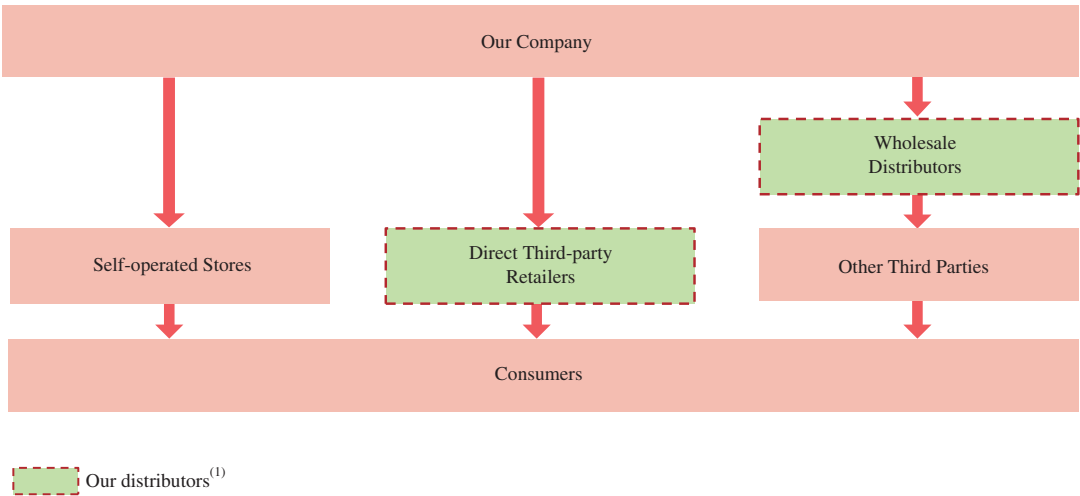
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In addition to golf clubs and golf balls, we also design and sell a wide range of golf apparel and other golf-related accessories, including golf bags, golf club head covers, footwear, gloves, headwear and others. Our golf apparel and accessories are manufactured by our strategic supplier partners.



OUR SALES AND DISTRIBUTION NETWORK

Our sales and distribution network consists of HONMA-branded self-operated stores as well as distributors. The following diagram illustrates the structure of our sales and distribution network:



Note:

- (1) Our distributors include (a) direct third-party retailers, including sports megastores, and (b) wholesale distributors that on-sell our products to other third parties.

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As of March 31, 2016, we had 86 HONMA-branded self-operated stores. Our distributors consist of (a) direct third-party retailers and (b) wholesale distributors that on-sell our products to other third parties.

The following table sets forth revenue attributable to our self-operated stores and distributors by amount and as a percentage of total revenue for the Track Record Period:

	Year ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
Self-operated stores	6,791,400	43.2	8,413,590	45.4	8,334,484	37.3
Distributors						
Direct third-party retailers ⁽¹⁾ . . .	5,482,628	34.9	6,048,205	32.7	8,410,387	37.6
Wholesale distributors	3,439,429	21.9	4,063,297	21.9	5,623,890	25.1
Distributors subtotal	8,922,057	56.8	10,111,502	54.6	14,034,277	62.7
Total	<u>15,713,457</u>	<u>100.0</u>	<u>18,525,092</u>	<u>100.0</u>	<u>22,368,761</u>	<u>100.0</u>

Note:

(1) Include sports megastores.

We develop and manage our sales and distribution network on a country-by-country basis to cater to the specific retail landscape and consumer demographics. The makeup of our sales and distribution network varies across regions depending on local retail landscape and our go-to market strategy in that particular region. We are constantly evaluating our existing channels and exploring new channels to optimize our sales and distribution network.

Self-operated Stores

We operate the largest number of self-operated stores among major golf products companies. Our self-operated stores provide us with a direct sales channel as well as a platform to maintain and enhance our brand image. We have constantly evaluated and optimized our self-operated store strategy by taking into account market potential, effects of cooperation between our self-operated stores and distribution channels and performance matrix of specific self-operated store. Our self-operated stores consist of stand-alone stores as well as shop-in-shop arrangements in department stores and on golf courses. Our self-operated stores sell exclusively our golf clubs, and may also carry golf balls as well as apparel and accessories from HONMA and other brands. We feature product in a self-operated store largely to address the demographic of consumers that frequent the store.

The following pictures illustrate some of our self-operated stores.



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We strive to provide a bespoke “HONMA shopping experience” to our customers. We staff our self-operated stores with well trained and highly knowledgeable golf enthusiasts, the majority of whom are internally certified golf club fitters, who are able to help our customers select the golf clubs that best suit their needs. Most of our self-operated stores are also equipped with golf simulators to assist our customers to fortify their purchase decisions. For avid enthusiasts who demand a higher level of performance, certain of our self-operated stores offer fitting centers equipped with high-speed cameras and precision software to capture relevant swing data such as angle of stroke, posture, distance and trajectory. At the fitting centers, specially trained golf club consultants work with customers to help them select the golf clubs that will optimize their performance on the golf course. As of March 31, 2016, we operated four fitting centers, two in Japan, one in Korea and one in China. We plan to provide such services in additional self-operated stores as well as third-party retailers as necessary.

The following pictures illustrate some of our fitting centers.



We take a measured and strategic approach when opening new self-operated stores. We select regions where there is a sizeable target market or where we have substantial market presence. In addition, we consider and evaluate our regional strategy, including our strategy to manage distributors in the region, and expected sales volume and expenses, among other factors, when selecting a location to open a new store. We regularly evaluate the performance of our self-operated stores across regions and have closed or relocated stores that fail to meet our targets, while improving same store sales in the meantime. As of March 31, 2014, 2015 and 2016, we had 65, 77 and 86 HONMA-branded self-operated stores, respectively, primarily in Japan and China. In addition, but to a much lesser extent, large volume retail customers such as corporates, sports teams and golfing schools, may place orders to us directly on a one-off basis (“one-off retail customers”). These sales are conducted directly through us rather than our physical stores or our distributors. As such, we do not attribute this respective revenue to any particular self-operated store or include it in the calculation of same-store sales growth (“SSSG”). However, we classify such sales as part of our revenue attributable to self-operated stores as it represents part of our sales through self-operated channels and are retail sales in nature. In the three years ended March 31, 2014, 2015 and 2016, revenue attributable to our self-operated stores accounted for 43.2%, 45.4% and 37.3%, respectively, of our total revenue.

The table below sets forth the number of our self-operated stores for the periods indicated:

	Year ended March 31,		
	2014	2015	2016
Number of self-operated stores			
At the start of the year	65	65	77
Added during the year	6	15	22
Terminated during the year	(6)	(3)	(13)
Total at the end of the year	65	77	86

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Distribution Channels

We also work with distributors to sell our products. Our distributors consist of (a) direct third-party retailers and (b) wholesale distributors that on-sell our products to other third parties. In Japan, we sell our products to direct third-party retailers, including sports megastores such as Xebio and Nikigolf. We have no wholesale distributors in Japan. For our distribution channels outside of Japan, we generally sell our products to wholesale distributors. We believe this approach allows us to penetrate markets more quickly by leveraging the local market knowledge of our distributors and third-party retailers.

We believe that cooperating with distributors is a cost-effective means to (i) reach a diverse customer base in our existing geographic markets and (ii) expand into new geographic markets. Therefore, we view our distributors primarily as business partners, instead of competitors of our self-operated stores. Our distribution model is consistent with market practice in the golf products industry. In the three years ended March 31, 2014, 2015 and 2016, sales to distributors accounted for 56.8%, 54.6% and 62.7%, respectively, of our total revenue, with our five largest distributors during each period together accounting for 23.3%, 20.8% and 25.4%, respectively, of our total revenue. Our largest distributor during each period accounted for 10.2%, 10.1% and 11.3%, respectively, of our total revenue for the same periods.

The following pictures illustrate some of our third-party retailers.



Third-party retailers that are included in our distribution channels consist mostly of sports megastores, golf and sport specialty stores, department stores, on-course golf shops, as well as online retailers, which target a wide range of consumers. Sports megastores are large retailers of sports goods. As of March 31, 2016, our products were sold at 870 individual sports megastores, of which 625 were located in Japan. Golf and sport specialty stores are stand-alone stores that specialize in selling golf products or general sports-related products. Department stores are retail locations that offer a wide range of consumer products and typically carry strong global and national brands. On-course golf shops consist of stores located at golf courses or driving ranges. Online retailers are businesses that sell products over the Internet rather than in bricks-and-mortar stores. We provide support to our third-party retailers primarily in the form of product information and staff training.

Arrangements with Distributors

We select our distributors based on a number of factors, such as understanding of and alignment with the key values of our brand, the coverage of their distribution network, financial ability and service quality. We view our distributors as important business partners. We allow our wholesale distributors to engage retailers and help us further expand our distribution network on their own initiative. During the regular business review meetings, we discuss and monitor trade stock levels and product mix thereon with our distributors. We are unaware of any significant accumulation of excess inventory in our distribution network during the Track Record Period. We actively manage our network of distributors by country, work closely with them to achieve our strategic and operational objectives and maintain open dialogues so that we are able to quickly address any issues. We typically designate a sales region to each wholesale distributor to avoid competition within our distribution network. We grant certain wholesale distributors exclusivity over their sales regions. For example, we have appointed an exclusive distributor in Korea.

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We negotiate and enter into distribution agreements with our distributors. We manage our distributors solely through such distribution agreements and do not have other direct control over them. The term of such distribution agreements is typically one year and is automatically extended for one year upon expiration, unless either party objects in writing no later than (i) in the case of distributors outside of Japan, 60 days prior to expiration or (ii) in the case of Japanese distributors, one month prior to expiration. Pricing and purchase volumes are determined by each purchase order. Our agreements with Japanese distributors typically allow either party to terminate without cause by giving one to two months of prior written notice to the counterparty. In addition, such agreements allow us to terminate for cause, and some agreements also grant distributors such right. Our agreements with distributors outside Japan typically do not allow either party to terminate without cause. Such agreement allow us, but not distributors, to terminate for cause. Termination for cause provisions in our distribution agreements are triggered by events including, among others, the counterparty’s breach of contract, insolvency or bankruptcy. Our agreements with Japanese distributors typically do not provide sales targets. Our agreements with distributors outside of Japan typically provide such sales targets, which vary among distributors based on our plans for the relevant markets. A distributor’s failure to meet its target, which constitutes a breach of the applicable distribution agreement, would give us the right to terminate such agreement.

Sales to our distributors are without recourse, except that they can return defective products for a full refund. Revenue from product sales to distributors are recognized when title to the products transfers to the distributor. We recognize all sales returns against revenue, and sales returns from distributors remained at an insignificant level during the Track Record Period. For information about returns from retail customers, see “ — Manufacturing — Product Returns and Warranties.” Payment terms vary from 30 to 140 days depending on the distributor, and payments are settled by various methods, including letter of credit, telegraphic transfer and wire transfer. To incentivize our distributors, we occasionally offer volume rebates to distributors whose purchases from us reach threshold amounts. The rebates typically amount to 3% to 5% of a qualified distributor’s purchase.

All of our existing distributors are independent third parties. None of the distributors are owned by our former employees. None of our Directors or Shareholders has any equity interest in any of our distributors. None of our distributors or their beneficial owners has any past or present relationship outside the scope of distribution arrangements, including without limitation, employment or financing relationship with our company or our Directors or Shareholders during the Track Record Period. In addition, our Directors believe, after due inquiries, that none of our distributors or their beneficial owners has any family relationship with our Directors and Shareholders or trust relationship with our company or our Directors or Shareholders during the Track Record Period.

During the Track Record Period, Honma Shanghai, a related party, acted as our distributor, but our distribution relationship with Honma Shanghai has ceased starting from January 2016. For more information on Honma Shanghai and the Reorganization, see “Our History — Reorganization.”

The table below sets forth the number of our distributors as of March 31, 2014, 2015 and 2016:

	Year ended March 31,		
	2014	2015	2016
Number of distributors			
At the start of the year	1,832	1,965	2,159
Added during the year	459	560	397
Terminated during the year	(326)	(366)	(451)
Net increase (decrease) during the year	133	194	(54)
Total at the end of the year	1,965	2,159	2,105

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We manage our distributors and determine whether to continue our contractual relationships with distributors based on their performance and our regional strategy. The fluctuations in the number of distributors during the Track Record Period were partially caused by sales to retailers with whom we hosted one-off joint sales events. In addition, we actively managed our distribution channels to include more quality distributors and eliminate the ones with limited capacity. As a result of our strategic management of our distribution channels, our revenue attributable to distributors grew 38.8% from JPY10,111.5 million in the year ended March 31, 2015 to JPY14,034.3 million in the year ended March 31, 2016, even though the number of distributors decreased from 2,159 to 2,105 over the same period. Going forward, we will continue to seek cooperation with quality distributors to drive our revenue growth, particularly in new geographic markets such as North America and Europe.

Our Global Presence

Our 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 attributable to each region by amount and as a percentage of total revenue for the Track Record Period:

	Year ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
Japan	9,099,791	57.9	9,705,131	52.3	11,889,359	53.2
Korea	1,932,702	12.3	2,233,705	12.1	2,816,042	12.6
China (including Hong Kong and Macau)	1,879,086	12.0	3,335,914	18.0	4,190,468	18.7
North America	651,300	4.1	698,402	3.8	793,164	3.5
Europe	542,918	3.5	626,731	3.4	665,997	3.0
Rest of the World	1,607,660	10.2	1,925,209	10.4	2,013,731	9.0
Total	<u>15,713,457</u>	<u>100.0</u>	<u>18,525,092</u>	<u>100.0</u>	<u>22,368,761</u>	<u>100.0</u>

Japan

Japan is our key home market and had the largest revenue contribution during the Track Record Period. In Japan, we operate a number of self-operated stores and also sell our products to a large number of direct third-party retailers, including sports megastores. We have no wholesale distributors in Japan. During the Track Record Period, sales to distributors, particularly direct sales to sports megastores, increased both in absolute terms and as a percentage of total revenue in Japan. The following table sets forth revenue attributable to our self-operated stores and distributors by amount and as a percentage of total revenue for Japan for the Track Record Period:

	Year ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
Self-operated stores	4,145,822	45.6	4,339,081	44.7	4,599,869	38.7
Distributors	4,953,969	54.4	5,366,050	55.3	7,289,490	61.3
<i>which include direct sales to sports megastores</i>	<u>1,141,652</u>	<u>12.5</u>	<u>1,658,557</u>	<u>17.1</u>	<u>2,654,301</u>	<u>22.3</u>
Total	<u>9,099,791</u>	<u>100.0</u>	<u>9,705,131</u>	<u>100.0</u>	<u>11,889,359</u>	<u>100.0</u>

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The table below sets forth the number of our self-operated stores in Japan for the Track Record Period:

	Year ended March 31,		
	2014	2015	2016
Number of self-operated stores			
At the start of the year	55	49	48
Added during the year	0	2	0
Terminated during the year	(6)	(3)	(7)
Total at the end of the year	<u>49</u>	<u>48</u>	<u>41</u>

The number of self-operated stores in Japan decreased during the Track Record Period. We closed or relocated stores that failed to meet our targets, while improving same store sales in the meantime.

The table below sets forth the number of our distributors in Japan for the Track Record Period:

	Year ended March 31,		
	2014	2015	2016
Number of distributors			
At the start of the year	1,804	1,935	2,120
Added during the year	456	550	357
Terminated during the year	(325)	(365)	(448)
Total at the end of the year	<u>1,935</u>	<u>2,120</u>	<u>2,029</u>

China (including Hong Kong and Macau) and Korea

China (including Hong Kong and Macau) and Korea were our second and third largest markets, respectively, during the Track Record Period, accounting for an aggregate of 31.3% of our total revenue in the year ended March 31, 2016. Our sales and distribution channels in these markets consist of a combination of our self-operated stores and distributors, with sales to distributors representing an increasingly larger share of our revenue in these markets. In Korea, we experienced robust revenue growth during the Track Record Period, which was partly due to our successful collaboration with our exclusive distributor in the country. In China (including Hong Kong and Macau), we cooperate with several distributors to leverage their knowledge of and reach within various local markets. Our revenue for China (including Hong Kong and Macau) experienced healthy growth over the Track Record Period, but is not comparable due to the Reorganization. For more information, see “Our History — Reorganization.”

The table below sets forth the number of our self-operated stores in China (including Hong Kong and Macau) for the Track Record Period:

	Year ended March 31,		
	2014	2015	2016
Number of self-operated stores			
At the start of the year	3	8	21
Added during the year	5	13	22
Terminated during the year	(0)	(0)	(6)
Total at the end of the year	<u>8</u>	<u>21</u>	<u>37</u>

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The table below sets forth the number of our distributors in China (including Hong Kong and Macau) for the Track Record Period:

	Year ended March 31,		
	2014	2015	2016
Number of distributors			
At the start of the year	4	3	10
Added during the year	0	7	38
Terminated during the year	(1)	(0)	(3)
Total at the end of the year	3	10	45

Our sales and distribution network in China (including Hong Kong and Macau) experienced healthy growth over the Track Record Period, but the movements in the numbers of self-operated stores and distributors presented in the tables above are in part due to the Reorganization and therefore not comparable. For more information, see “Our History — Reorganization.” As part of the Reorganization, WP International Trading gradually succeeded Honma Shanghai in the marketing and sales of HONMA products in China. In the year ended March 31, 2014, WP International Trading commenced operations of five self-operated stores formerly operated by Honma Shanghai. WP International Trading also began to sell products to other third parties that formerly purchased from Honma Shanghai. Starting from January 2016, Honma Shanghai ceased to purchase golf products from us and is not expected to play any role in our sales and distribution network going forward.

During the Track Record Period, we had one self-operated store and one distributor in Korea.

North America and Europe

As of March 31, 2016, we did not directly operate any stores in North America or Europe. By collaborating with quality distributors, we have established footholds in these markets. Revenue attributable to these markets accounted for an aggregate of 6.5% of our revenue for the year ended March 31, 2016. Our expansion into these markets will form a key component of our future growth, and we are evaluating and implementing strategies designed to significantly increase our market shares in the future. In April 2016, we completed our North America golf consumer research and business development plan with the assistance of a U.S. consulting firm and have moved into the implementation phase.

During the Track Record Period, we had two distributors in North America.

The table below sets forth the number of our distributors in Europe for the Track Record Period:

	Year ended March 31,		
	2014	2015	2016
Number of distributors			
At the start of the year	10	11	10
Added during the year	1	0	0
Terminated during the year	(0)	(1)	(0)
Total at the end of the year	11	10	10

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Rest of the World

Rest of the world accounted for 9.0% of our revenue for the year ended March 31, 2016. In smaller Asian markets such as Taiwan and Thailand, we relied on our self-operated stores. Going forward, we expect to drive our revenue growth in these markets through cooperation with leading distributors. In other markets outside of Asia, such as Oceania and Latin America, we have not opened any self-operated stores and rely exclusively on distributors.

The table below sets forth the number of our self-operated stores in rest of the world for the Track Record Period:

	Year ended March 31,		
	2014	2015	2016
Number of self-operated stores			
At the start of the year	6	7	7
Added during the year	1	0	0
Terminated during the year	(0)	(0)	(0)
Total at the end of the year	7	7	7

The table below sets forth the number of our distributors in rest of the world for the Track Record Period:

	Year ended March 31,		
	2014	2015	2016
Number of distributors			
At the start of the year	11	13	16
Added during the year	2	3	2
Terminated during the year	(0)	(0)	(0)
Total at the end of the year	13	16	18

Pricing

Our pricing strategy focuses on maintaining the premium status of our brand and stabilizing the prices of our products throughout their life cycles, which is typically between 18 to 24 months. We cannot control the prices of our products sold through distribution channels, though we provide recommended retail prices. Prior to the launch of each series of products, we carefully determine the recommended retail price based on careful market research. After the launch of a new series of products, recommended retail prices for prior-generation products is reduced across our sales and distribution channels in a consistent manner. In addition, prices set by our self-operated stores serve as reference points for third-party retailers. We believe that our pricing policies distinguish us from our competitors, as we operate the largest number of self-operated stores among major golf products companies, which provides us with a higher degree of control over the retail prices of our products across our wider sales and distribution network.

MARKETING

Advertising and Promotion

We advertise our products and promote our brand by (i) entering into sponsorship and endorsement arrangements with professional golf players and (ii) conducting advertising campaigns. We believe that the prominence of a golf brand and our target customers’ purchasing decisions are highly influenced by the brand’s popularity and exposure among professional golf players. We have been successful at attracting

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and collaborating with professional golf players. As of March 31, 2016, we sponsored and are endorsed by 40 professional golf players. This group of professional golf players, which we refer to as TEAM HONMA, includes a number of prominent and highly ranked Asian players such as So-Yeon Ryu (柳 籐 然) and Shan Shan Feng (馮 珊 珊), who were ranked 8th and 9th on the Ladies Professional Golf Association of the United States (“USLPGA”) tour in 2015, respectively, Bo-Mee Lee (李 寶 美), who was ranked 1st on the JLPGA tour in 2015 and Koumei Oda (小 田 孔 明), who was ranked 1st on the JGTO in 2014. In 2013, 2014 and 2015, TEAM HONMA players won a total of 10, 13 and 21 championships in professional golf tournaments, respectively. Going forward, we plan to recruit additional professional golfers from North America and Europe to support our expansion into these new markets.

Our sponsorship agreements with TEAM HONMA players typically include the following principal terms:

- *Scope of arrangements:* Each agreement specifies (i) a tournament (the “Designated Tournament”) in which a player is obligated to endorse our products and (ii) the product categories which a player is obligated to endorse in the Designated Tournament. The Designated Tournaments include, among others, JGTO, JLPGA, KLPGA and USLPGA. The product categories endorsed by a particular player typically include golf clubs and caps and may also include other accessories and apparel. For certain players, the applicable sponsorship agreement specifies a list of other golf companies’ products that a player is permitted to endorse. Such products represent exceptions to our exclusive right to a player’s endorsement.
- *Payment of sponsorship fees:* Sponsorship fees include a fixed amount and an incentive fee that depends on a player’s performance in the Designated Tournament. Sponsorship fees amounted to JPY509.8 million, JPY696.9 million and JPY772.7 million in the years ended March 31, 2014, 2015 and 2016, respectively.
- *Term and renewal:* The term typically ranges from 1 to 3 years. Each agreement is automatically renewed unless either party provides notice of its intention not to renew no less than 90 days prior to the expiration of the agreement.
- *Termination:* We have the right to terminate an agreement for cause. Grounds for termination include, among others, a player’s breach of the agreement, violation of the law or acts that damage our reputation.

Our advertising campaigns are conducted through both traditional and online media, and are designed regionally according to each region’s customer characteristics but coordinated on a global level to promote a unified brand image. We advertise through a number of different traditional media, such as billboards, printed advertisements in sports and golf-related magazines, television commercials and in-store advertisements. In addition, we utilize a variety of online media, including social networking websites, to promote our brand. In Japan, we aim to grow fan base for our products through our Facebook page, where we provide periodic updates about TEAM HONMA. We have also established “Serious Golfers’ Voice” pages on our Japanese and English websites, which allow fans of TEAM HONMA to upload comments. Their comments include praises for our outstanding golf clubs and our employees’ superior services as well as support for TEAM HONMA. These praises, which leave a positive impression on first-time visitors of our website, are integral to our word-of-mouth marketing. Outside of Japan, we use both self-operated websites and services such as Facebook, Weibo and WeChat to publicize new products and promotional activities and interact with customers and TEAM HONMA fans.

Our advertising and promotion expenses increased from JPY1,778.7 million in the year ended March 31, 2014 to JPY2,367.8 million in the year ended March 31, 2016, representing a CAGR of 15.4%. Golf’s reinclusion in the Olympic Games beginning in 2016 and, in particular, the hosting of the Olympics in Japan in 2020 is also expected to generate additional international exposure for the sport of golf as well as our brand. To capture this opportunity, we plan to continue to increase our advertising spending. Specifically, we plan to continue to attract more high-profile professional golf players to TEAM HONMA,

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particularly players with international recognition, and continue to engage in a series of marketing campaigns and promotional sales in connection with the Olympic Games. For example, TEAM HONMA players, including Shan Shan Feng (馮珊珊), have participated in the 2016 Olympics, and Shan Shan Feng won bronze medal in women’s golf. We expect participation of TEAM HONMA players in the Olympic Games to lend strong support to our marketing efforts and promote the use of our products among golfers around the world.

We intend to use approximately [REDACTED]% of the net proceeds of the [REDACTED] for sales and marketing activities in North America and Europe, including (i) advertising and promotional activities such as sales point promotional activities and sponsorship of professional players active in these markets, (ii) benefits for sales staff in these markets, and (iii) fitting equipment for third-party retailers. In addition, we intend to use approximately [REDACTED]% of the net proceeds of the [REDACTED] for sales and marketing activities in our home markets of Japan, Korea and China (including Hong Kong and Macau), which will center around (i) sales point promotional activities, (ii) on-course sales events, typically in connection with tournaments and major product launches, and (iii) creation of additional fitting centers within self-operated stores or in partnership with third-party retailers. For more information, see “Future Plans and Use of Proceeds.”

Customer Loyalty Programs

In Asia, we operate a variety of customer loyalty programs whereby we offer membership to customers who purchase certain golf clubs, such as golf clubs rated three or more stars, or spend beyond a pre-defined spending threshold at our self-operated stores or certain third-party stores. Depending on the program, membership provides a variety of benefits, such as custom fitting services, invitations to members-only events and discounts at our self-operated stores. We believe that our customer loyalty programs incentivize our customers to revisit our stores and help us build a loyal customer base. As of March 31, 2016, we had approximately 190,000 members in our customer membership programs. Based on data collected through a membership program for customers of our self-operated stores, among members who purchased at our self-operated stores from April 2008 to March 2016, approximately 62% of them made two or more purchases over the time period, with an average of 5.7 purchases. Approximately 47% of members made two or more golf club purchases over the same time period, with an average of 2.4 golf club purchases.

RESEARCH AND DEVELOPMENT

Product development is essential to our business. HONMA’s core values consist of intricate craftsmanship, dedication to performance excellence and distinguished product quality, which have been consistently reflected in all of our products. We devote significant resources to new product design and development. We incurred research and development costs of approximately JPY442.5 million, JPY503.2 million and JPY535.3 million in the years ended March 31, 2014, 2015 and 2016, respectively. We intend to continue to invest substantial resources in research and development activities in connection with the development of new products.

We have continuously developed new products by improving our existing designs and incorporating latest technologies. We develop our golf clubs to embody the results of our research in ergonomics and material sciences to enhance playing performance and user experience. For example, we use a high-density forging process to produce light but strong titanium driver heads that aim to enhance the playing experience and carry distance of each shot for our customers. We also work closely with some of our suppliers to jointly develop new technologies. These suppliers develop new products or raw materials based on the technical specifications provided by our research and development team. For example, we and Nissei Co., Ltd., one of our suppliers, jointly developed carbon fiber sheets which contain high-strength and high-resilience amorphous heavy metal fiber. The club shafts made with such carbon fiber sheets offer both the strength of impact and playability of a steel shaft and the ease of swing of a carbon shaft.

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We have a strong track record of product innovation throughout our history. We were the first golf club maker in Japan to use high quality persimmons wood from 200-year old trees imported from North America which, following a three to five year natural drying process and oil hardening process, produced golf clubs of superior flex that is not found in other persimmon wood or other types of wood. Since then, we have continued to bring new and better products to market. We launched our first carbon shaft golf clubs in 1973 and our first boron shaft golf clubs in 1985. In 1990, we pioneered the technology of using titanium to reinforce carbon club shafts. In 2004, we first introduced our popular ARMRQ series of club shafts, which were made using carbon sheets with carbon fibers layered on top of each other in four different directions in a mosaic-like pattern to reinforce the strength of the shaft. Our current iteration of the ARMRQ series of club shafts, the ARMRQ ∞ , features carbon sheets with carbon fibers layered in eight different directions, which provide even greater strength to the club shafts. In February 2013, we launched our TOUR WORLD family of golf clubs, which features technological and design innovations that enhance player performance, such as a proprietary club face design with variable thickness that significantly increase the sense of hitting, carry distance, ease of use and stability of the golf clubs. In 2015, we introduced our G1X family of golf clubs, which features a unique angle adjustment unit that allows golfers to set the angles of drivers without having to remove and reinsert the shaft. In 2016, we introduced our Be ZEAL family of golf clubs, which are designed with bigger club heads, wider club faces and lower centers of gravity to deliver greater accuracy, higher trajectory and longer carry distance.

We centralize all of our product design, research and development functions at our Sakata Campus, which also houses our core production processes. We believe this integrated approach to research and development results in a number of important advantages over our competitors. First, by developing our club heads and club shafts at the same location, we are able to develop club shafts that maximize the performance of our club heads in a cost effective manner. Second, by integrating our product development process with the manufacturing capabilities at our Sakata Campus, we are able to react quickly to feedback from our production team and continuously improve the design of our products throughout the entire development process. In addition, because we have a high degree of control over prototype production at our Sakata Campus, we are able to establish detailed production specifications for each product, which in turn enables us to effectively control the quality and cost of our outsourced production.



Our Sakata Campus

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Having our development and manufacturing staff under the same roof also creates an environment that fosters creativity where our staff frequently exchange ideas and know-how. This also helps us maintain our heritage and craftsmanship because senior craftsmen can pass down their experience to the younger generation through our apprenticeship program. A committee composed of senior members of our management, including President of Honma Japan and the head of our research and development team, certifies our master craftsmen. To be considered, candidates must have more than ten years of experience and demonstrated superior technique and expertise in our manufacturing processes. Candidates must then pass a series of tests designed to assess both their mastery and creativity of the craft.

Product development is a coordinated effort between our research and development team and manufacturing team, supported by TEAM HONMA. The product development cycle for our golf clubs typically involves two main stages. The first stage is the development of prototypes. During this stage, our research and development team outlines the designs, features and performance specifications with input from members of TEAM HONMA. We also use a variety of market research tools as well as collect customer feedback from our product distribution network and performance data from our self-operated stores to help us identify our target customers’ functional requirements and style preferences. Based on these inputs, we produce drawings and technical specifications of the proposed golf clubs. Our master craftsmen then create master models of the club heads by hand. Next, our engineers create digital models by scanning the master models with a 3D scanner, and complete the technical details of the designs, such as the internal structure and weight distribution of the club heads, by using computer aided design, or CAD, software. During this stage, we also develop club shaft designs that complement the club head designs. We believe that this design process distinguishes us from our competitors who create product designs entirely by computer, and imparts our golf clubs with the authentic craftsmanship valued by our customers.

The following pictures illustrate master craftsmen who are making master models.



The second stage in our product development cycle involves producing and testing the prototypes and fine-tuning the designs in preparation for mass production. We repeat performance tests on the prototypes using both humans and golf robots. Our Sakata Campus includes an outdoor research center for this purpose. TEAM HONMA players also test the prototypes and provide us with performance feedback. In addition, the prototypes undergo a variety of stress tests to ensure the new golf clubs’ durability and ability to withstand extreme conditions. These tests include exposing the golf clubs to extreme temperature and humidity for extended periods of time and repeated swings at different angles by golf robots. Based on the results of these tests, we will make further adjustments to our designs. During this stage, we also develop the production specifications of the golf clubs and engage our manufacturing partners to produce test batches, which are subject to quality inspections, before entering mass production.

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The following picture illustrates master craftsmen who are making prototypes for club heads of irons.



MANUFACTURING

We perform the key manufacturing processes for golf clubs at our Sakata Campus and outsource some of the non-core manufacturing processes to our strategic supplier partners, most of whom we have stable and long-term relationships with. This combination of in-house and outsourced manufacturing processes enables us to control our core technical know-how and intellectual property and ensure the quality of our products while controlling our production costs. The table below provides a summary breakdown of our in-house and outsourced manufacturing processes for golf clubs:

Golf Club Component	In-house Processes	Outsourced Processes
Club heads	• Painting club heads of custom ordered woods • Application of gold plating to club heads of irons with higher HONMA star ratings	• Club heads are produced by strategic supplier partners based on our design specifications
Club shafts	• Production of carbon club shafts	• Steel club shafts and a limited number of carbon club shafts are produced by partners based on our design specifications
Other components —		• Handles are produced by partners based on our design specifications • Ferrules are procured from partners
Final assembly	• Final assembly of golf clubs	

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Suppliers

Our suppliers are mainly located in Japan, Taiwan, China, Hong Kong and the United States. As of March 31, 2016, we had approximately 130 strategic supplier partners, consisting of both bill of materials (“BOM”) suppliers and original equipment manufacturer (“OEM”) suppliers. BOM suppliers include suppliers of club heads, carbon fiber sheets, steel shafts as well as other raw materials for golf clubs, such as the club handles and the ferrules, the component that connects the club head to the club shaft. In addition, we outsource the production of G1X family of golf clubs, golf balls and apparel, accessories and other related products to OEM suppliers. Our strategic partnerships with OEM suppliers have enabled us to diversify our product mix and offer new products at competitive prices. Most of our OEM suppliers have cooperated with us for over three years.

In the years ended March 31, 2014, 2015 and 2016, purchases from our largest supplier accounted for 19.3%, 21.5% and 25.4% of our total purchases, respectively, while purchases from our five largest suppliers together accounted for 61.3%, 66.7% and 70.1% of our total purchases, respectively. We negotiate a framework agreement with each of our suppliers, setting forth terms in relation to, among other things, procedures for the placement of purchase orders, warranties for product quality and return policy. The term of such framework agreements is typically one year and are automatically extended for one year upon expiration, unless either party objects in writing no later than 30 days prior to expiration. In some circumstances, either party may terminate such agreement unilaterally by giving advance written notice. Notice periods typically vary from 30 to 120 days. Termination right also arises in case of specific events such as counterparty’s default or bankruptcy. Pricing and production volumes are negotiated for each purchase order. There are no contractual commitments beyond those in the individual purchase orders. Payment terms typically vary from 15 days to one month. Payment methods vary among different agreements and include letter of credit, telegraphic transfer or wire transfer. Under the terms of our framework agreements, suppliers warrant that goods will be free of defects and will be delivered in a timely manner. Our framework agreements provide that in case of any liabilities caused by product defects, such liabilities will be allocated fairly between us and the applicable supplier based on each party’s proportional responsibility for the defects. A number of other framework agreements provide that unless the supplier is without fault, such supplier will be responsible for all of the liabilities arising from product defects. Generally, our suppliers source their own raw materials and may not subcontract without our consent. None of our Directors, their associates or any Shareholder with any interest of more than five percent in our company holds any interest in our top five suppliers.

In-house Manufacturing

We perform our in-house manufacturing processes, including the production of the vast majority of our carbon shafts and assembly of the vast majority of our golf clubs, at our Sakata Campus. Our Sakata Campus is staffed with approximately 360 craftsman, whose dedication to product quality enables us to maintain our status as one of the most prestigious and iconic brands in the golf industry.

During the Track Record Period, the production capacity of our Sakata Campus expanded primarily as a result of improvements in operation efficiency. We achieved this mainly through (i) rationalizing our manufacturing process to increase productivity; and (ii) outsourcing the manufacturing of non-critical components, while maintaining our high quality standards. The following table sets forth our annual production capacity in terms of the number of golf clubs and utilization rates in our Sakata Campus for the Track Record Period.

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	Year ended March 31,					
	2014		2015		2016	
	Production Capacity ⁽¹⁾ (pieces)	Utilization Rate ⁽²⁾ (%)	Production Capacity ⁽¹⁾ (pieces)	Utilization Rate ⁽²⁾ (%)	Production Capacity ⁽¹⁾ (pieces)	Utilization Rate ⁽²⁾ (%)
Golf clubs	705,000	67	711,000	73	788,070	94

Notes:

- (1) The production capacity is the maximum number of golf clubs which could have been assembled at our Sakata Campus based on the output of the rate-limiting equipment in our manufacturing processes, product mix and number of working days applicable to each period presented.
- (2) The utilization rate is calculated based on the actual pieces of golf clubs produced for the relevant year divided by the annual production capacity.

During the Track Record Period, the utilization rate at our Sakata Campus increased in line with the increased demand for our products. For the year ended March 31, 2016, we assembled a total of 738,389 golf clubs at our Sakata Campus, representing a utilization rate of 94%. We do not foresee an immediate need to substantially increase our equipment base. As part of our overall strategy, we will aim to (i) continuously improve our operational efficiency and inventory management and (ii) increase procurements from OEM suppliers where appropriate. Nevertheless, we believe we have the ability and resources to readily and expediently increase our production capacity by upgrading some of our equipment should the need arise.

Carbon Club Shafts

The production of carbon club shafts is one of our key technical know-hows. Our carbon club shaft manufacturing processes are summarized below:

Cutting

Carbon fiber sheets made from the best materials jointly developed with our carbon fiber suppliers are precisely measured and cut into smaller pieces.

Wrapping

Craftsmen wrap multiple layers of carbon fiber sheets around iron cores to form the club shafts. The process is delicate because any air bubble in the layers of carbon fiber sheets will reduce the durability and performance of a club shaft. Inconsistencies in the weight distribution along the body of the shaft will also cause performance to vary from one shaft to another. By manually wrapping the carbon club shafts, our craftsmen are able to produce club shafts that have much lower levels of air bubbles and weight variations than those of our competitors who automate their club shaft manufacturing process.

Thermal treatment

The club shafts undergo thermal treatment to harden the resin used to bond the layers of carbon fiber sheets. The duration and temperature setting for this treatment are the culmination of many years of research and experience and comprise a key part of our technical know-how.

Polishing

After thermal treatment, the iron cores are extracted from the club shafts. The surface of the club shafts are then polished, first by machine and then by craftsmen who manually apply the finishing touches using sandpaper.

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Painting

Finally, the club shafts are painted, a process that involves both our craftsmen and robots. Though appearing simple in concept, this is a delicate process that demands an expert hand, and is another key part of our technical know-how. In order to minimize the weight of the golf clubs, which would affect performance, our craftsmen apply a very thin layer of paint to each club shaft. At the same time, the craftsmen must ensure an even coating to prevent cracking.

Assembly

We apply the finishing touches to most of our golf clubs at our Sakata Campus. For custom ordered woods, craftsmen use sprayers to apply multiple layers of paint to the club heads. We have devoted many years to developing the techniques that would produce the vibrant colors and subtle gradients that distinguish our golf clubs. For BERES irons with higher HONMA star ratings, craftsmen at our Sakata Campus apply gold plating to the club heads using an electroplating process, which we developed through years of research, and then polish the club heads with routers to produce a stunning finish. We have developed our in-house plating expertise, which is unique among our competitors. More importantly, we perform the final assembly of the golf clubs at our Sakata Campus. Except for the G1X family of golf clubs, all of our golf clubs are assembled at our Sakata Campus and bear our distinct “Made in Japan, Sakata” mark. Craftsmen assemble our golf clubs by hand, carefully checking the club face angles and weight balance of the golf clubs and applying fine adjustments in the process to ensure the highest possible degree of performance consistency. This process involves highly-skilled work that cannot be replaced by machines, and is a key reason for HONMA golf clubs’ high-level performance.

Quality Control

We maintain a comprehensive quality control program for production processes performed at our Sakata Campus and by our supplier partners. Our quality control personnel inspect all inbound shipments from our suppliers to ensure that quality and aesthetics of the components meet our production standards. Our quality control personnel also regularly visit each factory of our suppliers to inspect the manufacturing process. At our Sakata Campus, all carbon club shafts undergo a series of tests to ensure that the strength, flexibility, weight distribution and vibration frequency of each club shaft meet our production standards. A series of tests are also performed as part of the assembly process to ensure the quality of final products.

As a result of our enforcement of strict quality control policies, during the Track Record Period and up to the Latest Practicable Date, we did not recall any products or receive any material complaints from consumers. Nonetheless, our customer service team takes each complaint seriously and investigates the underlying causes for each complaint. If we identify any product defect that we are responsible for, we will offer to replace the product with a new one or repair the product free of charge. Even if we conclude that we are not at fault, we will give a detailed explanation to the consumer to seek mutual understanding. We also formulate preventive measures afterwards and share such information broadly within our Company to prevent similar problems in the future.

Product Returns and Warranties

As a matter of policy, only products with defects may be returned by retail customers. In certain countries, we allow retail customers to exchange unused products for products with different specifications or sizes. We recognize sales returns against revenue. Sales returns from retail customers amounted to far less than 1% of total gross sales of our self-operated stores in each year during the Track Record Period. For information about returns from distributors, see “— Our Sales and Distribution Network — Arrangements with Distributors.”

Our warranties typically cover regular maintenance services and parts and labor for repairs for our golf clubs. Warranty coverage typically run for two years from the time of purchase. Customers who purchase BERES products rated three stars or above and enroll in BERES Stars Program enjoy longer warranty

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coverage. Our extensive quality control program ensures that our products are properly tested and checked before being sold to customers. As a result, warranty costs remained at a low level during the Track Record Period, amounting to JPY7.9 million, JPY8.7 million and JPY6.9 million for the years ended March 31, 2014, 2015 and 2016, respectively.

Raw Materials

The principal raw materials for our in-house manufacturing processes include soft iron club heads, stainless steel club heads, titanium alloy club heads and carbon fiber sheets. We have not experienced any shortage of raw materials or quality issues with our raw materials during the Track Record Period that materially affected our operations. During the Track Record Period, while the price for carbon fiber sheets remained relatively stable, the prices of soft iron club heads, stainless steel club heads and titanium alloy club heads increased steadily. Nonetheless, the gross margin of our golf clubs generally remained stable during their respective life cycles. In the future, we may pass on any increase in raw materials costs to consumers if we determine such price increases are warranted under the circumstances.

INVENTORY MANAGEMENT

Our inventory primarily consists of finished goods, unassembled components of golf clubs and raw materials. We are implementing an inventory improvement program which through close coordination among our various departments will ensure that our inventory levels are sufficient to satisfy demand while not causing any disruptions in production. In addition, as a portion of our inventories consist of samples we provided to distributors for retail customers to try out, we have started selling those samples to distributors so they are no longer counted as part of inventories. We manage our inventory levels monthly and make periodic adjustments on our production and purchase plans. As of March 31, 2014, 2015 and 2016, our inventory was approximately JPY6,518.1 million, JPY7,059.6 million and JPY7,389.3 million, respectively.

MANAGEMENT INFORMATION SYSTEM

We employ a range of management information systems that perform supply chain and financial reporting, inventory management, customer information management, sales order management and other functions. In particular, our headquarters, the production facilities at our Sakata Campus and all of our self-operated stores are linked together through our management information system. These allow us to timely and accurately collect and analyze information regarding production capacity, inventory levels and consumer purchases and preferences.

We plan to further improve our management information systems to keep up with the growth of our business. We believe such improved systems will strengthen supply chain management and sales management, as well as improve our ability to develop products that meet the preferences of our target customers.

COMPETITION

The global golf products industry is relatively concentrated, dominated by several well-established companies with recognized brands and strong sales and marketing forces. According to the Frost & Sullivan Report, the top ten brands for golf products and golf clubs had combined global market shares of 73.7% and 76.7%, respectively, in terms of retail sales in 2015. HONMA competes on a global basis with the golf segments of multinational sports products companies from the United States and Germany, specialized golf products companies from the United States, as well as other Japanese peers. According to the Frost & Sullivan Report, HONMA was the seventh largest golf products brand and sixth largest golf club brand in the world, with market shares of 2.7% and 5.7%, respectively, in terms of retail sales in 2015. For more information, see “Industry Overview — Competitive Landscape.”

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EMPLOYEES

As of March 31, 2016, we had 987 employees worldwide, a majority of whom were based in Japan. A breakdown of our employees by function as of March 31, 2016 is set forth below:

Function	
Sales and marketing	561
Manufacturing.	292
General and administrative	71
Research and development.	48
Quality control and customer service	15
Total	<u>987</u>

The numbers of employees presented in the table above do not include workers whom we re-hire on a temporary basis after their retirement. We typically re-hire such retirees for two years after their retirement.

As of March 31, 2016, we had 360 craftsmen, who performed functions including (i) manufacturing, (ii) research and development and (iii) quality control. 24 of these craftsmen were master craftsmen. A breakdown of our craftsmen by function as of March 31, 2016 is set forth below:

Function	
Manufacturing.	292
Research and development ⁽¹⁾	62
Quality control	6
Total⁽¹⁾	<u>360</u>

Note:

⁽¹⁾ Includes 14 employees whom we have re-hired after their retirement. None of our 24 master craftsmen are employed on a re-hiring basis.

In order to maintain the iconic status of our brand and our craftsmanship heritage, we seek to hire people who identify with our core values and emphasize on the job training. For sales personnel in our self-operated stores, we offer a number of training curriculum including an internal golf club fitter certification program. Moreover, we have implemented a rigorous apprenticeship program at our Sakata Campus through which senior craftsmen pass down their experience to the younger generation. To retain and incentivize our management and employees, we have implemented the RSU Scheme. A summary of the principal terms of the RSU Scheme is set out in the section headed “Statutory and General Information — D. Share Incentive Schemes — 1. RSU Scheme” in Appendix IV.

As of the date of this document, we are not aware of any employee who was a member of a labor union. We have not experienced any significant difficulty in recruiting employees nor have we had any significant staff compensation or labor disputes. We consider that we have maintained satisfactory relations with our employees.

DEFINED BENEFIT PLAN

Honma Japan has established a defined benefit plan in line with common practice in Japan in order to recruit and retain employees. The plan is funded by the Company and requires contributions to be made to a separately administered fund. The plan has the legal form of a foundation and pursuant to applicable laws and regulations, it is administrated by independent trustees with the assets held separately from those of Honma Japan. The trustees are responsible for the determination of the investment strategy of the plan.

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The trustees review the level of funding in the plan by the end of each reporting period. Such review includes the asset-liability matching strategy and investment risk management policy. The trustees use annuities, longevity swaps and other measures to manage risks. The trustees decide the contribution based on the results of the annual review. To ensure the plan is funded, we discuss the status of the plan, particularly movements in the assets and liabilities of the plan and our required contributions, with the trustees on an annual basis. In addition, we have engaged an independent and qualified actuary to perform an annual control test on the plan based on updated assumptions. The control test includes review of the amount of contribution requested by the trustees and calculation of net employee defined benefit liability, results of which are reported to the reporting accountant and used to prepare annual accounts. We meet with the actuary after each annual control test to discuss the results of such test. During the Track Record Period, there was no material disagreement between the trustees and the actuary with respect to the amount of required contribution.

ENVIRONMENTAL MATTERS

We are subject to Japanese environmental laws and regulations, including the Water Pollution Control Act of Japan and Air Pollution Control Act of Japan. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emission and water and waste discharge. We consider the protection of the environment to be important and have implemented measures in the operation of our business to ensure our compliance with all applicable requirements under the Japanese environmental laws and regulations. We believe that our production process does not generate hazards that have any significant adverse effect on the environment and our environmental protection measures are adequate to comply with all applicable current local and national Japanese laws and regulations. Our Directors, as advised by our Japanese legal advisors, confirm that during the Track Record Period and up to the Latest Practicable Date, we complied with Japanese environmental laws and regulations in all material respects.

Our Sakata Campus is subject to periodic inspections by local government officials pursuant to environmental laws and regulations. During the Track Record Period and up to the Latest Practical Date, no administrative sanctions or penalties were imposed upon us for violation of environmental laws or regulations.

We paid approximately JPY8.9 million, JPY8.2 million and JPY7.2 million as costs of compliance with the applicable environmental laws and regulations for the years ended March 31, 2014, 2015 and 2016, respectively. The expected cost of compliance with applicable environmental laws and regulations for the year ending March 31, 2017 is approximately JPY7.2 million.

OCCUPATIONAL HEALTH AND SAFETY

We have in place a system of recording and handling accidents. At our Sakata Campus, we have dedicated personnel and a worker safety committee who are responsible for administering our internal worker safety policies, providing relevant training and education, and conducting regular inspections. During the Track Record Period, we had not experienced any material safety accidents or been penalized for any non-compliance relating to work safety laws and regulations.

PROPERTIES

We own an approximately 163,000 square meter parcel of land in Sakata, Yamagata Prefecture, Japan, which is the site for our Sakata Campus, a facility that houses a research and production studio, a testing center with a driving range and state-of-the-art testing equipment and other supporting facilities. See “Property Valuation” in Appendix III for details.

Our Directors confirm that, as of the Latest Practicable Date, except for the property interest disclosed in the Property Valuation Report set out in Appendix III to this document, no single property interest of our Group that formed part of non-property activities had a carrying amount of 15% or more of our Group’s total assets as of March 31, 2016. Pursuant to section 6(2) of the Companies Ordinance (Exemption of

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Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempted from compliance with the requirement of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

We lease our headquarters, which is located in Tokyo, Japan. We also have branch offices in China, Korea, Taiwan, Thailand and North America. With the exception of our branch office located in Shanghai, China, which we lease from an entity affiliated with our Chairman Liu, we lease our branch offices from Independent Third Parties. In addition, with the exception of our self-operated store located in Sakata, which is owned by ourselves, we lease our self-operated stores from Independent Third Parties.

As of the Latest Practicable Date, ten properties with a total gross floor area of approximately 795 square meters were leased from lessors who were unable to provide the applicable building ownership certificates. All of such properties were being used as self-operated stores. In the year ended March 31, 2016, revenue attributable to these stores amounted to JPY607.5 million, amounting to 2.7% of our total revenue.

We do not deem these properties crucial to our operations as they are not used as our production facilities, and we believe our relocation from these properties, if compelled, is not expected to materially interrupt the sales of our products. If we are compelled to relocate our operations due to title defects, each relocation is expected to take around nine to 11 weeks and cost approximately RMB200,000 to RMB300,000. We have received undertaking letters from lessors of nine of such properties, which provide that we will be indemnified for all the losses and damages as a result of the title defects. As a result, relocations from the properties with title defects are not expected to have, individually or in the aggregate, any material adverse effect on our business, results of operation or financial conditions. Please refer to “Risk Factors — Risks Relating to Our Business — We are subject to risks associated with leasing substantial amounts of space” for discussion of risks relating to our leases.

INTELLECTUAL PROPERTY

We rely primarily on a combination of patents, trademarks and other intellectual property laws, as well as employee and third-party confidentiality agreements to protect our intellectual property. Our trademarks registered in Japan include our HONMA brand as well as associated logos. We have also registered or applied for registration of our HONMA brand and associated logos as trademarks in countries and regions where we have or are planning to have business operations. As of the Latest Practicable Date, we had 107 registered trademarks in Japan and 279 registered trademarks in other countries. As of the same date, we also had 14 pending trademark applications. As of the Latest Practicable Date, we had a total of six issued patents and seven pending patent applications. All of our patents relate to the production of golf clubs.

In addition, all of our research and development personnel have entered into confidentiality and proprietary information agreements with us. These agreements address intellectual property protection issues and require our employees to assign to us all of the inventions, designs and technologies they develop during their employment with us.

For details of our intellectual property portfolio, see “Appendix IV — Statutory and General Information — B. Further Information about Our Business — 2. Material Intellectual Property Rights of the Group.”

As of the Latest Practicable Date, we were not being sued for infringement of intellectual property rights by any third party, and we were not aware of any threatened material proceedings or claims relating to intellectual property rights against us. However, we cannot be certain that third parties will not infringe or misappropriate our intellectual property rights or that we will not be sued for intellectual property infringement.

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INSURANCE

We maintain a range of insurance coverage in relation to our business, including without limitation property damage insurance, product liability insurance, carriage of goods insurance and automobile insurance. Our Directors believe that our insurance policies are adequate and consistent with the common industry practice. We have not made any material claims on any insurance policy maintained by us during the Track Record Period and up to the Latest Practicable Date. Our insurance policies do not cover certain risks. For more information about such risks, see “Risk Factors — Risks Relating to Conducting Business in Japan — We may suffer large losses in the event of a natural disaster, such as an earthquake, terrorist attack, outbreak of infectious disease, industrial accident or other casualty events in Japan.”

RISK MANAGEMENT

We face a number of potential risks in our business and operations, including strategic risks relating to our global expansion and introduction of new products, inventory risks, operational risks, financial risks and legal risks. For more information, see “Risk Factors.” We have implemented appropriate internal control and risk management policies to identify, mitigate and monitor these risks. Our Board is responsible for overseeing the overall risk management and meets periodically with senior management to assess the risks we face and the effectiveness of our risk management policies. For information about the qualification and experience of our Directors and members of senior management, see “Directors and Senior Management.”

LEGAL PROCEEDINGS

As of the Latest Practicable Date, neither the Company nor any of its Directors were party to any material litigation, arbitration or administrative proceeding, and we are not aware of any material litigation, arbitration or administrative proceeding pending or threatened against the Company or any of its Directors. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

LICENSES, REGULATORY APPROVALS AND COMPLIANCE

We confirm that, during the Track Record Period and up to the Latest Practicable Date, there were no material breaches or violations of laws or regulations applicable to us. As at the Latest Practicable Date, we had obtained all material licenses and permits necessary for our business in the jurisdictions in which we operate.

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You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements as of and for each of the years ended March 31, 2014, 2015 and 2016 and the accompanying notes included in the Accountants’ Report set out in Appendix I to this document. Our consolidated financial statements have been prepared in accordance with IFRS. Potential investors should read the whole of the Accountants’ Report set out in Appendix I to this document and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed “Risk Factors” in this document.

OVERVIEW

HONMA is one of the most prestigious and iconic brands in the golf industry, synonymous with intricate craftsmanship, dedication to performance excellence and distinguished product quality. According to Frost & Sullivan, HONMA ranks among the top ten golf product brands in the world and is the number one brand for premium golf clubs, in each case in terms of retail sales in 2015. Founded in 1959, we have one of the longest histories among brands dedicated to golf currently in the market, and aspire to build a world-leading golf lifestyle company on the foundation of our craftsmanship heritage. Our brand has been further invigorated and strengthened in recent years after our current chairman, Mr. Liu, acquired our company in 2010, and implemented new initiatives to increase our product offerings and expand our market reach. Our mission is to create aspirational yet accessible golf products of exquisite quality and outstanding performance that appeal to a broad and diverse customer base by applying the highest levels of quintessential craftsmanship and innovation.

We predominantly design, develop, manufacture and sell a comprehensive range of aesthetically-crafted and performance-driven golf clubs. Sales of golf clubs represented approximately 84.3% of our total revenue in the year ended March 31, 2016. We currently offer four major families of golf club brands, namely BERES, TOUR WORLD, Be ZEAL and G1X, each targeting specific consumer segments and comprising different product series to appeal to a wide range of user preferences and skill levels. To provide customers with a complete golf lifestyle experience, we also offer HONMA-branded golf balls, apparel, accessories and other related products.

HONMA’s products are currently sold in approximately 50 countries worldwide, primarily in Asia and also across North America, Europe and other regions. Our sales and distribution network consists of HONMA-branded self-operated stores as well as distributors. As of March 31, 2016, we had 86 HONMA-branded self-operated stores, the largest number of self-operated stores among major golf companies. Our distributors consist of (a) direct third-party retailers, including sports megastores and (b) wholesale distributors that on-sell our products to other third parties. We develop and manage our sales and distribution network on a country-by-country basis to cater to the specific retail landscape and consumer demographics and are constantly evaluating our existing channels and exploring new channels to optimize our network.

Driven by our recent initiatives and the rejuvenation of the HONMA brand, we achieved significant revenue and profit growth during the Track Record Period. Our revenue increased from JPY15.7 billion for the year ended March 31, 2014 to JPY22.4 billion (US\$218.9 million) for the year ended March 31, 2016, representing a CAGR of approximately 19.3%, far outpacing overall industry growth, and also making us the fastest growing company among our peers in the global golf products industry. Our adjusted net profit increased from JPY1.8 billion for the year ended March 31, 2014 to JPY3.4 billion (US\$33.2 million) for the year ended March 31, 2016, representing a CAGR of approximately 38.7%. For a reconciliation of adjusted net profit to net profit, see “— Non-IFRS Financial Measures — Adjusted Net Profit.”

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FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We believe the most significant factors that directly or indirectly affect our financial performance and results of operations include:

New Product Launches

Our growth during the Track Record Period was partially driven by expansion of our customer base for golf clubs through new product launches. Our traditional customers were Segment 2 Consumers. In early 2013, we launched the TOUR WORLD family of golf clubs, which target Segment 6 Consumers. Revenue for the TOUR WORLD family of golf clubs increased from JPY2,742.8 million in the year ended March 31, 2014 to JPY4,330.6 million in the year ended March 31, 2016, representing a CAGR of 25.7%. We launched the G1X family of golf clubs in July 2015 to target Segment 8 Consumers and Segment 9 Consumers and the Be ZEAL family of golf clubs in January 2016 to target Segment 5 Consumers. Revenue for the Be ZEAL family of golf clubs and G1X family of golf clubs in aggregate amounted to JPY1,232.2 million in the year ended March 31, 2016. We believe these product families will further drive our revenue growth going forward.

Our product portfolio also includes golf balls, apparels, accessories and other related products. We have partnered with Foremost Golf Mfg., Ltd., one of the largest OEM golf ball manufacturers in Asia, to jointly develop our HONMA-branded golf balls. We launched the first series of these golf balls in 2014 and have since expanded our offerings to six different lines of golf balls. Our golf balls compete at the premium price level in the golf ball market and revenue attributable to the sales of golf balls amounted to JPY419.9 million in the year ended March 31, 2016. In the year ended March 31, 2016, revenue attributable to the sales of apparel, accessories and other related products amounted to JPY3,096.1 million. We expect these complementary product lines to drive incremental revenue growth going forward.

Deeper Penetration of Home and New Markets

Our growth during the Track Record Period was largely driven by the expansion of our operations in our home markets of Japan, Korea and China (including Hong Kong and Macau). Revenue attributable to Japan grew from JPY9,099.8 million in the year ended March 31, 2014 to JPY11,889.4 million in the year ended March 31, 2016, representing a CAGR of 14.3%. Revenue attributable to Korea grew from JPY1,932.7 million in the year ended March 31, 2014 to JPY2,816.0 million in the year ended March 31, 2016, representing a CAGR of 20.7%. Our success was attributable to the strength of our product portfolio, our successful cooperation with distributors as well as our effective marketing efforts.

Going forward, we plan to aggressively penetrate new geographic markets such as North America and Europe by partnering with quality distributors in those regions. We believe that our TOUR WORLD and Be ZEAL products have strong appeal to avid golfers in North America and Europe, who are focused on improving their performance. In addition, we have developed our new G1X family of golf clubs, which target Segment 8 Consumers and Segment 9 Consumers in North America and Europe. We also intend to support our expansion into these markets by aggressively promoting our brand and products, through, among others, the recruitment of additional professional golfers from North America and Europe to TEAM HONMA.

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Expansion of Sales and Distribution Channels

We have an extensive sales and distribution network that allows us to reach a broad customer base in our target markets. Our sales and distribution network consists of HONMA-branded self-operated stores as well as distributors. Our distributors include (a) direct third-party retailers, including sports megastores, and (b) wholesale distributors that on-sell our products to other third parties. We aim to grow our sales to existing distributors while engaging new distributors, especially those located in markets that we plan to penetrate. Among our different sales and distribution channels, sports megastores in Japan, which numbered 340, 569 and 625 in total as of March 31, 2014, 2015 and 2016, respectively, played a significant role in driving our revenue growth during the Track Record Period. Revenue attributable to sales to sports megastores in Japan grew from JPY1,141.7 million in the year ended March 31, 2014 to JPY2,654.3 million in the year ended March 31, 2016, representing a CAGR of 52.5%. Our cooperation with sports megastores and other quality distributors provides an effective way for our products to reach our customer base. We plan to place even greater emphasis on distributors going forward as part of our growth strategies.

Operating Costs and Operational Efficiency

We incur various types of costs and expenses, including cost of sales, selling and distribution costs and administrative expenses. Cost of sales was JPY6,353.7 million, JPY7,620.1 million and JPY9,173.9 million, respectively, in the years ended March 31, 2014, 2015 and 2016, amounting to 40.4%, 41.1% and 41.0%, respectively, of total revenue for the relevant year. Cost of sales as a percentage of revenue remained stable during the Track Record Period as a result of our continued effort to improve operational efficiency and balance product and channel mix. Selling and distribution costs include (i) employee benefits, (ii) advertising and promotion expenses, (iii) rental expenses and (iv) other costs. Selling and distribution costs were JPY6,589.0 million, JPY7,752.3 million and JPY8,058.1 million, respectively, in the years ended March 31, 2014, 2015 and 2016, amounting to 41.9%, 41.8% and 36.0%, respectively, of total revenue for the relevant year. Selling and distribution costs decreased as a percentage of total revenue during the Track Record Period as we optimized our cost base and improved our operational efficiency.

Global Economic Environment and Consumer Purchasing Patterns

Our revenue and growth are influenced by the general economic environment and consumer purchase patterns in our target geographic markets. Economic growth in these markets drives levels of disposable income and consumer sentiment, which in turn drives consumer spending. Golf products, including golf clubs, golf balls, apparel, accessories and other related products are generally viewed as discretionary purchases. Accordingly, consumers are generally more willing to make these discretionary purchases during favorable economic conditions and when they are feeling confident and prosperous.

Seasonality

We have not experienced significant seasonality with respect to our sales through self-operated stores, as retail purchases of golf products are made throughout the year. However, we have experienced more seasonality with respect to our sales to distributors, such as sports megastores. We typically launch new products in January, which falls within our fourth fiscal quarter, which has a significant positive impact on our sales to distributors during that fiscal quarter. Going forward, we plan to move our new product launches to November, which falls within our third fiscal quarter, in line with market practice. As a portion of our costs and expenses are fixed in nature, fluctuations in sales may lead to fluctuations in our profitability throughout our fiscal year.

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Currency Fluctuations

Fluctuations in exchange rates give rise to both translation and transaction effects.

Currency Fluctuation Effects on Translation

Our financial statements are prepared in Japanese yen. In connection with the preparation of our consolidated financial statements, the results of operations of our subsidiaries, which are initially prepared in their respective local functional currencies, are translated into Japanese yen, using average monthly exchange rates. Fluctuations in these exchange rates from one year to the next impact our consolidated results of operations and, depending on the magnitude of these fluctuations, could obscure underlying trends that would have been apparent if consolidated financial statements had been prepared on a constant currency basis. In the years ended March 31, 2014, 2015 and 2016, we recognized exchange translation reserve for foreign operations of JPY171.4 million, JPY295.6 million and JPY(175.5) million, respectively in other comprehensive income accounts.

Currency Fluctuation Effects on Transactions

We are exposed to transaction risks arising from sales or purchases by operating units in currencies other than the units' applicable functional currencies. We currently do not enter into any currency contracts to hedge risks arising from fluctuation in foreign currency exchange rates.

Tax

Our results of operations are affected by the amount of tax charge/credit we recognized, which consists primarily of (i) current income tax and (ii) recognition and utilization of deferred tax assets. We reported tax charge/(credit) of JPY118.2 million, (JPY298.5 million) and JPY394.6 million, respectively, in the years ended March 31, 2014, 2015 and 2016. We are subject to income tax on an entity basis on profit arising in or derived from jurisdictions which the members of our Company are domiciled in and operate from. Prior to the beginning of the Track Record Period, we did not recognize deferred tax assets arising from tax losses and certain temporary differences due to uncertainties in our future profitability. As we realized considerable profits during the Track Record Period, we were able to recognize and utilize part of these temporary differences and tax losses. As of March 31, 2016, the accumulated tax losses arising from Honma Japan were JPY 2,301.3 million. As we expect to continue generating taxable profit from Honma Japan in the future, we expect that we will be able to fully utilize such tax losses in the next two to three years.

As we continue to expand our businesses outside of Japan in jurisdictions that implement different statutory income tax rates, we plan to continuously update our business models and organizational structures to optimize tax benefits provided in different jurisdictions.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A summary of our significant accounting policies is set forth in note 2 to the Accountants' Report in Appendix I to this document. Critical accounting policies are those that require our management to exercise judgment in applying assumptions and making estimates that would yield materially different results if our management applied different assumptions or made different estimates. Estimates and judgments are continually re-evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. We have not changed our assumptions or estimates in the past and have not noticed any material errors regarding our assumptions or estimates. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the future. We believe the following critical accounting policies involve the most significant judgments in the preparation of our consolidated financial statements.

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Revenue Recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the services have been rendered and it is probable that the economic benefits will flow to the Group and the relevant fees can be measured reliably;
- (d) rental income, on a time proportion basis over the lease terms;
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (f) dividend income, when the shareholders’ right to receive payment has been established.

Inventories

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

Property, Plant and Equipment

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

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

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

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

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

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

Share-based Payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted by using income approach (discount cash flow method, in particular). Further details of which are given in note 31 to the Accountants’ Report set forth in Appendix I to this document.

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

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

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

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

Defined Benefit Plan

The Group operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

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

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Past service costs are recognized in profit or loss at the earlier of:

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

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

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

SUMMARY OF FINANCIAL RESULTS

The following table sets forth a summary, for the Track Record Period, of our consolidated results of operations. Each item has also been expressed as a percentage of our revenue. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year Ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
<i>(in thousands, except for percentages)</i>						
Consolidated Statement of Profit or Loss						
Revenue	15,713,457	100.0	18,525,092	100.0	22,368,761	100.0
Cost of sales	(6,353,737)	(40.4)	(7,620,050)	(41.1)	(9,173,918)	(41.0)
Gross profit	9,359,720	59.6	10,905,042	58.9	13,194,843	59.0
Other income and gains	925,393	5.9	90,825	0.5	77,125	0.3
Selling and distribution costs	(6,589,045)	(41.9)	(7,752,319)	(41.8)	(8,058,098)	(36.0)
Administrative expenses	(922,750)	(5.9)	(1,195,421)	(6.5)	(1,362,533)	(6.1)
Other (expenses)/income, net	(69,151)	(0.4)	(46,248)	(0.2)	104,565	0.5
Finance costs	(10,776)	(0.1)	(7,490)	(*)	(24,073)	(0.1)
Finance income	13,403	0.1	9,213	*	27,307	0.1
Profit before tax	2,706,794	17.3	2,003,602	10.8	3,959,136	17.7
Income tax (expense)/credit	(118,185)	(0.8)	298,467	1.6	(394,596)	(1.8)
Net profit	<u>2,588,609</u>	<u>16.5</u>	<u>2,302,069</u>	<u>12.4</u>	<u>3,564,540</u>	<u>15.9</u>
Non-IFRS Financial Measure						
Adjusted net profit ⁽¹⁾	1,762,444	11.2	2,278,272	12.3	3,390,234	15.2

Notes:

* Less than 0.1%.

(1) We derive adjusted net profit from net profit by (i) subtracting other income and gains, (ii) adding other (expenses)/income and (iii) adding impact on tax. For a reconciliation of adjusted net profit to net profit, see “— Non-IFRS Financial Measures — Adjusted Net Profit.”

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NON-IFRS FINANCIAL MEASURES

In addition to the IFRS measures in our consolidated financial statements, we also use the non-IFRS financial measures of adjusted net profit and adjusted net profit margin to evaluate our operating performance. We believe that this non-IFRS measure provides useful information to investors in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods on a like-for-like basis.

The uses of adjusted net profit and adjusted net profit margin have material limitations as analytical tools, as adjusted net profit does not include all items that have impacted our net profit, the nearest IFRS performance measure.

Adjusted Net Profit

We derive adjusted net profit from net profit by (i) subtracting other income and gains, (ii) adding other expenses/(income) and (iii) adding impact on tax related to items (i) and (ii) above. Adjusted net profit eliminates the effect of other income and gains and other expenses, which were primarily related to non-recurring events during the Track Record Period. The following table reconciles our adjusted net profit for the years presented to our net profit for those years:

	Year ended March 31,		
	2014	2015	2016
	<i>(in JPY thousands)</i>		
Net profit	2,588,609	2,302,069	3,564,540
Adjustment for:			
Other income and gains	(925,393)	(90,825)	(77,125)
Other expenses/(income), net	69,151	46,248	(104,565)
Impact on tax	30,077	20,780	7,384
Adjusted net profit	<u>1,762,444</u>	<u>2,278,272</u>	<u>3,390,234</u>

Adjusted Net Profit Margin

Adjusted net profit margin represents adjusted net profit divided by revenue. The following table sets forth our adjusted net profit margin during the Track Record Period.

	Year Ended March 31,		
	2014	2015	2016
Adjusted net profit margin	11.2%	12.3%	15.2%

PRINCIPAL COMPONENTS OF STATEMENTS OF PROFIT OR LOSS

Revenue

We are principally engaged in the manufacturing and sales of golf products. During the Track Record Period, we generated revenue from (i) sale of goods, which include golf clubs, golf balls and apparel, accessories and other related products, as well as (ii) rendering of services, which primarily include maintenance and repair services for our golf clubs. Revenue is recorded net of product returns, trade

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discounts and sales related taxes. The following table sets out the breakdown between revenue of sales of goods and revenue of rendering of services for the Track Record Period:

	Year Ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
Sales of Goods	15,564,396	99.1	18,353,428	99.1	22,193,493	99.2
Rendering of Services	149,061	0.9	171,664	0.9	175,268	0.8
Total	15,713,457	100.0	18,525,092	100.0	22,368,761	100.0

Our total revenue increased from JPY15,713.5 million in the year ended March 31, 2014 to JPY22,368.8 million in the year ended March 31, 2016, representing a CAGR of 19.3%. Such robust growth was primarily due to increases in sales volume, which was driven by (i) the expansion of our product portfolio, (ii) the penetration of certain geographic markets and (iii) the expansion of our sales and distribution channels.

Revenue by Product

We offer customers a complete golf lifestyle experience through an extensive portfolio of HONMA-branded golf clubs, golf balls and apparel, accessories and other related products. The following table shows the revenue of our products by amount and as a percentage of our total revenue for the Track Record Period:

	Year Ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
Golf clubs:						
BERES	6,905,873	43.9	8,840,941	47.8	9,912,207	44.3
TOUR WORLD	2,742,770	17.5	3,158,343	17.0	4,330,562	19.4
Be ZEAL	—	—	—	—	1,173,221	5.2
G1X	—	—	—	—	58,939	0.3
Others						
Specialized models ⁽¹⁾	3,127,463	19.9	3,133,235	16.9	2,878,115	12.9
Putters	498,318	3.2	476,106	2.6	499,688	2.2
Golf clubs subtotal	13,274,424	84.5	15,608,625	84.3	18,852,732	84.3
Golf balls	84,965	0.5	338,181	1.8	419,891	1.9
Apparel, accessories and other related products⁽²⁾	2,354,068	15.0	2,578,286	13.9	3,096,138	13.8
Total	15,713,457	100.0	18,525,092	100.0	22,368,761	100.0

Notes:

- (1) Include sales of golf clubs that are produced for specific geographic regions or events.
- (2) Include apparel, golf bags, golf club head covers, footwear, gloves, headwear and other golf-related accessories.

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Golf clubs comprise the majority of our business and were the primary revenue growth driver for our revenue increase during the Track Record Period. Revenue from the sales of golf clubs increased from JPY13,274.4 million in the year ended March 31, 2014 to JPY18,852.7 million in the year ended March 31, 2016, representing a CAGR of 19.2%. The growth was primarily driven by continued strong revenue growth for BERES and TOUR WORLD, together with introduction of new products, including Be ZEAL and G1X. Going forward, we plan to continue to offer a diversified portfolio of golf clubs targeted at different consumer segments, and expect the sales of golf clubs to remain the primary driver of our revenue growth in the future. Meanwhile, we believe that there is strong market potential for our golf balls and apparel, accessories and other related products, and we expect the sales of these products to also increase in the future.

Revenue by Geography

Our 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 attributable to each region by amount and as a percentage of total revenue for the Track Record Period:

	Year ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
Japan	9,099,791	57.9	9,705,131	52.3	11,889,359	53.2
Korea	1,932,702	12.3	2,233,705	12.1	2,816,042	12.6
China (including Hong Kong and Macau)	1,879,086	12.0	3,335,914	18.0	4,190,468	18.7
North America	651,300	4.1	698,402	3.8	793,164	3.5
Europe	542,918	3.5	626,731	3.4	665,997	3.0
Rest of the World	1,607,660	10.2	1,925,209	10.4	2,013,731	9.0
Total	<u>15,713,457</u>	<u>100.0</u>	<u>18,525,092</u>	<u>100.0</u>	<u>22,368,761</u>	<u>100.0</u>

Japan is our key home market and had the largest revenue contribution during the Track Record Period. Our revenue attributable to Japan grew from JPY9,099.8 million in the year ended March 31, 2014 to JPY11,889.4 million in the year ended March 31, 2016, representing a CAGR of 14.3%. Our revenue growth in Japan was primarily due to the strength of our product portfolio, such as BERES and TOUR WORLD golf clubs as well as the strong performance of our self-operated stores together with the expansion of our distribution network, particularly across sports megastores. Revenue from sales to sports megastores grew from JPY1,141.7 million in the year ended March 31, 2014 to JPY2,654.3 million in the year ended March 31, 2016, representing a CAGR of 52.5%. The following table sets forth revenue attributable to our self-operated stores and distributors by amount and as a percentage of total revenue attributable to Japan for the Track Record Period:

	Year ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
Self-operated stores	4,145,822	45.6	4,339,081	44.7	4,599,869	38.7
Distributors	4,953,969	54.4	5,366,050	55.3	7,289,490	61.3
<i>which include direct sales to sports megastores</i>	<i>1,141,652</i>	<i>12.5</i>	<i>1,658,557</i>	<i>17.1</i>	<i>2,654,301</i>	<i>22.3</i>
Total	<u>9,099,791</u>	<u>100.0</u>	<u>9,705,131</u>	<u>100.0</u>	<u>11,889,359</u>	<u>100.0</u>

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During the Track Record Period, we also experienced strong growth in our other home markets. Revenue attributable to Korea grew from JPY1,932.7 million in the year ended March 31, 2014 to JPY2,816.0 million in the year ended March 31, 2016, representing a CAGR of 20.7%. Revenue attributable to sales to our exclusive distributor in Korea, which was denominated in JPY, accounted for over 80% of revenue in Korea during the Track Record Period. Revenue attributable to sales in local currency in Korea was not significant and represented 2.1%, 1.9% and 1.2% of our total revenue for the years ended March, 31, 2014, 2015 and 2016, respectively. Our success in Korea was due to the strength of our product portfolio, successful cooperation with our exclusive distributor in the country as well as our effective marketing efforts. For example, TEAM HONMA includes a number of successful and increasingly prominent Korean golfers, such as Bo-Mee Lee (李寶美) and So-Yeon Ryu (柳籥然), which has enabled us to raise brand awareness in the country. Our revenue attributable to China (including Hong Kong and Macau) experienced healthy growth over the Track Record Period at a CAGR of 49.3% due to our continuing efforts in expanding our sales channels, but is not comparable due to the Reorganization. For more information, see “Our History — Reorganization.” In local currency, our revenue attributable to China (excluding Hong Kong and Macau) grew at a CAGR of 246.4% during the Track Record Period. Such revenue in local currency represented all of the revenue attributable to China (excluding Hong Kong and Macau) and represented 1.5%, 11.1% and 14.3% of our total revenue for the years ended March 31, 2014, 2015, 2016, respectively, and was not significantly impacted as a result of currency exchange fluctuations. In local currencies, revenue attributable to Hong Kong and Macau is not significant to the overall revenue of the Company. Our revenue attributable to China (excluding Hong Kong and Macau) during the Track Record Period is also not comparable due to the Reorganization. WP International Trading was established in December 2013 to succeed Honma Shanghai in the marketing and sales of HONMA products in China (excluding Hong Kong and Macau). The growth rate for China (excluding Hong Kong and Macau) is not comparable during the Track Record Period as only two months of respective revenue was attributed to WP International Trading for the year ended March 31, 2014, and WP International Trading gradually succeeded Honma Shanghai in phases across the Track Record Period, while organically developing wholesale channels in parallel.

Going forward, we expect revenue attributable to Japan to grow in absolute terms, though we expect revenue attributable to markets outside Japan to grow at a faster pace as compared to our revenue attributable to Japan and to account for an increasingly large portion of our total revenue. In particular, we plan to further penetrate new markets such as North America and Europe, which account for a significant share of the global golf products market. Our expansion into these markets will form a key component of our future growth, and we are evaluating and implementing strategies designed to significantly increase our market shares in the future. Our plans include, among others, (i) partnering with quality distributors to expand our retail presence, (ii) developing and introducing new products that suit the needs of North American and European customers and (iii) recruiting professional players from these regions to TEAM HONMA to raise our brand awareness.

Revenue by Sales and Distribution Channels

We have an extensive sales and distribution network that allows us to reach a broad customer base in our target markets. Our sales and distribution network consists of HONMA-branded self-operated stores as well as distributors. Our distributors include (a) direct third-party retailers, including sports megastores,

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and (b) wholesale distributors that on-sell our products to other third parties. The following table sets forth revenue attributable to our self-operated stores and distributors by amount and as a percentage of total revenue for the Track Record Period:

	Year ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
Self-operated stores	6,791,400	43.2	8,413,590	45.4	8,334,484	37.3
Distributors						
Direct third-party retailers ⁽¹⁾ . . .	5,482,628	34.9	6,048,205	32.7	8,410,387	37.6
Wholesale distributors	3,439,429	21.9	4,063,297	21.9	5,623,890	25.1
Distributors subtotal	8,922,057	56.8	10,111,502	54.6	14,034,277	62.7
Total	<u>15,713,457</u>	<u>100.0</u>	<u>18,525,092</u>	<u>100.0</u>	<u>22,368,761</u>	<u>100.0</u>

Note:

(1) Include sports megastores.

During the Track Record Period, revenue from sales to distributors increased as a percentage of total revenue, rising from 56.8% in the year ended March 31, 2014 to 62.7% in the year ended March 31, 2016. Going forward, we expect that sales to distributors (including both direct third-party retailers and wholesale distributors) will continue to increase as a portion of our total revenue as we plan to penetrate new markets by partnering with quality distributors, and gradually shift focus towards a distributorship model in certain existing geographic markets.

Self-operated store sales

Revenue attributable to our self-operated stores accounted for 43.2%, 45.4% and 37.3% of our total revenue in the years ended March 31, 2014, 2015 and 2016, respectively. Revenue attributable to our self-operated stores is affected by our same-store sales during the period as well as revenue attributable to our self-operated stores that are not classified as same stores during the period.

We define same stores as our self-operated stores that were open for 12 consecutive months during the relevant two consecutive financial years of comparison. As such, revenue attributable to stores opened or closed in the periods of comparison will contribute to our overall self-operated stores revenue but will not affect our same-store sales during the periods of comparison. The table below sets forth the number of our same stores and same-store sales during the Track Record Period.

	Year ended March 31,		Year ended March 31,	
	2014	2015	2015	2016
Number of same stores		54		57
Same-store sales (JPY thousands)	6,174,763	6,283,955	6,433,863	6,655,858
SSSG		1.8%		3.5%

We added a total of 43 self-operated stores and closed a total of 22 self-operated stores during the Track Record Period. Accordingly, revenue growth attributable to self-operated stores will be affected not only by SSSG, but also the year-on-year comparison of revenue attributable to these added and closed stores, which would vary depending on the number of stores opened and closed, as well as the length of time that such stores were in operation during the periods of comparison. In addition, revenue generated from one-off retail customers will also affect our non-same-store sales.

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The table below sets forth the breakdown of our revenue attributable to self-operated stores sales into same-store sales and non-same-store sales during the Track Record Period.

	Year ended March 31,				Year-on-year growth	Year ended March 31,				Year-on-year growth
	2014		2015			2015		2016		
	¥	%	¥	%		%	¥	%	¥	
	(in thousands except for percentages)					(in thousands except for percentages)				
Same-store sales	6,174,763	90.9	6,283,955	74.7	1.8	6,433,863	76.5	6,655,858	79.9	3.5
Non-same-store sales	616,637	9.1	2,129,635	25.3	245.4	1,979,727	23.5	1,678,626	20.1	(15.2)
Total self-operated stores revenue	6,791,400	100.0	8,413,590	100.0	23.9	8,413,590	100.0	8,334,484	100.0	(0.9)

Our same-store sales increased by 1.8% while self-operated store sales increased by 23.9% from the year ended March 31, 2014 to the year ended March 31, 2015, as we generated significantly more non-same-store sales in the year ended March 31, 2015 as compared to the year ended March 31, 2014. Revenue attributable to the 54 same stores for the periods of comparison was JPY6,174.8 million and JPY6,284.0 million for the years ended March 31, 2014 and March 31, 2015, respectively, representing SSSG of 1.8%. Non-same-store sales was JPY616.6 million and JPY2,129.6 million for the years ended March 31, 2014 and March 31, 2015, respectively, representing a year-on-year growth of 245.4%. The year-on-year growth in non-same-store sales was mainly due to the net opening of 12 new stores in the year ended March 31, 2015 as well as an increase in orders placed to us directly by our one-off retail customers.

Our same-store sales increased by 3.5% while self-operated store sales declined by 0.9% from the year ended March 31, 2015 to the year ended March 31, 2016. Revenue attributable to the 57 same stores for the periods of comparison was JPY6,433.9 million and JPY6,655.9 million for the years ended March 31, 2015 and March 31, 2016, respectively, representing SSSG of 3.5%. Non-same-store sales was JPY1,979.7 million and JPY1,678.6 million for the years ended March 31, 2015 and March 31, 2016, respectively, representing a year-on-year decline of 15.2%. The year-on-year decline was mainly due to a decrease in orders placed to us directly by one-off retail customers, as we had a significantly larger and more established sales and distribution network in the year ended March 31, 2016. Such decrease was partially offset by an increase in revenue attributable to self-operated stores opened and closed during the periods of comparison.

Cost of Sales

Our cost of sales consists of (a) cost of manufacturing, which consists of (i) cost of raw materials, (ii) employee benefits in connection with our manufacturing activities, (iii) depreciation and amortization of property, plant and equipment and (iv) other manufacturing overhead, (b) cost of finished goods purchased from OEM suppliers and (c) cost of services rendered. During the Track Record Period, cost of sales increased in line with increased revenue growth. Cost of sales amounted to JPY6,353.7 million, JPY7,620.1 million and JPY9,173.9 million in the years ended March 31, 2014, 2015 and 2016, respectively, and represented 40.4%, 41.1% and 41.0% of our revenue for the years ended March 31, 2014,

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2015 and 2016, respectively. The table below sets forth a breakdown of the key components of our cost of sales, each expressed as an absolute amount and as a percentage of the total cost of sales during the Track Record Period.

	Year ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(JPY in thousands, except for percentages)</i>					
Raw materials	3,137,126	49.4	3,879,643	50.9	5,119,742	55.8
Employee benefits	1,271,503	20.0	1,423,252	18.7	1,388,176	15.1
Manufacturing overhead ⁽¹⁾	359,503	5.7	547,593	7.2	640,856	7.0
Finished goods purchased from OEM suppliers	1,585,605	24.9	1,769,562	23.2	2,025,144	22.1
Total	<u>6,353,737</u>	<u>100.0</u>	<u>7,620,050</u>	<u>100.0</u>	<u>9,173,918</u>	<u>100.0</u>

Note:

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

We record cost of sales primarily in JPY and to a lesser extent a combination of other currencies. Accordingly, our cost of sales is exposed to exchange rate fluctuations between the JPY and other currencies. In general, and before taking into consideration the income statement impact from inventory movement, an appreciation in the JPY versus other key currencies, including the USD and RMB, will result in comparatively lower reported cost of sales, and a depreciation in the JPY will result in comparatively higher reported cost of sales.

For the three months ended June 30, 2016, our cost of sales increased by 5.3% on a year-on-year basis primarily due to the continued expansion of our business, though the increase was partially offset on a reported basis due to the appreciation of the JPY during the respective period. See “Industry Overview — Foreign Exchange” for further details.

Gross Profit and Gross Margin

Our gross margin was relatively stable during the Track Record Period, amounting to 59.6%, 58.9% and 59.0%, respectively, for the years ended March 31, 2014, 2015 and 2016.

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Gross Profit and Gross Margin by Types of Products

The following table sets forth a breakdown of our gross profit and gross margin by products for the Track Record Period.

	Year Ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
Golf clubs:						
BERES	4,455,181	64.5	5,851,410	66.2	6,131,654	61.9
TOUR WORLD	1,745,256	63.6	1,775,129	56.2	2,451,790	56.6
Be ZEAL	—	—	—	—	671,200	57.2
G1X	—	—	—	—	30,400	51.6
Others						
Specialized models ⁽¹⁾	1,972,506	63.1	1,805,608	57.6	2,085,785	72.5
Putters	333,349	66.9	325,990	68.5	333,129	66.7
Golf clubs subtotal	8,506,292	64.1	9,758,137	62.5	11,703,958	62.1
Golf balls	44,171	52.0	199,175	58.9	239,161	57.0
Apparel, accessories and other related products⁽²⁾	809,257	34.4	947,730	36.8	1,251,724	40.4
Total	9,359,720	59.6	10,905,042	58.9	13,194,843	59.0

Notes:

- (1) Include sales of golf clubs that are produced for specific geographic regions or events.
- (2) Include apparel, golf bags, golf club head covers, footwear, gloves, headwear and other golf-related accessories.

Gross Profit and Gross Margin by Sales and Distribution Channels

The following table sets forth a breakdown of our gross profit and gross margin by sales and distribution channels for the Track Record Period.

	Year ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
Self-operated stores	4,593,335	67.6	5,754,144	68.4	5,871,173	70.4
Distributors	4,766,385	53.4	5,150,898	50.9	7,323,670	52.2
Total	9,359,720	59.6	10,905,042	58.9	13,194,843	59.0

During the Track Record Period, gross margin for self-operated stores was higher than gross margin for distributors due to the fact that we sell products at retail prices at self-operated stores, while selling products to distributors at wholesale prices.

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Gross Profit and Gross Profit Margin by Geography

The following table sets forth our gross profit and gross profit margin attributable to each region for the Track Record Period.

	Year Ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
Japan	5,173,936	56.9	5,492,267	56.6	6,984,238	58.7
Korea	934,523	48.4	1,055,402	47.2	1,403,807	49.9
China (including Hong Kong and Macau)	1,428,433	76.0	2,349,955	70.4	2,488,683	59.4
North America	424,164	65.1	464,776	66.5	508,520	64.1
Europe	342,028	63.0	372,699	59.5	348,909	52.4
Rest of the World	1,056,636	65.7	1,169,943	60.8	1,460,686	72.5
Total	<u>9,359,720</u>	<u>59.6</u>	<u>10,905,042</u>	<u>58.9</u>	<u>13,194,843</u>	<u>59.0</u>

During the Track Record Period, the gross profit margin of each region has been relatively stable with the exceptions of China (including Hong Kong and Macau) and Europe.

Our gross profit margin in China (including Hong Kong and Macau) decreased from 76.0% for the year ended March 31, 2014 to 70.4% for the year ended March 31, 2015 and further declined to 59.4% for the year ended March 31, 2016, primarily due to our efforts to expand our sales through distributors in China during the Track Record Period, which generally entails lower gross profit margins than sales through self-operated stores.

We also experienced a decline in gross profit margin in Europe from 63.0% for the year ended March 31, 2014 to 59.5% for the year ended March 31, 2015 to 52.4% for the year ended March 31, 2016, primarily due to a shift in the product mix of our golf clubs offered in Europe.

Other Income and Gains

Our other income and gains consist primarily of government grants, interest income, foreign exchange gain and gains on disposal of land, property, plant and equipment. The following table sets forth a breakdown of our other income and gains, by amount and as a percentage of our total revenue, for the Track Record Period.

	Year Ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(In thousands, except for percentages)</i>					
Government grants	48,499	0.3	788	*	536	*
Foreign exchange gain, net	—	—	55,137	0.3	—	—
Gains on disposal of land, property, plant and equipment, net	834,418	5.3	487	*	6,742	*
Rental income	11,142	0.1	11,376	0.1	10,955	*
Others	31,334	0.2	23,037	0.1	58,892	0.3
Total	<u>925,393</u>	<u>5.9</u>	<u>90,825</u>	<u>0.5</u>	<u>77,125</u>	<u>0.3</u>

Note:

* Less than 0.1%

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In the year ended March 31, 2014, we recorded a net gain on disposal of a plot of idle land located near the Sakata Campus of JPY834.4 million. We do not expect such level of gains on disposal of land, property, plant and equipment to be recurring.

Selling and Distribution Costs

Selling and distribution costs consist of (i) benefits for staff directly involved in selling and distribution activities, (ii) advertising and promotion expenses, (iii) rental fees and (iv) other costs related to selling and distribution activities, including depreciation, travel expenses, consumables, transportation expenses and other expenses. The following table sets forth a breakdown of our selling and distribution costs, by amount and as a percentage of our total revenue, during the Track Record Period:

	Year Ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(In thousands, except for percentages)</i>					
Employee benefits	2,580,252	16.4	3,138,868	16.9	2,947,676	13.2
Advertising and promotion expenses	1,778,735	11.3	2,076,653	11.2	2,367,787	10.6
Rental fees	1,291,075	8.2	1,537,258	8.3	1,569,767	7.0
Others ⁽¹⁾	938,983	6.0	999,540	5.4	1,172,868	5.2
Total	6,589,045	41.9	7,752,319	41.8	8,058,098	36.0

Note:

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

During the Track Record Period, our selling and distribution costs increased in absolute terms, but decreased as a percentage of our revenue as a result of our efforts to optimize our cost base.

Administrative Expenses

Administrative expenses consist of (i) benefits for and expenses incurred by staff directly involved in administrative activities, (ii) research and development costs and (iii) [REDACTED] expenses. Our administrative expenses amounted to JPY922.8 million, JPY1,195.4 million and JPY1,362.5 million in the years ended March 31, 2014, 2015 and 2016, respectively. As a percentage of total revenue, our administrative expenses amounted to 5.9%, 6.5% and 6.1% in the years ended March 31, 2014, 2015 and 2016, respectively.

We incurred research and development costs of approximately JPY442.5 million, JPY503.2 million and JPY535.3 million in the years ended March 31, 2014, 2015 and 2016, respectively, representing a CAGR of 10.0%. The following table sets forth a breakdown of our research and development costs, by amount and as a percentage of our total revenue, during the Track Record Period.

	Year ended March 31,					
	2014		2015		2016	
	¥	%	¥	%	¥	%
	<i>(in thousands, except for percentages)</i>					
Employee benefits	253,772	1.6	300,994	1.6	341,274	1.5
Other costs ⁽¹⁾	188,723	1.2	202,226	1.1	193,991	0.9
Total	442,495	2.8	503,220	2.7	535,265	2.4

Note:

(1) Include depreciation and consumables.

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Research and development costs decreased as a percentage of total revenue from 2.8% in the year ended March 31, 2014 to 2.4% in the year ended March 31, 2016. The decrease was primarily due to our efforts to control costs related to consumables, which are materials used in research and development activities. As a percentage of total revenue, employee benefits increased in line with revenue during the Track Record Period, while other costs decreased from 1.2% in the year ended March 31, 2014 to 0.9% in the year ended March 31, 2016.

Other Expenses/(Income), Net

Our other expenses/(income) primarily consist of (i) foreign exchanges losses, net, (ii) compensation expenditure, (iii) impairment of property, plant and equipment, (iv) reversal for impairment of property, plant and equipment and (v) others. The following table sets forth the details of our other expenses/(income), net for the Track Record Period:

	Year ended 31 March		
	2014	2015	2016
	<i>(in JPY thousands)</i>		
Foreign exchange losses, net	2,969	—	40,601
Compensation expenditure	1,917	20,370	—
Impairment of property, plant and equipment	57,326	13,794	—
Reversal for impairment of property, plant and equipment	—	—	(159,356)
Others	6,939	12,084	14,190
Total	<u>69,151</u>	<u>46,248</u>	<u>(104,565)</u>

We recorded other expenses of JPY69.2 million and JPY46.2 million in the years ended March 31, 2014 and 2015, respectively. We recorded other income of JPY104.6 million in the year ended March 31, 2016, which was primarily due to a reversal for impairment of property, plant and equipment of JPY159.4 million, that we do not expect to be recurring.

Finance Costs

Our finance costs represent interest on bank borrowings. Our finance costs amounted to JPY10.8 million, JPY7.5 million and JPY24.1 million in the years ended March 31, 2014, 2015 and 2016, respectively.

Finance Income

Our finance income represents the interest income and accretion income from loans and other receivables, which mainly consist of the security deposits paid under lease agreements for shops and head office. Our finance income amounted to JPY13.4 million, JPY9.2 million and JPY27.3 million in the years ended March 31, 2014, 2015 and 2016, respectively.

TAXATION

Our results of operations are affected by the amount of tax charge/credit, which consists primarily of (i) current income tax and (ii) recognition and utilization of deferred tax assets. We reported tax charge/(credit) of JPY118.2 million, (JPY298.5 million) and JPY394.6 million, respectively, in the years ended March 31, 2014, 2015 and 2016. For a reconciliation of the tax charge/(credit) applicable to profit before tax at the statutory rate for Japan to the tax charge/(credit), see note 12 to the Accountants’ Report in Appendix I to this document.

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We are subject to income tax on an entity basis on profit arising in or derived from jurisdictions which the members of our Company are domiciled in and operate from. Prior to the beginning of the Track Record Period, we did not recognize deferred tax assets arising from tax losses and certain temporary differences due to uncertainties in our future profitability. As we realized considerable profits during the Track Record Period, we were able to recognize and utilize part of these temporary differences and tax losses. As of March 31, 2016, the accumulated tax losses arising from Honma Japan were JPY2,301.3 million. As we expect to continue generating taxable profit from Honma Japan in the future, we expect that we will be able to fully utilize such tax losses in the next two to three years.

As we continue to expand our businesses outside of Japan in jurisdictions that implement different statutory income tax rates, we plan to continuously update our business models and organizational structures to optimize tax benefits provided in different jurisdictions.

Under the current laws of the Cayman Islands and the British Virgin Islands, we are not subject to income tax or capital gains tax in the Cayman Islands and the British Virgin Islands. Additionally, dividend payments made by us are not subject to withholding tax in the Cayman Islands and the British Virgin Islands. Honma Hong Kong and Honma Holdings are subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Track Record Period.

Pursuant to the rules and regulations of Japan, Honma Japan is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the statutory tax rate calculated based on these taxes was 38%, 35.6% and 33.06% for the years ended March 31, 2014, 2015 and 2016, respectively. Our effective tax rate was 4.4%, (14.9%) and 10.0% for the years ended March 31, 2014, 2015 and 2016, respectively. Our effective tax rate was lower than the statutory tax rate in Japan during the Track Record Period, primarily due to the existence of tax losses carried forward and the recognition of deferred tax assets during the Track Record Period. In addition, a portion of the Company's profit before tax was reported outside Japan in each of the years ended March 31, 2014, 2015 and 2016. Please refer to note 12 to the Accountants' Report in Appendix I to this document for a reconciliation of the tax charge/(credit) applicable to profit before tax at the statutory rate for Japan to the tax charge/(credit) at the effective tax rate.

According to the Macau Complementary Tax Law, taxable profits below Macau Pataca (“MOP”) 300,000 are exempted from tax, and taxable profits over MOP300,000 are subject to the rate of 12%. Honma Taiwan and Honma Thailand are subject to profits tax at the rate of 17% and 20% on the assessable profits, respectively.

The Company has maintained branch offices in Korea and the United States. Profits reported by such offices were subject to local taxation during the Track Record Period, and such local taxes were deductible in Japan for income tax purposes pursuant to the applicable double tax treaties.

WP International Trading conducts its business in China and are subject to taxation in China. Under the EIT Law, which became effective on January 1, 2008, both domestically owned enterprises and foreign-invested enterprises are subject to a uniform tax rate of 25%.

RESULTS OF OPERATIONS

Year Ended March 31, 2016 Compared to Year Ended March 31, 2015

Revenue

Our revenue increased by 20.7% from JPY18,525.1 million for the year ended March 31, 2015 to JPY22,368.8 million for the year ended March 31, 2016. Such growth was largely driven by (i) the expansion of our product portfolio, (ii) the penetration of certain geographic markets and (iii) the expansion of our sales and distribution channels. For breakdowns of our revenue by product type, geographic locations and sales and distribution channels during the Track Record Period, see “— Principal Components of Statements of Profit or Loss — Revenue.”

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Cost of Sales

Our cost of sales increased by 20.4% from JPY7,620.1 million for the year ended March 31, 2015 to JPY9,173.9 million for the year ended March 31, 2016. The increase was largely driven by the increase in sales.

Gross Profit

As a result of the foregoing, our gross profit increased by 21.0% from JPY10,905.0 million for the year ended March 31, 2015 to JPY13,194.8 million for the year ended March 31, 2016. Our gross margin increased slightly from 58.9% to 59.0%.

Other Income and Gains

Our other income and gains decreased from JPY90.8 million for the year ended March 31, 2015 to JPY77.1 million for the year ended March 31, 2016. The decrease was primarily due to a reduction of JPY55.1 million in foreign exchange gains, net.

Selling and Distribution Costs

Our selling and distribution costs increased modestly by 3.9% from JPY7,752.3 million for the year ended March 31, 2015 to JPY8,058.1 million for the year ended March 31, 2016, which was due to our revenue growth. Our selling and distribution costs as a percentage of revenue decreased from 41.8% to 36.0%. Employee benefits comprised the largest component of our selling and distribution costs and decreased from JPY3,138.9 million in the year ended March 31, 2015 to JPY2,947.7 million in the year ended March 31, 2016. The decrease was primarily due to a one-off bonus payment (the “Fifth Anniversary Bonus”) of JPY329.0 million in the year ended March 31, 2015 which was granted to reward our selling and distribution staff for their excellent performance during the five-year period since Chairman Liu acquired the Company.

Administrative Expenses

Our administrative expenses increased by 14.0% from JPY1,195.4 million for the year ended March 31, 2015 to JPY1,362.5 million for the year ended March 31, 2016, which was primarily due to expenses related to the [REDACTED] and new hirings to our senior management team ahead of the [REDACTED]. Administrative expenses as a percentage of revenue decreased from 6.5% for the year ended March 31, 2015 to 6.1% for the year ended March 31, 2016.

Other (Expenses)/Income, net

We recorded other expenses of JPY46.2 million for the year ended March 31, 2015. We recorded other income of JPY104.6 million for the year ended March 31, 2016, which was primarily due to a reversal for impairment of property, plant and equipment of JPY159.4 million.

Finance Costs

Our finance costs increased by 221.4% from JPY7.5 million for the year ended March 31, 2015 to JPY24.1 million for the year ended March 31, 2016, due to increases in interest-bearing borrowings in the year ended March 31, 2016 primarily due to the transaction (the “Ping An Transaction”) whereby we borrowed US\$6.3 million from Ping An Bank and then lent such amount to our PRC incorporated affiliate Honma Shanghai.

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Finance Income

Our finance income increased by 196.4% from JPY9.2 million for the year ended March 31, 2015 to JPY27.3 million for the year ended March 31, 2016, due to an increase of JPY15.2 million in interest income for the year ended March 31, 2016, which is related to interest payment we received from Honma Shanghai in connection with the Ping An Transaction. Our PRC legal advisor has advised that our lending to Honma Shanghai is effective and valid under all relevant PRC laws and regulations on the following basis:

- (i) pursuant to the Lending General Provisions (《貸款通則》) promulgated by the People’s Bank of China (“PBOC”) on June 28, 1996 which came into effect on August 1, 1996, non-financial institutions are not permitted to engage in lending activities; otherwise the lender shall be subject to a fine of one to five times the illegal gain derived from such lending activities;
- (ii) however, the Supreme People’s Court of the PRC has conditionally affirmed the validity of intercompany loans by issuing the Provisions on Certain Issues regarding the Application of Law in Trials for Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the “Provisions”) on August 6, 2015 which came into effect on September 1, 2015. Pursuant to the Provisions, private lending contracts concluded between legal persons or other organizations are effective and valid under PRC law except where the contracts for the lending (a) are void under the PRC Contract Law or (b) fall within the scope of void lending contracts as particularly provided in the Provisions; and if the interest rate provided in a private lending contract is not more than 24% per annum, the PRC courts will rule that the lender is legally entitled to such interest income; and
- (iii) our lending to Honma Shanghai is not void under the PRC Contract Law nor falls within the scope of void lending contracts as particularly provided in the Provisions..

Profit before Tax

As a result of the foregoing, our profit before tax increased by 97.6% from JPY2,003.6 million for the year ended March 31, 2015 to JPY3,959.1 million for the year ended March 31, 2016.

Income Tax (Expense)/Credit

We recorded an income tax credit of JPY298.5 million for the year ended March 31, 2015, while we recorded an income tax expense of JPY394.6 million for the year ended March 31, 2016. The change was primarily due to the increase in profit before tax in the year ended March 31, 2016.

Net Profit

As a result of the foregoing, our net profit increased by 54.8% from JPY2,302.1 million for the year ended March 31, 2015 to JPY3,564.5 million for the year ended March 31, 2016. Our net profit margin increased from 12.4% for the year ended March 31, 2015 to 15.9% for the year ended March 31, 2016.

Year Ended March 31, 2015 Compared to Year Ended March 31, 2014

Revenue

Our revenue increased by 17.9% from JPY15,713.5 million for the year ended March 31, 2014 to JPY18,525.1 million for the year ended March 31, 2015. Such growth was largely driven by (i) the expansion of our product portfolio, (ii) the penetration of certain geographic markets and (iii) the expansion of our sales and distribution channels. For breakdowns of our revenue by product type, geographic locations and sales and distribution channels during the Track Record Period, see “— Principal Components of Statements of Profit or Loss — Revenue.”

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Cost of Sales

Our cost of sales increased by 19.9% from JPY6,353.7 million for the year ended March 31, 2014 to JPY7,620.1 million for the year ended March 31, 2015. The increase was largely driven by the increase in sales.

Gross Profit

As a result of the foregoing, our gross profit increased by 16.5% from JPY9,359.7 million for the year ended March 31, 2014 to JPY10,905.0 million for the year ended March 31, 2015. Our gross margin decreased slightly from 59.6% to 58.9%.

Other Income and Gains

Our other income and gains decreased by 90.2% from JPY925.4 million for the year ended March 31, 2014 to JPY90.8 million for the year ended March 31, 2015. The decrease was primarily attributable to a one-off gain on disposal of a plot of idle land located near the Sakata Campus in the year ended March 31, 2014.

Selling and Distribution Costs

Our selling and distribution costs increased by 17.7% from JPY6,589.0 million for the year ended March 31, 2014 to JPY7,752.3 million for the year ended March 31, 2015, which was primarily due to an increase in employee benefits. Employee benefits increased from JPY2,580.3 million in the year ended March 31, 2014 to 3,138.9 million in the year ended March 31, 2015. The increase was primarily due to the Fifth Anniversary Bonus of JPY329.0 million to selling and distribution staff in the year ended March 31, 2015. Our selling and distribution costs as a percentage of revenue remained stable, amounting to 41.9% and 41.8% for the years ended March 31, 2014 and 2015, respectively.

Administrative Expenses

Our administrative expenses increased by 29.5% from JPY922.8 million for the year ended March 31, 2014 to JPY1,195.4 million for the year ended March 31, 2015, which was primarily due to an increase in employee benefits, including the Fifth Anniversary Bonus of JPY82.0 million to administrative personnel in the year ended March 31, 2015. Administrative expenses as a percentage of revenue increased from 5.9% for the year ended March 31, 2014 to 6.5% for the year ended March 31, 2015.

Other Expenses

Our other expenses decreased by 33.2% from JPY69.2 million for the year ended March 31, 2014 to JPY46.2 million for the year ended March 31, 2015, primarily as a result of a significant decrease in impairment of property, plant and equipment.

Finance Costs

Our finance costs decreased by 30.5% from JPY10.8 million for the year ended March 31, 2014 to JPY7.5 million for the year ended March 31, 2015, due to lower interest payments on short-term borrowings as a result of lower effective interest rate which was in line with the market interest rate in Japan.

Finance Income

Our finance income decreased by 31.3% from JPY13.4 million for the year ended March 31, 2014 to JPY9.2 million for the year ended March 31, 2015, due to decreased interest income from security deposits paid under lease agreements for shops and head office.

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Profit before Tax

As a result of the foregoing, our profit before tax decreased by 26.0% from JPY2,706.8 million for the year ended March 31, 2014 to JPY2,003.6 million for the year ended March 31, 2015.

Income Tax (Expense)/Credit

We recorded an income tax expense of JPY118.2 million for the year ended March 31, 2014 while we recorded an income tax credit of JPY298.5 million for the year ended March 31, 2015. The change was primarily due to a decrease in profit before tax and the recognition and utilization of unused tax losses in the year ended March 31, 2015.

Net Profit

As a result of the foregoing, our net profit decreased by 11.1% from JPY2,588.6 million for the year ended March 31, 2014 to JPY2,302.1 million for the year ended March 31, 2015. Our net profit margin decreased from 16.5% for the year ended March 31, 2014 to 12.4% for the year ended March 31, 2015.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During Track Record Period, we financed our operations primarily through cash from our operations and proceeds from bank loans. As of March 31, 2016, we had JPY1,825.8 million in cash and cash equivalents. Our cash and cash equivalents primarily consist of cash on hand and demand deposits.

The following table sets forth a summary of our cash flows for the Track Record Period:

	Year Ended March 31,		
	2014	2015	2016
	<i>(in JPY thousands)</i>		
Net cash flow generated from/ (used in) operating activities	1,972,960	(136,842)	1,430,499
Net cash flow generated from / (used in) investing activities	471,296	(296,899)	(1,296,126)
Net cash flow used in financing activities.	(746,533)	(442,613)	(547,351)
Net increase / (decrease) in cash and cash equivalents. . .	1,697,723	(876,354)	(412,978)
Cash and cash equivalents at the beginning of the year . .	1,230,950	3,018,000	2,315,069
Effect of foreign exchange rate changes, net.	89,327	173,423	(76,282)
Cash and cash equivalents at the end of year	<u>3,018,000</u>	<u>2,315,069</u>	<u>1,825,809</u>

Operating Activities

Net cash flow generated from operating activities in the year ended March 31, 2016 was JPY1,430.5 million, derived primarily by deducting from profit before tax of JPY3,959.1 million the following items: (i) an increase in inventories of JPY364.5 million, which was primarily due to sales growth, (ii) an increase in trade and bills receivables of JPY1,255.5 million, which was primarily due to sales growth, (iii) an increase in prepayments, deposits and other receivables of JPY234.3 million, which was primarily related to prepayments made for purchases of raw materials and payments for employee incentives, (iv) an increase in amount due from a related party of JPY20.2 million, (v) a decrease in other payables and accruals of JPY471.0 million, (vi) a decrease in amounts due to related parties of JPY364.9 million, which

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relates to our transactions with Honma Shanghai, which acted as our distributor and import agent in China until January 2016, (vii) income tax paid of JPY350.0 million and then adding back (viii) depreciation and impairment of property, plant and equipment of JPY155.0 million, (ix) defined benefit plan expenses of JPY184.2 million, and (x) equity-settled scheme compensation expenses of JPY128.3 million.

Net cash flow used in operating activities in the year ended March 31, 2015 was JPY136.8 million, derived primarily by deducting from profit before tax of JPY2,003.6 million the following items: (i) an increase in inventories of JPY518.4 million, which was primarily due to sales growth, (ii) an increase in trade and bills receivables of JPY615.7 million, which was primarily due to sales growth, particularly sales to sports megastores, which typically enjoy longer credit terms, (iii) a decrease in amounts due to related parties of JPY1,463.1 million, which was due to the repayments we made to Honma Shanghai, (iv) a payment of defined benefit obligation of JPY109.2 million, (v) income tax paid of JPY222.8 million and then adding back (vi) an increase in trade and bills payable of JPY505.7 million, (vii) depreciation and impairment of property, plant and equipment of JPY315.7 million and (viii) defined benefit plan expenses of JPY185.4 million.

Net cash flow generated from operating activities in the year ended March 31, 2014 was JPY1,973.0 million, derived primarily by deducting from profit before tax of JPY2,706.8 million the following items: (i) an increase in trade receivables of JPY816.4 million, which was primarily due to sales growth, (ii) net gains on disposal of property, plant and equipment of JPY834.4 million, which was in relation to our sale of a plot of idle land located near the Sakata Campus, (iii) a decrease in other non-current liabilities JPY45.0 million, and (iv) an increase in plan assets of JPY135.7 million and then adding back (v) a decrease in loans and other receivables classified as other non-current assets of JPY368.7 million, and (vi) defined benefit plan expenses of JPY176.3 million.

Investing Activities

Net cash used in investing activities in the year ended March 31, 2016 was JPY1,296.1 million, consisting of an increase in due from related parties of JPY775.1 million and purchase of property, plant and equipment and intangible assets of JPY529.2 million, partially offset by proceeds from disposal of land, items of property, plant and equipment and intangible assets of JPY8.1 million.

Net cash used in investing activities in the year ended March 31, 2015 was JPY296.9 million, consisting of purchase of property, plant and equipment and intangible assets of JPY402.8 million, partially offset by proceeds from disposal of items of property, plant and equipment and intangible assets of JPY105.9 million.

Net cash generated from investing activities in the year ended March 31, 2014 was JPY471.3 million, consisting of proceeds from disposal of lands, items of property, plant and equipment and intangible assets of JPY1,060.9 million, which was primarily related to our sale of a plot of idle land located near the Sakata Campus, and maturity of government bonds of JPY39.8 million, partially offset by purchase of property, plant and equipment and intangible assets of JPY629.5 million.

Financing Activities

Net cash used in financing activities in the year ended March 31, 2016 was JPY547.4 million, which consisted of (i) deemed distribution to the then Shareholders of JPY7,139.8 million in connection with the Reorganization, (ii) dividends paid of JPY1,235.0 million and (iii) repayment of borrowings from a related party of JPY715.5 million, partially offset by (i) proceeds from bank loans of JPY1,274.9 million and (ii) borrowing provided by a related party of JPY7,268.0 million primarily in connection with our Reorganization.

Net cash used in financing activities in the year ended March 31, 2015 was JPY442.6 million, which consisted of (i) dividends paid of JPY463.3 million and (ii) deemed distribution to the then Shareholders of JPY693.6 million in connection with our Reorganization, partially offset by borrowings provided by a related party of JPY714.2 million.

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Net cash used in financing activities in the year ended March 31, 2014 was JPY746.5 million, which was primarily attributable to dividends paid of JPY1,000.0 million, partially offset by JPY150.0 million of proceeds from bank loans.

COMMITMENTS

Operating Lease Commitments

We lease a number of properties under non-cancellable lease agreements for offices and self-operated shops. The following table sets forth the future aggregate minimum lease payments in respect of our rented properties under non-cancellable operating leases as of the respective dates:

	As of March 31,		
	2014	2015	2016
	<i>(in JPY thousands)</i>		
Within 1 year	991,017	951,379	778,352
After 1 year but within 5 years	1,130,719	752,016	833,014
Over 5 years	153,256	78,592	57,534
Total	2,274,992	1,781,987	1,668,900

Capital Commitments

We did not have any capital commitments as of March 31, 2014, 2015 or 2016.

CAPITAL EXPENDITURES

Our capital expenditures amounted to JPY629.5 million, JPY402.8 million and JPY529.2 million for the years ended March 31, 2014, 2015 and 2016, respectively. During the Track Record Period, our expenditures were used primarily to purchase property, plant and equipment and intangible assets. We financed our capital expenditures primarily with cash generated from operations. We estimate that our tangible assets investment in the year ending March 31, 2017 will be approximately JPY413.0 million, which will be primarily used for equipment purchases at our Sakata Campus to maintain our production capacity. We plan to fund our capital expenditures for the year ending March 31, 2017 with our existing cash and cash equivalents, cash flow generated from operating activities and proceeds from the [REDACTED].

WORKING CAPITAL

The following table sets forth the details of our current assets and liabilities as of the dates indicated:

	As of March 31,			As of July 31,
	2014	2015	2016	2016
	<i>(in JPY thousands)</i>			
Current Assets				
Inventories	6,518,059	7,059,638	7,389,330	6,842,065
Trade and bills receivables	1,705,829	2,321,451	3,576,645	2,762,947
Prepayments, deposits and other receivables	361,391	435,723	670,032	646,791
Due from a related party	—	—	795,292	17,233
Pledged deposits	—	136,527	121,676	—
Cash and cash equivalents	3,018,000	2,315,069	1,825,809	3,248,719
Total current assets	11,603,279	12,268,408	14,378,784	13,517,755

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	As of March 31,			As of July 31,
	2014	2015	2016	2016
	<i>(in JPY thousands)</i>			
Current Liabilities				
Trade and bills payables	818,656	1,324,385	1,382,207	468,020
Other payables and accruals.	1,461,007	1,550,965	1,263,335	1,313,478
Interest-bearing bank borrowings	500,000	500,000	1,707,554	2,874,900
Due to related parties	2,404,335	8,331,909	7,379,755	8,267,271
Income tax payable	78,941	145,030	203,469	57,532
Total current liabilities	<u>5,262,939</u>	<u>11,852,289</u>	<u>11,936,320</u>	<u>12,981,201</u>
Net current assets	<u>6,340,340</u>	<u>416,119</u>	<u>2,442,464</u>	<u>536,554</u>

Our net current assets decreased from JPY2,442.5 million as of March 31, 2016 to JPY536.6 million as of July 31, 2016. The decrease was due to (i) a decrease of JPY547.3 million in inventories and (ii) a decrease of JPY813.7 million in trade and bills receivables, both of which result from our continued efforts to improve cash flow. In addition, our interest-bearing bank borrowings increased by JPY1,167.3 million, which relates to an increase in our borrowings from Mizuho Bank of JPY1,374.9 million and an increase in our borrowings from Tokyo Tomin Bank of JPY500.0 million, partially offset by repayment of US\$6.3 million borrowings related to the Ping An Transaction. Our amount due from a related party decreased by JPY778.1 million, which was due to repayment by Honma Shanghai of US\$6.3 million related to the Ping An Transaction.

Our net current assets increased significantly from JPY416.1 million as of March 31, 2015 to JPY2,442.5 million as of March 31, 2016, primarily due to (i) an increase in trade and bills receivables of JPY1,255.2 million and (ii) an increase in amount due from a related party of JPY795.3 million, partially offset by an increase in interest-bearing borrowings of JPY1,207.6 million due to the Ping An Transaction. The Ping An Transaction led to the increase in amount due from a related party and also partially contributed to the increase in our interest-bearing borrowings. We fully repaid our US\$6.3 million borrowings related to the Ping An Transaction in May 2016, and the corresponding amount due from Honma Shanghai was fully repaid in June 2016.

Our net current assets decreased significantly from JPY6,340.3 million as of March 31, 2014 to JPY416.1 million as of March 31, 2015, primarily as a result of an increase in amounts due to related parties of JPY5,927.6 million. The increase was due to our acquisition of Honma Japan in connection with the Reorganization, and amounts due to related parties were interest-free, unsecured and have no fixed terms of repayment.

Our Directors confirm that our current cash and cash equivalents, anticipated cash flow from operations, the available overdraft facilities and proceeds from the [REDACTED] will be sufficient to meet our anticipated cash needs, including our working capital expenditure requirements, for at least the next 12 months from the date of this document. We currently have no external financing plan other than the [REDACTED] and short-term bank loans described in “— Indebtedness” below. After due consideration and discussion with the Company’s management and based on the above, the Sole Sponsor has no reason to believe that the Company cannot meet the working capital requirements for the 12-month period from the date of this document.

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INDEBTEDNESS

During the Track Record Period, our interest-bearing borrowings were primarily short-term bank loans. As of March 31, 2014, 2015 and 2016, all of such borrowings were unsecured and repayable within one year. Our interest-bearing borrowings as of March 31, 2014, 2015 and 2016 and July 31, 2016 were as follows:

	As of March 31,			As of July 31,
	2014	2015	2016	2016
	<i>(in JPY thousands)</i>			
Current				
Unsecured.	500,000	500,000	1,707,554	2,874,900
Total	<u>500,000</u>	<u>500,000</u>	<u>1,707,554</u>	<u>2,874,900</u>

The above borrowings bear interest at floating and fixed rates. The effective interest rate for the balance of our interest-bearing borrowings as of March 31, 2014, 2015 and 2016 was 1.4757%, 1.2750% and a range of 0.82% to 2.48%, respectively. There is no guarantor for any of our outstanding bank loans.

In June 2015, we entered into the Ping An Transaction, whereby we borrowed US\$6.3 million from Ping An Bank and then lent such amount to our PRC incorporated affiliate Honma Shanghai. We fully repaid our US\$6.3 million borrowings related to the Ping An Transaction in May 2016, and the corresponding amount due from Honma Shanghai was fully repaid in June 2016.

As of July 31, 2016, we had (i) JPY2.5 billion available under our overdraft facility with Mizuho Bank, of which JPY1,874.9 million was utilized and (ii) JPY1.0 billion available under our overdraft facility with Tokyo Tomin Bank, which were fully utilized. Borrowings under the facilities are denominated in Japanese yen and may be used for any corporate purpose. As of July 31, 2016, JPY500.0 million of our borrowings from Mizuho Bank bore effective interest rates in the range of 0.79% to 0.83%, and JPY1,374.9 million of our borrowings from Mizuho Bank bore an effective interest rate of 0.79% with maturities up to April 26, 2017. Our borrowings from Tokyo Tomin Bank bore effective interest rates in the range of 0.78% to 0.80% and will mature on February 18, 2017.

We have used the borrowings primarily for working capital purpose. The overdraft facility agreement with Mizuho Bank provides that the borrower needs to obtain consent from the lender before drawing down from the facility. On the other hand, the overdraft facility with Tokyo Tomin Bank does not require such consent.

During the Track Record Period and up to the Latest Practicable Date, we have never defaulted in repaying our bank borrowings.

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MAJOR FINANCIAL RATIOS

The following table sets forth certain of the major financial ratios of our Group for the periods or as of the dates indicated:

	For the Year Ended/As of March 31,		
	2014	2015	2016
Profitability:			
Gross margin	59.6%	58.9%	59.0%
Net profit margin	16.5%	12.4%	15.9%
Adjusted net profit margin ⁽¹⁾	11.2%	12.3%	15.2%
Rates of return:			
Return on assets ⁽²⁾	16.0%	13.1%	17.8%
Return on equity ⁽³⁾	30.1%	65.5%	64.5%
Liquidity:			
Debt to equity ratio ⁽⁴⁾	5.8%	14.2%	30.9%
Current ratio ⁽⁵⁾	2.2	1.0	1.2
Quick ratio ⁽⁶⁾	1.0	0.4	0.6

Notes:

- (1) Adjusted net profit margin is calculated using adjusted net profit divided by total revenue for the year, multiplied by 100%. For more information, see “Financial Information — Non-IFRS Financial Measures — Adjusted Net Profit Margin.”
- (2) Return on assets ratio is calculated using net profit divided by total assets at the end of the year, multiplied by 100%.
- (3) Return on equity ratio is calculated using net profit divided by total equity at the end of the year, multiplied by 100%.
- (4) Debt to equity ratio is calculated using total interest-bearing bank borrowings divided by total equity.
- (5) Current ratio is calculated using total current assets divided by total current liabilities.
- (6) Quick ratio is calculated using total current assets less inventory divided by total current liabilities.

Return on Assets

Our return on assets decreased from 16.0% as of March 31, 2014 to 13.1% as of March 31, 2015, primarily due to decrease in net profit and increase in total assets. Our return on assets increased to 17.8% as of March 31, 2016 due to a significant increase in net profit as a result of a robust growth in our revenue.

Return on Equity

Our return on equity increased significantly from 30.1% as of March 31, 2014 to 65.5% as of March 31, 2015, primarily due to a decrease in total equity, which in turn was the result of a decrease in reserves. Our return on equity as of March 31, 2016 remained relatively stable, compared with our return on equity as of March 31, 2015.

Debt to Equity Ratio

Our debt to equity ratio increased from 5.8% as of March 31, 2014 to 14.2% as of March 31, 2015, primarily due to a decrease in reserves. Our debt to equity ratio increased to 30.9% as of March 31, 2016 due to an increase in interest-bearing bank borrowings.

Current Ratio

Our current ratio decreased from 2.2 as of March 31, 2014 to 1.0 as of March 31, 2015, primarily due to an increase in current liabilities, which in turn was the result of a significant increase in amounts due to related parties in connection with the Reorganization. Our current ratio increased to 1.2 as of March 31, 2016 primarily due to an increase in current assets, which in turn was the result of increases of both inventories and trade and bills receivables.

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Quick Ratio

Our quick ratio decreased from 1.0 as of March 31, 2014 to 0.4 as of March 31, 2015, primarily due to an increase in current liabilities, which in turn was the result of a significant increase in amounts due to related parties. Our quick ratio increased to 0.6 as of March 31, 2016, primarily due to both an increase in current assets and a decrease in current liabilities.

ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

Inventory Analysis

During the Track Record Period, inventories were one of the principal components of our current assets. Our inventories primarily consist of raw materials, work in progress and finished goods.

The following table sets forth the balance of our inventories at the end of each reporting period:

	As of March 31,		
	2014	2015	2016
	<i>(in JPY thousands)</i>		
Raw materials	412,678	470,260	750,035
Work in progress	861,292	1,170,539	1,486,927
Finished goods	5,660,682	5,812,292	5,580,667
Less: provision	(416,593)	(393,453)	(428,299)
Total inventories	6,518,059	7,059,638	7,389,330

The value of our inventories increased by 8.3% from JPY6,518.1 million as of March 31, 2014 to JPY7,059.6 million as of March 31, 2015 and further increased by 4.7% to JPY7,389.3 million as of March 31, 2016. The increases in the value of our inventories throughout the Track Record Period were in line with the growth of our business. Of the JPY7,389.3 million of inventories as of March 31, 2016, JPY2,741.5 million had been consumed or sold as of July 31, 2016.

The following table sets forth our inventory turnover days for the Track Record Period:

	Year Ended March 31,		
	2014	2015	2016
Inventory turnover days ⁽¹⁾	370	325	287

Note:

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

During the Track Record Period, our inventory turnover days were mainly affected by the following factors:

- We are the only major golf products company that maintains significant in-house manufacturing capabilities. A significant portion of our inventories consist of production inventories, namely raw materials and work in progress. Production inventories accounted for 18.5%, 21.6% and 28.0% of our total inventories as of March 31, 2014, 2015 and 2016, respectively.
- We have the largest number of self-operated stores among major golf companies. Our inventories include significant amount of products displayed or stored in self-operated stores. Such in-store inventories accounted for 29.4%, 35.9% and 23.6% of our total inventories as of March 31, 2014, 2015 and 2016, respectively. As such, if we had fewer self-operated stores, we would have carried fewer inventories.

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- During the Track Record Period, we typically launched new products in January, which falls within the last quarter of our fiscal year. As a result of new product launches, we had a higher than normal inventory balance as of each of the balance sheet dates during the Track Record Period.

During the Track Record Period, we have implemented various measures to reduce our inventory turnover days, including selling prior-generation products with discounts. In addition, as a portion of our inventories consist of samples we provided to distributors for retail customers to try out, we have started selling those samples to distributors so they are no longer counted as part of inventories. Our inventory turnover days decreased from 370 days for the year ended March 31, 2014 to 325 days for the year ended March 31, 2015, and further decreased to 287 days for the year ended March 31, 2016.

We accrue inventory provision based on the year in which products are launched rather than the year in which inventory was recorded in its balance sheet. Our inventory provision policy takes into account the product life cycle and the historical net realizable value of each product. Our inventory provision policy also takes into account the fact that golf products, along with the related raw materials and work in progress, are made of durable materials with extended shelf lives. We regularly review our policy. We believe that our inventory provision policy is in compliance with the IFRS. We assessed the amount of our inventory provision as of each of the balance sheet dates during the Track Record Period and are of the view that the inventory provisions recognized as of March 31, 2014, 2015 and 2016 were accrued in accordance with our inventory provision policy. Therefore, our Directors are of the view that our inventory provisions were appropriate and adequate.

Trade and Bills Receivables Analysis

The following table sets forth our trade and bills receivables as of the dates indicated:

	As of March 31,		
	2014	2015	2016
	<i>(in JPY thousands)</i>		
Trade receivables	1,648,838	2,174,183	3,513,671
Bills receivables	57,142	147,539	63,506
	1,705,980	2,321,722	3,577,177
Less: provision	(151)	(271)	(532)
Trade and bills receivables	1,705,829	2,321,451	3,576,645

Our trade and bills receivables represent primarily receivables from our distributors. Payment terms vary from 30 to 140 days depending on the distributor. As of March 31, 2014, 2015 and 2016, our trade and bills receivables amounted to JPY1,705.8 million, JPY2,321.5 million and JPY3,576.6 million, respectively. The increase in our trade and bills receivables over the Track Record Period was primarily due to the increases in sales of our products. Of the JPY3,576.6 million trade and bills receivables outstanding as of March 31, 2016, JPY3,040.0 million had been settled as of July 31, 2016.

The following table sets forth our trade and bills receivables turnover days for the Track Record Period:

	Year Ended March 31,		
	2014	2015	2016
Trade and bills receivables turnover days ⁽¹⁾	30	40	48

Note:

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

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Our trade and bills receivables turnover days increased during the Track Record Period, primarily as a result of an increase in our sales to sports megastores, which typically enjoy longer credit terms.

Aging Analysis

The following table sets out the aging analysis of our trade receivables that are not considered to have impairment risk individually or collectively as of the dates indicated:

	As of March 31,		
	2014	2015	2016
	<i>(in JPY thousands)</i>		
Within 1 month.	1,050,132	1,450,585	2,181,335
1 to 3 months	451,828	479,055	836,585
3 to 12 months	146,727	234,401	486,180
Over 1 year	—	9,871	9,039
Total	<u>1,648,687</u>	<u>2,173,912</u>	<u>3,513,139</u>

Trade receivables that were neither past due nor impaired relate to a large number of distributors for whom there was no recent history of default. Trade receivables that were past due but not impaired relate to a number of independent distributors that have a good track record with us. Based on past experience, the Directors are of the opinion that no material impairment risk exists in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. We do not hold any collateral or other credit enhancements over these balances.

Prepayments, Deposits and Other Receivables Analysis

The following table sets forth our prepayments, deposits and other receivables as of the dates indicated:

	As of March 31,		
	2014	2015	2016
	<i>(in JPY thousands)</i>		
Prepaid rental expense.	115,876	99,335	92,440
Prepaid expenses.	28,622	40,552	229,099
Deductible input VAT and prepaid corporate income tax . .	57,780	133,597	140,957
Advances to suppliers	135,130	87,184	120,749
Rental deposits	12,048	53,404	59,807
Other receivables	11,935	21,651	26,980
Total	<u>361,391</u>	<u>435,723</u>	<u>670,032</u>

During the Track Record Period, our prepayments, deposits and other receivables consisted primarily of (i) prepayments made to the landlords for our offices and self-operated stores, (ii) prepaid expenses, (iii) deductible input VAT and prepaid corporate income tax and (iv) advances to suppliers.

Our prepayments, deposits and other receivables increased by 20.6% from JPY361.4 million as of March 31, 2014 to JPY435.7 million as of March 31, 2015 primarily due to (i) an increase of JPY75.8 million in deductible input VAT and prepaid corporate income tax, and (ii) an increase of JPY41.4 million in rental deposits, partially offset by (i) a decrease of JPY48.0 million in advances to suppliers.

Our prepayments, deposits and other receivables increased by 53.8% from JPY435.7 million as of March 31, 2015 to JPY670.0 million as of March 31, 2016 primarily due to (i) an increase of JPY188.5 million in prepaid expenses related to retention incentive, and (ii) an increase of JPY33.6 million in advances to suppliers, partially offset by (i) a decrease of JPY6.9 million in prepaid rental expenses.

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Trade and Bills Payables Analysis

The following table sets forth our trade and bills payables as of the dates indicated:

	As of March 31,		
	2014	2015	2016
	<i>(in JPY thousands)</i>		
Trade payables	776,783	640,375	773,829
Bills payable.	41,873	684,010	608,378
Total trade and bills payables	818,656	1,324,385	1,382,207

Our trade and bill payables primarily consist of payables to our suppliers. All of our trade and bills payables are expected to be settled within one year. The increase in our trade payables throughout the Track Record Period was in line with the growth of our sales.

The following table sets forth our trade and bills payables turnover days for the Track Record Period:

	Year Ended March 31,		
	2014	2015	2016
Trade and bills payables turnover days ⁽¹⁾	30	51	54

Note:

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

As we started to make use of bills payable to settle payments towards suppliers, our trade and bills payables turnover days increased from 30 days for the year ended March 31, 2014 to 51 days for the year ended March 31, 2015, and further increased to 54 days for the year ended March 31, 2016.

Accrued Expenses and Other Payables Analysis

The following table sets forth our accrued expenses and other payables as of the dates indicated:

	As of March 31,		
	2014	2015	2016
	<i>(in JPY thousands)</i>		
Payables for purchase of property, plant and equipment. . .	28,848	21,996	51,765
Advances from customers	199,046	183,004	173,814
Staff payroll and welfare payables	503,442	746,162	245,344
Other tax payables	143,550	114,148	107,515
Other payables and accruals.	586,121	485,655	684,897
Total accrued expenses and other payables	1,461,007	1,550,965	1,263,335

During the Track Record Period, we incurred accrued expenses and other payables in connection with various aspects of our operations, including purchases of property, plant and equipment, receipt of prepayments from our distributors or individual customers who ordered customized golf clubs, staff salary and welfare payables and tax payables.

Accrued expenses and other payables increased by 6.2% from JPY1,461.0 million as of March 31, 2014 to JPY1,551.0 million as of March 31, 2015 primarily due to (i) an increase of JPY242.7 million in staff payroll and welfare payables, partially offset by (i) a decrease of JPY29.4 million in other tax payables, and (ii) a decrease of JPY100.5 million in other payables and accruals.

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Accrued expenses and other payables decreased by 18.5% from JPY1,551.0 million as of March 31, 2015 to JPY1,263.3 million as of March 31, 2016 primarily due to (i) a decrease of JPY500.8 million in staff payroll and welfare payables, partially offset by (i) an increase of JPY199.2 million in other payables and accruals and (ii) an increase of JPY29.8 million in payables for purchases of property, plant and equipment.

NET EMPLOYEE DEFINED BENEFIT LIABILITIES

Honma Japan’s defined benefit plan is a funded post-employment benefit plan, which requires contributions to be made to a separately administered fund. Net employee defined benefit liability is the balance of defined benefit obligation at present value after netting off the fair value of plan assets the Group participated in. The table below sets forth net employee defined benefit liability as of the dates indicated.

	As of March 31,		
	2014	2015	2016
	<i>(in JPY thousands)</i>		
Defined benefit obligation	3,860,344	3,973,640	4,249,284
Fair value of plan assets	(1,856,168)	(2,160,851)	(2,150,405)
Net employee defined benefit liability	<u>2,004,176</u>	<u>1,812,789</u>	<u>2,098,879</u>

Net balance of employee defined benefit liability increased from JPY1.8 billion as of March 31, 2015 to JPY2.1 billion as of March 31, 2016 mainly due to increase in balance of defined benefit obligation as a result of the decrease in discount rate in Japan during the year ended March 31, 2016.

Net employee defined benefit liability increased from JPY2.1 billion as of March 31, 2016 to JPY2.2 billion as of June 30, 2016 mainly due to increase in balance of defined benefit obligation and decrease in fair value of plan assets.

Under the plan, the employees of Honma Japan are entitled to retirement benefits on attainment of a retirement age of 60. Our obligation under the plan and the corresponding net employee defined benefit liability become due to the extent employees reach the retirement age.

The cost of these post-retirement benefits has been recorded throughout the service periods of the employees until their respective retirement. As a result, there will be no material impact to profit or loss account of the Company at the respective due time of these liabilities when the employees reach the retirement age of 60. For details of the total expenses recognized in respect of the plan throughout the Track Record Period, please refer to page I-31 and page I-47 of the Accountants’ Report set forth in Appendix I to this document for discussion of the abovementioned cost.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. We also have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners’ equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have significant contingent liabilities.

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RELATED PARTY TRANSACTIONS

For a discussion of related party transactions, see note 35 to the Accountants’ Report set forth in Appendix I to this document.

Our Reorganization was completed in July 2014. From April 2013 to the completion of the Reorganization in July 2014, we sold JPY867.6 million worth of products to Honma Shanghai at prices similar to those offered to third-party distributors. During the Track Record Period, our management observed no material differences between the selling prices and gross profit margins of comparable products sold to Honma Shanghai and of those to third-party distributors. Our management is therefore of the view that transactions with Honma Shanghai were conducted on arm’s length basis and such transactions are unlikely to give rise to transfer price tax liability from a Japanese and Chinese tax perspective.

Our Directors confirm that the lending of US\$6.3 million to Honma Shanghai in connection with the Ping An Transaction was carried out on an arm’s length basis and did not cause any distortion of our results of operations or make our historical results not reflective of our performance during the Track Record Period.

Our Directors confirm that although the amounts due to related parties are unsecured and interest free, these amounts arose primarily as a result of the Restructuring and did not cause any distortion of our results of operations or make our historical results not reflective of our performance during the Track Record Period.

As of March 31, 2016, we had JPY7,379.8 million due to related parties and JPY795.3 million due from Honma Shanghai, a related party. Amounts due from a related party was fully repaid in June 2016. We expect all amounts due to related parties to be fully repaid prior to the [REDACTED].

PROPERTY INTERESTS AND PROPERTY VALUATION

AVISTA Valuation Advisory Limited, an independent property valuer, has valued our property interests in Japan as of June 30, 2016 and is of the opinion that the market value of our property interests as at such date was JPY2,947.3 million. The texts of its letter, summary of values and valuation certificates are set out in Appendix III to this document.

A reconciliation of the net book value of property interests as of March 31, 2016 to their market value as of June 30, 2016 as stated in Appendix III to this document is as follows:

	<i>JPY thousands</i>
Net book value of property interests as at March 31, 2016	
Building	1,058,010
Freehold land	1,940,789
	<u>2,998,799</u>
 Movement for the period from March 31, 2016 to June 30, 2016	
Less: depreciation during the period (unaudited)	(23,743)
Net book value as at June 30, 2016 (unaudited)	2,975,056
Less: valuation deficit (unaudited)	(27,786)
Market value of property interests as at June 30, 2016	<u><u>2,947,270</u></u>

The Directors are of the view that even though the market value of the property interests fell below the net book value by JPY27.8 million or 0.9%, the deficit is of no risk concern based on the annual impairment test results on the Company’s tangible and intangible assets.

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NO OTHER OUTSTANDING INDEBTEDNESS

Save as disclosed in “— Indebtedness”, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities or any covenant in connection therewith as of July 31, 2016, being our indebtedness statement date. After due and careful consideration, our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our indebtedness since July 31, 2016.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

A substantial portion of our operation is based in Japan, and a substantial portion of our revenue and expenditures transactions are denominated and settled in JPY. As a result, our foreign exchange risk is limited.

Our exposures to foreign currency risk arise from sales or purchases by operating units in currencies other than the units’ functional currencies. Approximately 23.7%, 22.1% and 22.6% of our sales for the years ended March 31, 2014, 2015 and 2016, respectively, were denominated in currencies other than the functional currencies of the operating units making the sale, while approximately 27.4%, 27.0% and 34.4% of purchases for the years ended March 31, 2014, 2015 and 2016, respectively, were denominated in currencies other than the functional currencies of the operating units making the purchases.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign exchange rate based on the historical fluctuation in the applicable period, with all other variables held constant, of the Company’s profit before tax (as a result of changes in the fair value of monetary assets and liabilities):

	Average exchange rate	Percentage of USD strengthens (weakens) against JPY	Increase/ (decrease) in profit before tax	Increase/ (decrease) in profit before tax
	<i>(USD1.00: JPY)</i>	<i>(%)</i>	<i>(in JPY thousands)</i>	<i>(%)</i>
Year ended March 31, 2014	100.22	20.7	48,898	1.8
Year ended March 31, 2015	109.92	9.7	26,555	1.3
Year ended March 31, 2016	120.06	9.2	(47,935)	(1.2)

The decrease in profit before tax if USD strengthens against JPY as at March 31, 2016 was mainly due to the Company’s net USD liabilities position, while increase in profit before tax if USD strengthens against JPY as at March 31, 2014 and March 31, 2015 was mainly due to the Company’s net USD assets position.

FINANCIAL INFORMATION

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of our profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/(decrease) in rate of foreign currency	Increase/(decrease) in profit before tax	Increase/(decrease) in profit before tax
	(%)	(in JPY thousands)	(%)
Year ended 31 March 2014			
If USD strengthens against JPY	5	11,794	0.4
If USD weakens against JPY	(5)	(11,794)	(0.4)
Year ended 31 March 2015			
If USD strengthens against JPY	5	13,727	0.7
If USD weakens against JPY	(5)	(13,727)	(0.7)
Year ended 31 March 2016			
If USD strengthens against JPY	5	(25,967)	(0.7)
If USD weakens against JPY	(5)	25,967	0.7

Credit Risk

We trade only with recognized and creditworthy third parties. It is our policy that all distributors who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

The credit risk of our other financial assets, which comprise cash and cash equivalents, amount due from a related party, prepayment, deposit and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since we trade only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. We have no significant concentrations of credit risk as our customer bases’ trade receivables are widely dispersed in different regions.

Further quantitative data in respect of our exposure to credit risk arising from trade and bills receivables, see note 22 to the Accountants’ Report set forth in Appendix I to this document.

Liquidity Risk

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of our financial assets (e.g., trade receivables, other financial assets) and projected cash flows from operations.

We maintain a balance between continuity of funding and flexibility through the use of interest-bearing loans and borrowings.

FINANCIAL INFORMATION

The maturity profile of our financial liabilities as at March 31, 2014, 2015 and 2016, based on contractual undiscounted payments, is as follows:

Year ended March 31, 2014				
	On demand	Less than 1 year	Over 1 year	Total
	<i>(in JPY thousands)</i>			
Trade and bills payables	—	818,656	—	818,656
Other payables and accruals	614,969	—	—	614,969
Interest-bearing bank borrowings	—	507,379	—	507,379
Other non-current liabilities	14,251	—	—	14,251
Due to related parties	2,404,335	—	—	2,404,335
	<u>3,033,555</u>	<u>1,326,035</u>	<u>—</u>	<u>4,359,590</u>
Year ended March 31, 2015				
	On demand	Less than 1 year	Over 1 year	Total
	<i>(in JPY thousands)</i>			
Trade and bills payables	—	1,324,385	—	1,324,385
Other payables and accruals	507,651	—	—	507,651
Interest-bearing bank borrowings	—	506,375	—	506,375
Other non-current liabilities	18,350	—	—	18,350
Due to related parties	8,331,909	—	—	8,331,909
	<u>8,857,910</u>	<u>1,830,760</u>	<u>—</u>	<u>10,688,670</u>
Year ended March 31, 2016				
	On demand	Less than 1 year	Over 1 year	Total
	<i>(in JPY thousands)</i>			
Trade and bills payables	—	1,382,207	—	1,382,207
Other payables and accruals	736,662	—	—	736,662
Interest-bearing bank borrowings	—	1,718,455	—	1,718,455
Other non-current liabilities	14,235	—	—	14,235
Due to related parties	7,379,755	—	—	7,379,755
	<u>8,130,652</u>	<u>3,100,662</u>	<u>—</u>	<u>11,231,314</u>

Capital Management

Our primary capital management objectives are to safeguard our ability to continue as a going concern and to maintain healthy debt to equity ratio in order to support our business and maximize shareholders’ value.

We manage our capital structure and make adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, we may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. We are not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended March 31, 2014, 2015 and 2016.

FINANCIAL INFORMATION

We monitor capital using a debt to equity ratio, which is interest-bearing bank borrowings divided by total equity. The debt to equity ratios as at the end of the reporting periods were as follows:

	As of March 31,		
	2014	2015	2016
	<i>(in JPY thousands, except for percentages)</i>		
Interest-bearing bank borrowings	500,000	500,000	1,707,554
Total equity	8,608,846	3,515,792	5,527,297
Debt to equity ratio	5.8%	14.2%	30.9%

[REDACTED] EXPENSES

Our estimated total [REDACTED] expenses (based on the mid-point of our indicative [REDACTED] for the [REDACTED] and assuming that the [REDACTED] is not exercised and all discretionary incentive fees in the [REDACTED] are paid in full) incurred or to be incurred in relation to the [REDACTED] are approximately JPY[REDACTED] million, of which JPY[REDACTED] million was or will be charged as administrative expenses to our consolidated statement of profit or loss and JPY[REDACTED] million was or will be charged against equity, in accordance with International Accounting Standard 32, *Financial Instruments: Presentation* (“IAS 32”). Pursuant to such accounting standard, expenses that are incremental and directly attributable to the [REDACTED] of new Shares are accounted for as a deduction from equity upon the [REDACTED] and issuance of new Shares. The expenses, which do not relate to the [REDACTED] of new Shares are charged to the consolidated statement of profit or loss and other comprehensive income as incurred. Expenses that relate jointly to the [REDACTED] of new Shares and the [REDACTED] of existing Shares are allocated between these activities based on the proportion of the number of new Shares issued relative to the total number of Shares in issue and [REDACTED] on the Stock Exchange.

In the year ended March 31, 2016, we recognized approximately JPY224.0 million of [REDACTED] expenses as expenses, all of which was recognized as administrative expenses in our consolidated income statement for the year ended March 31, 2016.

We expect to incur an additional JPY[REDACTED] million of [REDACTED] expenses (based on the mid-point of our indicative [REDACTED] for the [REDACTED] and assuming that the [REDACTED] is not exercised and all discretionary incentive fees in the [REDACTED] are paid in full) after March 31, 2016, of which JPY[REDACTED] million is expected to be recognized as administrative expenses for the year ended March 31, 2017 and JPY[REDACTED] million is expected to be recognized as a deduction against equity directly in accordance with IAS 32, pursuant to which those expenses that are directly attributable to the issue of new Shares are accounted for as a deduction from equity and the expenses that relate jointly to the issue of new Shares and the [REDACTED] of existing Shares are allocated between these activities based on the proportion of the number of new Shares issued relative to the total number of Shares in issue and [REDACTED] on the Stock Exchange.

DIVIDEND POLICY

We may distribute dividends by way of cash or by other means that we consider appropriate. Our Directors currently intend to declare a dividend of no less than 30% of our distributable profit for any particular financial year. Such intention does not amount to any guarantee, representation or indication that we must or will declare and pay dividends in such manner or at all. A decision to declare and pay any dividends would require the approval of the Board and will be at its discretion, subject to applicable laws. In addition, any final dividend for a financial year will be subject to Shareholders’ approval. The Board will review dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our results of operations;

FINANCIAL INFORMATION

- our cash flows;
- our financial condition;
- our Shareholders’ interests;
- general business conditions and strategies;
- our capital requirements;
- the payment by our subsidiaries of cash dividends to us; and
- other factors the Board may deem relevant.

During the years ended March 31, 2014, 2015 and 2016, we paid JPY1,000.0 million, JPY463.3 million and JPY1,235.0 million of dividends, respectively.

DISTRIBUTABLE RESERVES

As of March 31, 2016, our consolidated reserves available for distribution to shareholders of the Company amounted to JPY4,585.8 million. Such reserves are maintained by several subsidiaries of ours, and the distributions of such reserves to our Company at the Cayman Islands level are subject to restrictions and requirements of the local regulation applicable to such subsidiaries. The Companies Law provides that the share premium account of a company incorporated in the Cayman Islands, such as our Company, may be applied in such manner as it may from time to time determine, subject to the provisions, if any, of its memorandum and articles of association, provided that no distribution or dividend may be paid to its shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, such company shall be able to pay its debts as they fall due in the ordinary course of business.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial and trading position or prospects since March 31, 2016, and there is no event since March 31, 2016 which would materially affect the information shown in the Accountants’ Report, the text of which is set out in Appendix I to this document.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma data relating to our net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is to illustrate the effect of the [REDACTED] on our net tangible assets as at March 31, 2016 as if the [REDACTED] had taken place on that date. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of

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its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to the owners of the Company as at March 31, 2016 or any subsequent dates, including following the [REDACTED].

	Audited consolidated net tangible assets of our Group attributable to the owners of the Company as at March 31, 2016	Estimated net proceeds from the [REDACTED]	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of the Company	Unaudited pro forma adjusted net tangible assets per Share
	JPY in million (Note 1)	JPY in million (Note 2)	JPY in million (Note 3)	JPY (Note 4) HK\$ equivalent (Note 5)
Based on an [REDACTED] of HK\$[REDACTED] per Share	5,804.0	[REDACTED]	[REDACTED]	[REDACTED] [REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per Share	5,804.0	[REDACTED]	[REDACTED]	[REDACTED] [REDACTED]

Notes:

1. The consolidated net tangible assets of our Group attributable to owners of the Company as of 31 March 2016 is extracted from “Appendix I — Accountants’ Report” to this document, which is based on the audited consolidated equity attributable to owners of the Company as of 31 March 2016 of JPY5,954.1 million less intangible assets as of 31 March 2016 of JPY150.1 million.
2. The estimated net proceeds from the [REDACTED] are based on estimated [REDACTED] of HK\$[REDACTED] or HK\$[REDACTED] per Share after deduction of the [REDACTED] and other related expenses payable by our Company and takes no account of any Shares which may be issued upon the exercise of the [REDACTED].
3. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company does not take into account a dividend of JPY1,995 million paid by the Company in May 2016. Had the dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED]) and HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED]), respectively.
4. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares are in issue assuming the [REDACTED] has been completed on 31 March 2016 and an [REDACTED] of HK\$[REDACTED] per Share, being the low end of the [REDACTED] range, and [REDACTED] Shares are in issue assuming that the [REDACTED] has been completed on 31 March 2016 and an [REDACTED] of HK\$[REDACTED] per Share, being the high end of the [REDACTED] range, excluding Shares which may be issued upon the exercise of the [REDACTED].
5. The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.00 to JPY13.19.
6. No adjustment has been made to reflect any trading results or other transactions of our Group entered into subsequent to 31 March 2016.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

As of the Latest Practicable Date, our Directors confirmed that there are no circumstances that will give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO SIGNIFICANT INTERRUPTIONS

Our Directors confirm that there have been no interruptions in our business that may have a material adverse effect on our financial position and results of operations in the 12 months period prior to the Latest Practicable Date.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised and without taking into account Shares which may be issued upon the exercise of additional RSUs which may be further granted under the RSU Scheme and options which may be granted under the Post-[REDACTED] Share Option Scheme), Chairman Liu will, through his holding company, Kouunn Holdings, hold and be entitled to exercise in general meetings voting rights attached to Shares representing approximately [REDACTED]% of the issued share capital of our Company. Accordingly, Chairman Liu and Kouunn Holdings will continue to be our Controlling Shareholders under the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Each of our Controlling Shareholders and Directors confirms that he/it does not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from our Controlling Shareholders and their respective close associates after the [REDACTED].

Management Independence

The Board comprises four executive Directors and three independent non-executive Directors. Although Chairman Liu is an executive Director and also a Controlling Shareholder and the sole director of Kouunn Holdings, our management and operational decisions are made by all our executive Directors and senior management, most of whom have served our Group for a long time and all of whom have substantial experience in the industry in which we are engaged and/or in their respective fields of expertise. The balance of power and authority is ensured by the operation of the senior management and our Board. See “Directors and Senior Management” for further details.

Each of our Directors is aware of his fiduciary duties as a Director which require, among others, that he must act for the benefit of and in the best interests of our Company and not allow any conflict between his duties as a Director and his personal interests. Further, we believe our independent non-executive Directors will bring independent judgment to the decision-making process of our Board. See “— Corporate Governance Measures” for further details.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team is able to perform the managerial role in our Group independently.

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the [REDACTED], we have full rights to make all decisions regarding, and to carry out, our own business operations independently. Our Company (through our subsidiaries) holds or enjoys the benefit of all relevant licenses necessary to carry on our businesses, and has sufficient capital, equipment, access to customers and suppliers, and employees to operate our business independently from our Controlling Shareholders. In addition, our organizational structure is made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal control measures to facilitate the effective operation of our business.

Apart from the transaction set out in the section headed “Connected Transactions,” our Directors do not expect that there will be any other significant transactions between our Group and our Controlling Shareholders upon or shortly after the [REDACTED].

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders and their respective close associates during the Track Record Period and will continue to operate independently.

Financial Independence

Our Group has our own internal control, accounting and financial management system, accounting and finance department, independent treasury functions for cash receipts and payment and we make financial decision according to our own business needs.

Our Controlling Shareholders have provided a loan in connection with the Reorganization and certain advances to our Group, which we expect to repay prior to [REDACTED] with proceeds from a commercial bank loan together with our general working capital. Save for the foregoing, our Directors confirmed that, as at the date of this document, there are no subsisting loans, guarantees or pledges provided by our Controlling Shareholders and/or their respective close associates to our Group.

We do not rely on our Controlling Shareholders and/or their respective close associates to provide financial assistance to our Group. We have independent access to third-party financing and our Directors believe that, if necessary, we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders has confirmed that it/he fully comprehends its/his obligations to act in our Shareholders' and our best interests as a whole. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (a) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provide that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the board meetings on matters in which such Director or his/her close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- (c) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in “Directors and Senior Management — Directors — Independent Non-executive Directors;”

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (d) in the event that the independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group on the one hand and our Controlling Shareholders and/or our Directors on the other hand, our Controlling Shareholders and/or our Directors shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either through our annual report or by way of announcements; and
- (e) we have appointed Guotai Junan Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and corporate governance.

CONNECTED TRANSACTIONS

Upon [REDACTED], we will continue to carry out the transaction with our connected person as described in “— Fully-exempt Continuing Connected Transaction” below. Such transaction will therefore constitute a continuing connected transaction of our Group under Chapter 14A of the Listing Rules.

CONNECTED PERSONS

The following persons, among others, will be our connected persons upon [REDACTED]:

- Chairman Liu, an executive Director and a substantial Shareholder and hence our connected person; and
- Shanghai POVOS Enterprise (Group) Co. Ltd. (上海奔騰企業(集團)有限公司) (“Shanghai POVOS”), a limited liability company established in the PRC, in which Chairman Liu directly owns 100% of the equity interest, and hence an associate of Chairman Liu and our connected person.

Accordingly, the transaction described in “— Fully-exempt Continuing Connected Transaction,” which will continue after [REDACTED], will constitute a continuing connected transaction of our Group under Chapter 14A of the Listing Rules.

FULLY-EXEMPT CONTINUING CONNECTED TRANSACTION

Our Group has entered into the following transaction on normal commercial terms. Since the highest relevant “percentage ratio” (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules is expected to be less than 5% and the total consideration is expected to be less than HK\$3,000,000, in each case on an annual basis, the transaction will be exempt from the annual review, annual reporting, announcement, circular (including independent financial advice) and independent Shareholders’ approval requirements pursuant to Rule 14A.76(1) of the Listing Rules.

Parties:	Shanghai POVOS (as the lessor); and WP International Trading (as the lessee).
Principal terms:	We entered into a property lease agreement with Shanghai POVOS dated December 31, 2013, pursuant to which we agreed to rent our Shanghai office premises with gross floor area of 278 square meters from Shanghai POVOS at a rent of RMB1.5 million, RMB1.75 million and RMB1.75 million per annum for 2014, 2015 and 2016, respectively. On June 6, 2016, we entered into a renewal agreement to renew the lease for a term of three years commencing on January 1, 2017 at a rent of RMB1.75 million per annum. The property lease agreement and the renewal agreement (together, the “Property Lease Agreements”) were entered into on normal commercial terms. Our Directors are of the view that the long term nature of the Property Lease Agreements are to secure a location for our Shanghai office at a fair market price and to prevent unnecessary effort and time caused by relocation in the case of short term leases.
Pricing policy:	As confirmed by AVISTA Valuation Advisory Limited, an independent valuer, the rent payable to Shanghai POVOS under the Property Lease Agreements is consistent with the market rent for similar premises in similar locations.

CONNECTED TRANSACTIONS

Reasons for the transaction: Certain of our senior management and employees are based in Shanghai. We consider the premises rented by us under the Property Lease Agreements to be suitable for use as our Shanghai office in terms of size, location and cost.

Historical figures: The historical figures of the amount of rent paid to Shanghai POVOS are set out below:

Historical Transaction Amount for the Year Ended March 31,			
	2014	2015	2016
	(JPY '000)		
Total rent	5,934	27,993	32,270

Annual caps: The amount of rent payable to Shanghai POVOS will be RMB1.75 million per year for 2017, 2018 and 2019.

Basis of caps: In determining the above annual caps, our Directors have considered the market rent for similar premises in similar locations.

DIRECTORS’ VIEW

As confirmed by AVISTA Valuation Advisory Limited, an independent valuer, the rent payable by us under the Property Lease Agreements is fair and reasonable and consistent with the market rent for similar premises in similar locations. As such, the Directors (including the independent non-executive Directors) are of the opinion that the Property Lease Agreements have been entered into in the ordinary and usual course of business of the Group on normal commercial terms, and that the terms of the Property Lease Agreements (including the proposed annual caps) are fair and reasonable and in the interest of the Shareholders as a whole.

The conflicted Directors shall be required to be absent from participation and abstain from voting in the Board meetings at which resolutions in relation to any connected transactions involving the companies or individuals which are associates of such conflicted Directors are discussed.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized share capital of our Company as of the Latest Practicable Date and immediately following the completion of the [REDACTED]:

Authorized share capital

Shares	Description	Nominal value	Total nominal value
50,000	As of the Latest Practicable Date	US\$1.00	US\$50,000
[REDACTED]	After the completion of the Share Subdivision and the Capitalization Issue and immediately following the [REDACTED]	US\$[REDACTED]	US\$[REDACTED]

The following is a description of the issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the [REDACTED]:

Issued share capital

As of the Latest Practicable Date

Shares	Nominal value	Total nominal value
1,000	US\$1.00	1,000

Immediately after the completion of the [REDACTED] and before any exercise of the [REDACTED]

Shares	Description of Shares	Nominal value	Total nominal value
[REDACTED]	Shares in issue after the Share Subdivision	US\$[REDACTED]	US\$[REDACTED]
[REDACTED]	Shares issued pursuant to the Capitalization Issue	US\$[REDACTED]	US\$[REDACTED]
[REDACTED]	Shares to be issued pursuant to the [REDACTED]	US\$[REDACTED]	US\$[REDACTED]
[REDACTED]	Total	—	US\$[REDACTED]

ASSUMPTIONS

The above table assumes that the [REDACTED] becomes unconditional and the Shares are issued pursuant to the [REDACTED]. The above does not take into account any shares which may be issued pursuant to the exercise of the [REDACTED] or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks pari passu with the other shares.

Pursuant to the Cayman Companies Law and the terms of our Memorandum and Articles of Association, our Company may from time to time by ordinary shareholders’ resolution (i) increase its authorized share capital; (ii) consolidate and divide its share capital into shares of larger amount; (iii) subdivide its shares into shares of smaller amount; and (iv) cancel any shares which have not been taken. In addition, our Company may reduce its share capital by shareholders’ special resolution, subject to confirmation by the Grand Court of the Cayman Islands. For more details, please see “Summary of the Constitution of our Company and Cayman Companies Law — Summary of the Constitution of the Company — 2. Articles of Association — 2.5 Alteration of Capital” in Appendix IV.

Pursuant to the Cayman Companies Law and the terms of our Memorandum and Articles of Association, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For more details, please see “Summary of the Constitution of our Company and Cayman Companies Law — Summary of the Constitution of the Company — 2. Articles of Association — 2.4 Variation of Rights of Existing Shares or Classes of Shares” in Appendix IV.

GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES

Subject to the conditions stated in “Structure of the [REDACTED] — Conditions of the [REDACTED],” our Directors have been granted general unconditional mandates to issue and repurchase our Shares.

For further details of these general mandate, please see “Statutory and General Information — A. Further Information about Our Group — 3. Resolutions in Writing of the Shareholders of Our Company Passed on [September 18, 2016]” in Appendix V.

POST-[REDACTED] SHARE OPTION SCHEME

We have conditionally adopted the Post-[REDACTED] Share Option Scheme. The principal terms of the Post-[REDACTED] Share Option Scheme are summarized in “Statutory and General Information — D. Share Incentive Scheme — 3. Post-[REDACTED] Share Option Scheme” in Appendix V.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, after the completion of the Share Subdivision and the Capitalization Issue and immediately following the completion of the [REDACTED] and assuming that the [REDACTED] is not exercised and without taking into account any Shares which may be issued upon the exercise of additional RSUs which may be further granted under the RSU Scheme and options which may be granted under the Post-[REDACTED] Share Option Scheme, the following persons will have an interest or a short position in the Shares which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Nature of interests ⁽¹⁾	Shares held immediately following the completion of the [REDACTED]	
		Number	Percentage ⁽²⁾
Chairman Liu ⁽³⁾	Interest in controlled corporation	[REDACTED]	[REDACTED]
	Beneficial owner	[REDACTED]	[REDACTED]
Kouunn Holdings ⁽³⁾	Beneficial owner	[REDACTED]	[REDACTED]
Ms. Huang Wenhuan (黃文歡) ⁽⁴⁾ . . .	Interest of spouse	[REDACTED]	[REDACTED]
Fosun International Limited ⁽⁵⁾	Interest in controlled corporation	[REDACTED]	[REDACTED]
Fosun ⁽⁵⁾	Beneficial owner	[REDACTED]	[REDACTED]

Notes:

- (1) All interests stated are long positions.
- (2) The calculation is based on the total number of [REDACTED] Shares in issue after the completion of the Share Subdivision and the Capitalization Issue and immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised and without taking into account any Shares which may be issued upon the exercise of additional RSUs which may be further granted under the RSU Scheme and options which may be granted under the Post-[REDACTED] Share Option Scheme).
- (3) Chairman Liu is the sole beneficial owner of Kouunn Holdings. By virtue of the SFO, Chairman Liu is deemed to be interested in the Shares held by Kouunn Holdings. Chairman Liu is also interested in [REDACTED] RSUs granted to him under the RSU Scheme entitling him to receive [REDACTED] Shares subject to vesting.
- (4) Ms. Huang Wenhuan (黃文歡) is the wife of Chairman Liu and, by virtue of the SFO, is deemed to be interested in the Shares in which Chairman Liu is interested.
- (5) Fosun International Limited is the sole beneficial owner of Fosun. By virtue of the SFO, Fosun International Limited is deemed to be interested in the Shares held by Fosun.

Other than as disclosed above, the substantial shareholders are not related to one another.

Save as disclosed above and in the section headed “Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 1. Disclosure of Interests” in Appendix V, our Directors are not aware of any person who will, after the completion of the Share Subdivision and the Capitalization Issue and immediately following the completion of the [REDACTED] and assuming that the [REDACTED] is not exercised and without taking into account any Shares which may be issued upon the exercise of additional RSUs which may be further granted under the RSU Scheme and the options which may be granted under the Post-[REDACTED] Share Option Scheme, have an interest or a short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Directors

The following table sets forth certain information regarding our Directors:

Name	Age	Position(s)	Date of Joining the Group	Date of Appointment	Roles and Responsibilities	Relationship with Other Directors or Senior Management Members
Mr. Liu Jianguo (劉建國)	47	Chairman of the Board, President and Executive Director	June 1, 2010	June 14, 2016	Formulating the overall development strategies and business plans of our Group and overseeing the management and strategic development of our Group	None
Mr. Ito Yasuki (伊藤 康樹)	55	Executive Director, Chief Marketing Officer and President of Japan Operations	April 1, 1985	June 14, 2016	Overseeing the marketing strategies and operations of our Group and overseeing our business in Japan	None
Mr. Murai Yuji (邨井 勇二)	56	Executive Director and Chief Sales Officer	April 1, 1983	June 14, 2016	Overseeing the sales strategies and operations of our Group	None
Mr. Zuo Jun (左軍)	43	Executive Director, Chief Administrative Officer and President of China Operations	February 27, 2015	June 14, 2016	Overseeing the administrative management of our Group and overseeing our business in the PRC	None
Mr. Lu Pochin Christopher (盧伯卿)	57	Independent Non-executive Director	September 18, 2016	September 18, 2016	Providing independent advice and judgment to our Board	None
Mr. Wang Jianguo (汪建國)	56	Independent Non-executive Director	September 18, 2016	September 18, 2016	Providing independent advice and judgment to our Board	None
Mr. Xu Hui (徐輝)	43	Independent Non-executive Director	September 18, 2016	September 18, 2016	Providing independent advice and judgment to our Board	None

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Our senior management team, in addition to the executive Directors listed above, comprises the following:

Name	Age	Position(s)	Date of Joining the Group	Date of Appointment	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
Mr. Suwa Hiroshi (諏訪 博士)	60	Managing Executive Officer of Product Development	June 12, 1978	June 14, 2016	Overseeing the research and development of our Group's products	None
Mr. Ueda Kenji (上田 健次)	59	Executive Officer of Production	August 9, 2010	June 14, 2016	Overseeing the production process and quality control of our Group	None
Ms. Bian Weiwen (邊蔚文)	46	Chief Financial Officer	November 1, 2015	June 14, 2016	Overseeing the overall financial management of our Group	None

DIRECTORS

The Board currently consists of seven Directors, comprising four executive Directors and three independent non-executive Directors. The functions and duties of the Board include convening general meetings, implementing the resolutions passed at general meetings, determining business and investment plans, formulating our annual financial budget and financial accounts, and formulating our proposals for profit distributions as well as exercising other powers, functions and duties as conferred by the Articles of Association.

Executive Directors

Mr. Liu Jianguo (劉建國), aged 47, is our Chairman, President and executive Director. He is the chairman of the Nomination Committee of the Company. He is also chairman and representative director of Honma Japan and director of Honma Holdings. He is responsible for formulating the overall development strategies and business plans of our Group and overseeing the management and strategic development of our Group. Chairman Liu acquired our Group in 2010 as further described in the section headed “Our History — The New Chapter: Reinventing HONMA” and he has served as chairman of Honma Japan since June 2010. Chairman Liu has over 25 years of experience in business management. He has been the chairman of Shanghai POVOS Enterprise (Group) Co., Ltd. (上海奔騰企業(集團)有限公司), which is engaged in the development, manufacturing and marketing of household appliance products, since January 2002 and has been chairman of Zhejiang POVOS Appliance Co., Ltd. (浙江奔騰電器股份有限公司) since September 2000. From May 1991 to August 2000, Chairman Liu was the general manager of Zhejiang Changjiang Electronical Industry Co., Ltd. (浙江長江電子工業有限公司), where he was responsible for general management and daily operations of the company. Chairman Liu obtained an executive master of business administration degree from Guanghua School of Management, Peking University (北京大學), PRC, in January 2007.

Mr. Ito Yasuki (伊藤 康樹), aged 55, was appointed as our executive Director, Chief Marketing Officer and President of Japan Operations on June 14, 2016. He is mainly responsible for overseeing the marketing strategies and operations of our Group and overseeing our business in Japan. Mr. Ito has also served as president and representative director of Honma Japan since December 21, 2015, and as the director of the Marketing Division and the Third Overseas Sales Division since February 1, 2016. Mr. Ito joined our Group on April 1, 1985 and has served us for more than 31 years, during which he has gained extensive experience in the marketing of golf products. In February 1990, he joined as the senior staff of

DIRECTORS AND SENIOR MANAGEMENT

Ogikubo Office (荻窪營業所), and in April 1997, he became the manager of the Second Section of the First Department of the Sales Division. After that, he served in various positions in the Group, including as the deputy director of the Fifth Department of the Sales Division from May 2002 to March 2006, as the director of various sales and planning departments from April 2007 to April 2011, as the operating director of the Marketing Division from May 2011 to March 2014, and as the managing operating director of the Marketing Division from April 2014 to December 2015. Mr. Ito obtained a bachelor’s degree in business from Seikei University, Japan, in March 1985.

Mr. Murai Yuji (邨井 勇二), aged 56, was appointed as our executive Director and Chief Sales Officer of the Group on June 14, 2016. He is mainly responsible for overseeing the sales strategies and operations of our Group. Since February 1, 2016, Mr. Murai has also been the managing operating director of the Domestic Sales Division, as well as the managing operating director and head of the First Overseas Sales Division. Mr. Murai joined our Group in April 1983 and has served us for more than 33 years, during which he has gained extensive experience in the sales operations of golf products. Mr. Murai served as the deputy manager of various sales departments from April 1992 to March 1997. He was deputy director of the First Department of the Sales Division as well as deputy director of the Construction Department from April 1997 to March 2001, and deputy director and director of the Overseas Sales Department of the Sales Division from April 2001 to March 2007. From April 2007 to March 2009, Mr. Murai served as operating director of the Overseas Sales Division. Thereafter, he served as the operating director of the Domestic Sales Division from April 2009 to April 2011, as the operating director of the Sales Division from May 2011 to March 2012, and back to the position of operating director of the Domestic Sales Division from April 2012 to March 2014. Mr. Murai then served as the managing operating director of the Domestic Sales Division from April 2014 to January 2016. Mr. Murai obtained a bachelor’s degree in political economics from Nihon University, Japan, in March 1983.

Mr. Zuo Jun (左軍), aged 43, was appointed as our executive Director, Chief Administrative Officer and President of China Operations on June 14, 2016. He is primarily responsible for overseeing the administrative management of our Group and overseeing our business in the PRC. Mr. Zuo has been the president of WP International Trading since he joined our Group in February 2015 and a director of Honma Japan since June 2015. Mr. Zuo has nearly 20 years of experience in business management and operations. Prior to joining our Group, Mr. Zuo was a vice president of POVOS Electrical Appliance (Shanghai) Co., Ltd. (奔騰電器(上海)有限公司), a comprehensive high-tech enterprise which centers on development, manufacture and distribution of household electrical appliance, from March 2009 to December 2014. He was deputy general manager at TCL Household Appliance (Nanhai) Company (TCL小家電(南海)有限公司) from June 2006 to September 2008. From September 2004 to June 2006, he served as general manager of Shunde Ecom Intelligent Household Appliance Co., Ltd. (順德一家智能電器有限公司), a company engaged in intelligent household appliances manufacturing. He worked at Shunde Gree Household Appliance Company (順德格力小家電有限公司) as deputy general manager from June 2002 to June 2004. Mr. Zuo graduated from Central South University (中南大學, formerly known as Central South University of Technology (中南工業大學)), PRC, with a master’s degree in thermal engineering in March 1996.

Independent Non-executive Directors

Mr. Lu Pochin Christopher (盧伯卿), aged 57, was appointed as our independent non-executive Director and chairman of the Audit Committee on September 18, 2016. Mr. Lu worked at Deloitte Touche Tohmatsu for approximately 30 years from 1981, where he served in various positions, including chief executive officer of Deloitte Huayong Certified Public Accountants, managing partner of Eastern China Region, co-chairman of China Service Group, and the managing partner of the client and market strategy department. Mr. Lu is currently an executive director of Foxconn Interconnect Technology Ltd. and since August 2015, Mr. Lu has served as an independent director of Greenland Holdings Corporation Limited, a real property development company which is listed on the Shanghai Stock Exchange (stock code: 600606).

DIRECTORS AND SENIOR MANAGEMENT

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

Mr. Wang Jianguo (汪建國), aged 56, was appointed as our independent non-executive Director on September 18, 2016. Mr. Wang has been the chairman of the Five Star Holdings Group Co., Ltd. (五星控股集團有限公司) since February 2009. Before that, Mr. Wang was the vice president of the Asia-Pacific Region for Best Buy Co., Inc., an American multinational consumer electronics corporation which is listed on the New York Stock Exchange (stock code: BBY). From December 1998 to February 2009, Mr. Wang served as the chairman and president of Jiangsu Five Star Appliance Co., Ltd. (江蘇五星電器有限公司), a company engaged in the sales of appliances. From July 1992 to October 1998, Mr. Wang worked at Jiangsu Wujiaohua Corporation (江蘇省五交化總公司), and served in various positions including manager of comprehensive development, deputy general manager and general manager.

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

Mr. Xu Hui (徐輝), aged 43, was appointed as our independent non-executive Director on September 18, 2016. Mr. Xu has been the general manager of customer services and support of Greater China at Microsoft Corporation since March 2013, and he previously served as vice president of Greater China at Microsoft Corporation. From October 2009 to February 2013, he served in various positions in SAP Beijing Software System Co., Ltd, a multinational software company, including as the sales director, general manager of East and Central China and the vice president of Greater China. Mr. Xu had also held various positions at IBM China Company Limited since November 1996, including its business representative and clusters client unit executive of financial services sector.

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

Save as disclosed above, none of our Directors holds or has held any other directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this document. Please refer to the section headed “Statutory and General Information” in Appendix V for further information about the Directors, including the particulars of their service contracts and remuneration, and details of the interests of the Directors in the Shares (within the meaning of Part XV of the SFO). Save as disclosed herein, there are no other matters in respect of each of our directors that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules and there is no other material matters relating to our directors that need to be brought to the attention of our Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our executive Directors and senior management are responsible for the day-to-day management and operation of our business. Information concerning our executive Directors is shown in “— Directors” above.

Mr. Suwa Hiroshi (諏訪 博士), aged 60, was appointed as our Managing Executive Officer of Product Development on June 14, 2016 and is primarily responsible for overseeing the research and development of our Group’s products. He has been the Managing Executive Officer of Product Development of Honma Japan since April 1, 2014. He has also been the manager of the Sakata Campus since April 2009. Since Mr. Suwa joined our Group in 1978 in the Hawaii factory, he has held the following positions: deputy manager of the Golf Club Manufacturing Section from April 1983 to March 1986; manager of the Golf Club Manufacturing and Assembly Section from April 1986 to January 1990; deputy director of the Golf Club Manufacturing Department from February 1990 to May 1992; deputy director of the Wooden Golf Club Manufacturing Department from June 1992 to September 1996; deputy director of the Product Development Department from October 1996 to April 1998; director of the Product Development Department from May 1998 to June 2005; deputy manager of the Sakata Campus and director of the Product Development Department from June 2005 to March 2006; general manager of the Operational Planning, Product Development and Product Production Division, and deputy manager of the Sakata Campus from March 2006 to March 2007. From April 2007 to March 2014, Mr. Suwa also served as the operating director of the Product Development Division. Prior to joining our Group, Mr. Suwa worked at Oita Tourism Co., Ltd. from April 1974 to March 1978. Mr. Suwa graduated from Oita Prefectural Usuki Commercial High School, Japan, in March 1974.

Mr. Ueda Kenji (上田 健次), aged 59, was appointed as our Executive Officer of Production on June 14, 2016 and is mainly responsible for overseeing the production process and quality control of our Group. Mr. Ueda has been the executive officer of Production of Honma Japan since May 1, 2015 and is also the director of our Golf Club Manufacturing Department and Procurement Department. He joined our Group as operating director of the Manufacturing Division and deputy manager of the Sakata Campus on August 9, 2010. He was appointed as general manager of the Sakata Reform Promotion Office on April 1, 2014. Prior to joining our Group, Mr. Ueda had served as a project manager in Honeywell Japan Co., Ltd., a turbocharger production company, operating officer and director of quality assurance department at Fuji Car Manufacturing Co., Ltd., a company specializing in the manufacturing and selling products of environmental machinery, plant and vehicles, and the director of manufacturing department of Recaro Japan Co., Ltd., an automotive seating manufacturing and selling company, from June 1988 to October 2005. Mr. Ueda graduated from Osaka University, Japan, in March 1980 with a bachelor’s degree in shipbuilding.

Ms. Bian Weiwen (邊蔚文), aged 46, joined our Group on November 1, 2015 and was appointed as the Chief Financial Officer of our Group on June 14, 2016. She is responsible for overseeing the overall financial management of our Group. Ms. Bian has over 23 years of experience in the finance industry. Prior to joining our Group, Ms. Bian served in various positions at Royal Philips Electronics Co., Ltd., which is listed on the New York Stock Exchange (stock code: PHG) and Euronext N.V. (stock code: PHIA), and was the head of Finance of Business Group Domestic Appliance from April 2006 to September 2015. From January 2000 to March 2006, Ms. Bian was senior manager of the Project & Trade Finance Unit of the Corporate Finance Department at ThyssenKrupp AG, a diversified industrial group which is listed on Frankfurt Stock Exchange (stock code: DE 000 750 0001), where her responsibilities included the arrangement and execution of project financing for major projects in various areas of the group. Ms. Bian served as associate director of the Structured Finance and Advisory Department of UBS Warburg Deutschland from September 1997 to September 1999. From April 1994 to September 1997, she was an associate at Credit Suisse First Boston, working in its China and Germany offices. Ms. Bian graduated from Fudan University (復旦大學), PRC, with a bachelor’s degree in international finance in July 1992. She was presented with the Magnolia Silver Award by the Shanghai Municipal People’s Government in September 2011.

DIRECTORS AND SENIOR MANAGEMENT

None of our senior management members holds or has held any directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this document.

COMPANY SECRETARY

Ms. Cheng Pik Yuk (鄭碧玉), alias Patsy Cheng, has been appointed as our company secretary with effect from [REDACTED]. Ms. Cheng is a director of corporate services of Tricor Services Limited. Ms. Cheng has over 30 years of experience in the corporate secretarial field, providing professional corporate secretarial services to listed companies as well as multi-national, private and offshore companies. She is currently the company secretary / joint company secretary / assistant company secretary of other companies listed on the Stock Exchange. Prior to joining the Tricor group, Ms. Cheng was a senior manager as well as the departmental manager of company secretarial department of Deloitte Touche Tohmatsu in Hong Kong from July 1988 to September 2000, providing corporate secretarial and share registration services to the client companies.

Ms. Cheng is a Chartered Secretary and a Fellow of both of The Hong Kong Institute of Chartered Secretaries (“CS”) and The Institute of Chartered Secretaries and Administrators in the United Kingdom (“CIS”).

BOARD COMMITTEES

Audit Committee

The Company established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, namely Mr. Lu Pochin Christopher, Mr. Wang Jianguo and Mr. Xu Hui, our independent non-executive Directors. Mr. Lu Pochin Christopher has been appointed as the chairman of the Audit Committee, and is our independent non-executive Director possessing the appropriate professional qualifications. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group, oversee the audit process, review and oversee the existing and potential risks of the Group and perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

The Company established a Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee has three members, namely Mr. Wang Jianguo, Mr. Xu Hui and Mr. Zuo Jun. Mr. Wang Jianguo, our independent non-executive Director, has been appointed as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for the Directors and senior management and make recommendations on employee benefit arrangement.

Nomination Committee

The Company established a Nomination Committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of two independent non-executive Directors, being Mr. Wang Jianguo and Mr. Lu Pochin Christopher and one executive Director, being Mr. Liu Jianguo, who is the chairman of the Nomination Committee. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment and removal of Directors of our Company.

DIRECTORS AND SENIOR MANAGEMENT

WAIVER GRANTED BY THE STOCK EXCHANGE

We have applied to the Stock Exchange for, [and the Stock Exchange has granted], a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules in relation to the requirement of management presence in Hong Kong. For details of the waiver, please see “Waiver from Strict Compliance with the Listing Rules — Management Presence in Hong Kong.”

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and members of our senior management receive compensation from our Company in the form of fees, salaries, contributions to pension schemes, discretionary bonuses, allowances and other benefits in kind.

The aggregate amount of remuneration our Directors have received (including fees, salaries, contributions to pension schemes, discretionary bonuses, allowances and other benefits in kind) for the years ended March 31, 2014, 2015 and 2016 was approximately JPY40.7 million, JPY60.7 million and JPY88.2 million, respectively.

The aggregate amount of fees, salaries, contributions to pension schemes, discretionary bonuses, allowances and other benefits in kind paid to our five highest paid individuals of our Company, including Directors, during each of the years ended March 31, 2014, 2015 and 2016, was approximately JPY70.7 million, JPY98.7 million and JPY132.1 million, respectively.

Under the arrangements currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for the year ending March 31, 2017 is estimated to be approximately JPY93.5 million.

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended March 31, 2014, 2015 and 2016. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable in respect of each of the three years ended March 31, 2014, 2015 and 2016 by the Group to the Directors.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management which, following the [REDACTED], will receive recommendation from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of our Group.

COMPLIANCE ADVISOR

We have appointed Guotai Junan Capital Limited as our compliance advisor (the “Compliance Advisor”) upon [REDACTED] in compliance with Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Advisor will provide advice to us when consulted by us in the following circumstances:

- the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where we propose to use the proceeds of the [REDACTED] in a manner different from that detailed in this document or where its business activities, developments or results deviate from any forecast, estimate, or other information in this document; and
- where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares of our Company.

DIRECTORS AND SENIOR MANAGEMENT

The term of the appointment shall commence on the [REDACTED] and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the [REDACTED] and this appointment may be subject to extension by mutual agreement.

RSU SCHEME AND POST-[REDACTED] SHARE OPTION SCHEME

In order to incentivize Directors, senior management and employees for their contribution to our Group, and to attract, motivate and retain skilled and experienced personnel, we have adopted the RSU Scheme and the Post-[REDACTED] Share Option Scheme. A summary of the principal terms of the RSU Scheme and the Post-[REDACTED] Share Option Scheme is set out in the section headed “Statutory and General Information — D. Share Incentive Schemes” in Appendix V.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Our Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate the net proceeds of the [REDACTED] which we will receive, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] range stated in this document), will be approximately HK\$[REDACTED] million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the [REDACTED] and assuming the [REDACTED] is not exercised.

We intend to use the net proceeds of the [REDACTED] for the following purposes assuming the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] Range).

- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to pursue potential strategic acquisitions of businesses or brands and develop strategic alliances to enhance our presence in North America and Europe. For more information, see “Business — Our Strategies — Penetrate new markets in North America and Europe, particularly the United States and the United Kingdom.” As of the Latest Practicable Date, we had not identified, committed to or entered into negotiations with any acquisition targets for our use of net proceeds from the [REDACTED]. We will continue to prudently evaluate potential acquisition targets within the golf products industry based on, among other factors, their brand recognition, geographic footprint, distribution network, product offerings, and financial condition, with a goal of identifying potential acquisition targets that best fit our growth strategies. For example, in line with our strategy to penetrate new markets in North America and Europe, we may consider acquisition targets that enjoy high brand awareness and strong market presence in these markets, together with worldwide distribution networks that complement our existing distribution network. Such potential strategic acquisitions of businesses or brands are expected to be complementary to our focus on Segment 2, Segment 5, Segment 6, Segment 8 and Segment 9.
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used for sales and marketing activities in North America and Europe, including (i) advertising and promotional activities such as sales point promotional activities and sponsorship of professional players active in these markets, (ii) benefits for sales staff in these markets, and (iii) fitting equipment for third-party retailers. For more information, see “Business — Our Strategies — Penetrate new markets in North America and Europe, particularly the United States and the United Kingdom.”
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used for sales and marketing activities in our home markets of Japan, Korea and China (including Hong Kong and Macau), which will center around (i) sales point promotional activities, (ii) on-course sales events, typically in connection with tournaments and major product launches, and (iii) creation of additional fitting centers within self-operated stores or in partnership with third-party retailers. For more information, see “Business — Our Strategies — Further increase market share and enhance brand awareness in existing markets.”
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to finance the capital expenditures related to (i) equipment purchases at our Sakata Campus to expand our production capacity (ii) enhancement of our supply chain management and (iii) upgrades of our IT infrastructure. For more information, see “Business — Our Strategies — Tap into adjacent consumer segments by continuing to optimize our product mix.”

FUTURE PLANS AND USE OF PROCEEDS

- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to repay interest-bearing bank borrowings (which were used for working capital purposes), among which:
 - approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to repay JPY[REDACTED] million of borrowings from Mizuho Bank. As of July 31, 2016, JPY[REDACTED] million of our borrowings from Mizuho Bank bore effective interest rates in the range of 0.79% to 0.83%, and JPY[REDACTED] million of our borrowings from Mizuho Bank bore an effective interest rate of 0.79%, with maturities up to April 26, 2017; and
 - approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to repay JPY[REDACTED] billion of borrowings from Tokyo Tomin Bank. Our borrowings from Tokyo Tomin Bank bore effective interest rates in the range of 0.78% to 0.80% and will mature on February 18, 2017.
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to provide funding for our working capital and other general corporate purposes.

Except for the amount of HK\$[REDACTED] million that we expect to use to repay interest-bearing bank borrowings, the above allocation of the proceeds will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher level or lower level compared to the mid-point of the estimated [REDACTED] range or the [REDACTED] is exercised.

If the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the high end of the [REDACTED] range stated in this document) and assuming the [REDACTED] is not exercised, we will receive net proceeds of approximately HK\$[REDACTED] million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the [REDACTED].

If the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the low end of the [REDACTED] range stated in this document) and assuming the [REDACTED] is not exercised, the net proceeds we receive will be approximately HK\$[REDACTED] million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the [REDACTED].

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments. We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

UNDERWRITING

HONG KONG UNDERWRITERS

[REDACTED]

UNDERWRITING ARRANGEMENTS AND EXPENSES

[REDACTED]

Hong Kong Underwriting Agreement

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

Undertakings by Our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the [REDACTED] (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except pursuant to the [REDACTED] or for the circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Shareholders

[REDACTED]

UNDERWRITING

UNDERTAKINGS PURSUANT TO THE HONG KONG UNDERWRITING AGREEMENT

Undertaking by Our Company

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

OTHER UNDERTAKINGS

[REDACTED]

UNDERWRITING

[REDACTED]

International Underwriting Agreement

In connection with the [REDACTED], it is expected that we will enter into the International Underwriting Agreement with the Sole Sponsor, the Sole Global Coordinator and the International Underwriters. [REDACTED]

[REDACTED]

COMMISSION AND EXPENSES

Under the terms and conditions of the Hong Kong Underwriting Agreement, the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) will receive an underwriting commission of [●]% of the aggregate [REDACTED] payable for the [REDACTED] initially [REDACTED]. For unsubscribed [REDACTED] reallocated to the [REDACTED], we will pay an underwriting commission at the rate applicable to the [REDACTED] and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. The commissions payable to the Underwriters will be borne by our Company with respect to the new [REDACTED] to be issued by the Company under the [REDACTED] (including pursuant to the exercise of the [REDACTED]). Our Company may also in our sole discretion pay any or all of the Sole Global Coordinator an additional incentive fee of up to [●]% in the aggregate of the sale proceeds of the [REDACTED] of [REDACTED] under the [REDACTED] (including pursuant to the exercise of the [REDACTED]).

The aggregate commissions and fees, together with the [REDACTED], SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses payable by us relating to the [REDACTED] are estimated to amount to approximately HK\$[REDACTED] million in total (based on the mid-point of our [REDACTED] range of the [REDACTED] and assuming the [REDACTED] is not exercised).

HONG KONG UNDERWRITERS’ INTERESTS IN OUR COMPANY

Save for its obligations under the Hong Kong Underwriting Agreement, none of the Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Following the completion of the [REDACTED], the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement.

INDEPENDENCE OF THE SOLE SPONSOR

Morgan Stanley Asia Limited satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

UNDERWRITING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

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HOW TO APPLY FOR HONG KONG OFFER SHARES

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HOW TO APPLY FOR HONG KONG OFFER SHARES

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HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company’s Reporting Accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



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

[REDACTED]

The Directors

Honma Golf Limited
Morgan Stanley Asia Limited

Dear Sirs,

We set out below our report on the financial information of Honma Golf Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 March 2014, 2015 and 2016 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 March 2014, 2015 and 2016, together with the notes thereto (the “Financial Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the document of the Company dated [REDACTED] (the “Document”) in connection with the [REDACTED] of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 7 October 2013. Pursuant to a group reorganization (the “Reorganization”) as set out in note 2.1 of Section II below, which was completed on 12 July 2014, the Company became the holding company of the other subsidiaries comprising the Group. Apart from the Reorganization, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group, except for World Power International Trading (Shanghai) Co., Ltd., have adopted 31 March as their financial year end date. World Power International Trading (Shanghai) Co., Ltd. has adopted 31 December as its financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the consolidated financial statements of the Group for the years ended 31 March 2014, 2015 and 2016 (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”). The Underlying Financial Statements for each of the years ended 31 March 2014, 2015 and 2016 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

APPENDIX I**ACCOUNTANTS’ REPORT**

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS’ RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS’ RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the financial position of the Group and the Company as at 31 March 2014, 2015 and 2016 and of the consolidated financial performance and cash flows of the Group for each of the Relevant Periods.

APPENDIX I

ACCOUNTANTS’ REPORT

I. FINANCIAL INFORMATION OF THE GROUP

The following is the Financial Information of the Group for the Relevant Periods prepared on the basis set out in note 2.1 of Section II below:

1. Consolidated statements of profit or loss

	Section II	Year ended 31 March		
		2014	2015	2016
		JPY’000	JPY’000	JPY’000
REVENUE	5	15,713,457	18,525,092	22,368,761
Cost of sales	9	(6,353,737)	(7,620,050)	(9,173,918)
Gross profit		9,359,720	10,905,042	13,194,843
Other income and gains	5	925,393	90,825	77,125
Selling and distribution costs		(6,589,045)	(7,752,319)	(8,058,098)
Administrative expenses		(922,750)	(1,195,421)	(1,362,533)
Other (expenses)/income, net	6	(69,151)	(46,248)	104,565
Finance costs	7	(10,776)	(7,490)	(24,073)
Finance income	8	13,403	9,213	27,307
Profit before tax	9	2,706,794	2,003,602	3,959,136
Income tax (expense)/credit	12	(118,185)	298,467	(394,596)
Profit for the year		<u>2,588,609</u>	<u>2,302,069</u>	<u>3,564,540</u>
Attributable to:				
Owners of the parent		2,594,126	2,303,775	3,569,201
Non-controlling interests		(5,517)	(1,706)	(4,661)
		<u>2,588,609</u>	<u>2,302,069</u>	<u>3,564,540</u>
Earnings per share attributable to equity holders of the parent	14			
Basic and diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

APPENDIX I

ACCOUNTANTS’ REPORT

2. Consolidated statements of comprehensive income

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
PROFIT FOR THE YEAR	<u>2,588,609</u>	<u>2,302,069</u>	<u>3,564,540</u>
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments .	(479)	2,422	(7,660)
Income tax effect (note 20)	201	(768)	1,153
	(278)	1,654	(6,507)
Exchange differences on translation of foreign operations	<u>171,385</u>	<u>295,599</u>	<u>(175,478)</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods.	<u>171,107</u>	<u>297,253</u>	<u>(181,985)</u>
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains/(losses) on the defined benefit plans (note 29)	<u>93,596</u>	<u>140,944</u>	<u>(264,373)</u>
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	<u>93,596</u>	<u>140,944</u>	<u>(264,373)</u>
Other comprehensive income/(loss) for the year, net of tax	<u>264,703</u>	<u>438,197</u>	<u>(446,358)</u>
Total comprehensive income for the year	<u>2,853,312</u>	<u>2,740,266</u>	<u>3,118,182</u>
Attributable to:			
Owners of the parent	2,858,829	2,741,972	3,122,843
Non-controlling interests	(5,517)	(1,706)	(4,661)
	<u>2,853,312</u>	<u>2,740,266</u>	<u>3,118,182</u>

APPENDIX I

ACCOUNTANTS’ REPORT

3. Consolidated statements of financial position

	Section II	At 31 March		
		2014	2015	2016
	Notes	JPY’000	JPY’000	JPY’000
NON-CURRENT ASSETS				
Property, plant and equipment	15	1,735,374	1,673,636	2,015,478
Freehold land	16	1,940,789	1,940,789	1,940,789
Intangible assets	17	105,745	148,897	150,107
Other non-current assets	18	719,251	782,756	677,295
Deferred tax assets	20	66,779	795,962	906,321
Total non-current assets		4,567,938	5,342,040	5,689,990
CURRENT ASSETS				
Inventories	21	6,518,059	7,059,638	7,389,330
Trade and bills receivables	22	1,705,829	2,321,451	3,576,645
Prepayments, deposits and other receivables	23	361,391	435,723	670,032
Due from a related party	35(b)	—	—	795,292
Pledged deposits	24	—	136,527	121,676
Cash and cash equivalents	24	3,018,000	2,315,069	1,825,809
Total current assets		11,603,279	12,268,408	14,378,784
CURRENT LIABILITIES				
Trade and bills payables	25	818,656	1,324,385	1,382,207
Other payables and accruals	26	1,461,007	1,550,965	1,263,335
Interest-bearing bank borrowings	27	500,000	500,000	1,707,554
Due to related parties	35(b)	2,404,335	8,331,909	7,379,755
Income tax payable		78,941	145,030	203,469
Total current liabilities		5,262,939	11,852,289	11,936,320
NET CURRENT ASSETS		6,340,340	416,119	2,442,464
TOTAL ASSETS LESS CURRENT LIABILITIES		10,908,278	5,758,159	8,132,454
NON-CURRENT LIABILITIES				
Net employee defined benefit liabilities	29	2,004,176	1,812,789	2,098,879
Deferred tax liabilities	20	160,612	303,246	398,563
Other non-current liabilities	28	134,644	126,332	107,715
Total non-current liabilities		2,299,432	2,242,367	2,605,157
NET ASSETS		8,608,846	3,515,792	5,527,297
EQUITY				
Equity attributable to owners of the parent				
Share capital	30	100	100	100
Reserves	32	9,029,141	3,937,793	5,953,959
		9,029,241	3,937,893	5,954,059
Non-controlling interests		(420,395)	(422,101)	(426,762)
Total equity		8,608,846	3,515,792	5,527,297

APPENDIX I

ACCOUNTANTS’ REPORT

4. Consolidated statements of changes in equity

	Section II	Available- for -sale			Equity- settled						
		Share capital	Surplus reserve	investment revaluation reserve	Exchange translation reserve	Merger reserve	share-based payment reserve	Retained profits	Total	Non- controlling interests	Total equity
		JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000
Notes	Note 30	Note 32(a)*	Note 32(a)*	Note 32(a)*	Note 32(a)*	Note 31*	*				
At 31 March 2013 and 1 April 2013		100	940,305	7,079	(54,500)	7,217,761	—	(477,074)	7,633,671	(414,878)	7,218,793
Profit for the year		—	—	—	—	—	—	—	2,594,126	(5,517)	2,588,609
Other comprehensive income for the year:		—	—	—	—	—	—	—	—	—	—
Change in fair value of available-for-sale investments, net of tax		—	—	(278)	—	—	—	—	(278)	—	(278)
Exchange differences on translation of foreign operations		—	—	—	171,385	—	—	—	171,385	—	171,385
Remeasurement gains on defined benefit plans		—	—	—	—	—	—	93,596	93,596	—	93,596
Total comprehensive income for the year		—	—	(278)	171,385	—	—	2,687,722	2,858,829	(5,517)	2,853,312
Dividends declared to the then shareholders	13	—	—	—	—	(870,000)	—	(593,259)	(1,463,259)	—	(1,463,259)
Transferred from retained profits		—	1,488	—	—	—	—	(1,488)	—	—	—
At 31 March 2014 and 1 April 2014		100	941,793	6,801	116,885	6,347,761	—	1,615,901	9,029,241	(420,395)	8,608,846
Profit for the year		—	—	—	—	—	—	2,303,775	2,303,775	(1,706)	2,302,069
Other comprehensive income for the year:		—	—	—	—	—	—	—	—	—	—
Change in fair value of available-for-sale investments, net of tax		—	—	1,654	—	—	—	—	1,654	—	1,654
Exchange differences on translation of foreign operations		—	—	—	295,599	—	—	—	295,599	—	295,599
Remeasurement gains on defined benefit plans		—	—	—	—	—	—	140,944	140,944	—	140,944
Total comprehensive income for the year		—	—	1,654	295,599	—	—	2,444,719	2,741,972	(1,706)	2,740,266
Transferred from retained profits		—	41,993	—	—	(41,993)	—	(1,485,559)	(7,833,320)	—	—
Deemed distribution to the then shareholders		—	—	—	—	(6,347,761)	—	(1,485,559)	(7,833,320)	—	(7,833,320)
At 31 March 2015 and 1 April 2015		100	983,786	8,455	412,484	—	—	2,533,068	3,937,893	(422,101)	3,515,792
Profit for the year		—	—	—	—	—	—	3,569,201	3,569,201	(4,661)	3,564,540
Other comprehensive income for the year:		—	—	—	—	—	—	—	—	—	—
Change in fair value of available-for-sale investments, net of tax		—	—	(6,507)	—	—	—	—	(6,507)	—	(6,507)
Exchange differences on translation of foreign operations		—	—	—	(175,478)	—	—	—	(175,478)	—	(175,478)
Remeasurement losses on defined benefit plans		—	—	—	—	—	—	(264,373)	(264,373)	—	(264,373)
Total comprehensive income for the year	31	—	—	(6,507)	(175,478)	—	—	3,304,828	3,122,843	(4,661)	3,118,182
Equity-settled share-based payment expenses		—	—	—	—	—	128,323	—	128,323	—	128,323
Dividends declared	13	—	—	—	—	—	—	(1,235,000)	(1,235,000)	—	(1,235,000)
Transferred from retained profits		—	17,143	—	—	—	—	(17,143)	—	—	—
At 31 March 2016		100	1,000,929	1,948	237,006	—	128,323	4,585,753	5,954,059	(426,762)	5,527,297

* These reserve amounts comprise the consolidated reserves of JPY9,029,141,000, JPY3,937,793,000, and JPY5,953,959,000 as at 31 March 2014, 2015 and 2016 in the consolidated statements of financial position.

APPENDIX I

ACCOUNTANTS’ REPORT

5. Consolidated statements of cash flows

	Section II Notes	Year ended 31 March		
		2014 JPY’000	2015 JPY’000	2016 JPY’000
Cash flows generated from/(used in)				
operating activities				
Profit before tax		2,706,794	2,003,602	3,959,136
Adjustments for:				
Depreciation and impairment or reversal of impairment of property, plant and equipment	15	335,971	315,681	155,042
(Reversal)/write-down of inventories to net realizable value.	9	(173,655)	(23,140)	34,846
Impairment of trade and bills receivables.	22	29	120	261
Amortization and impairment of intangible assets.	17	52,082	35,793	46,543
Net gains on disposal of land, property, plant and equipment.		(834,418)	(487)	(6,742)
Defined benefit plan expenses	29	176,305	185,399	184,184
Equity-settled share-based payment expenses	31	—	—	128,323
Finance costs.	7	10,776	7,490	24,073
Finance income	8	(13,403)	(9,213)	(27,307)
		2,260,481	2,515,245	4,498,359
Increase in inventories.		(20,404)	(518,439)	(364,538)
Increase in trade and bills receivables		(816,442)	(615,742)	(1,255,455)
Decrease/(increase) in prepayments, deposits and other receivables		145,194	(74,332)	(234,309)
Increase in an amount due from a related party.		—	—	(20,237)
Decrease/(increase) in loans and other receivables classified as other non-current assets		368,679	(51,870)	125,108
Increase in trade and bills payables		601,796	505,729	57,822
(Decrease)/increase in other payables and accruals.		(129,541)	176,632	(471,027)
Decrease in amounts due to related parties in operating activities.		(137,448)	(1,463,133)	(364,872)
Decrease in other non-current liabilities . . .		(44,972)	(8,312)	(18,617)
Payment of the defined benefit obligation. .		(22,251)	(109,196)	(46,659)
Contributions in plan assets.		(135,687)	(126,646)	(115,808)
(Increase)/decrease in pledged deposits. . .		—	(136,527)	14,851
Cash generated from operating activities.		2,069,405	93,409	1,804,618
Interest paid		(10,776)	(7,490)	(24,073)
Japan income tax paid.		(70,000)	(169,779)	(151,400)
Overseas income tax paid		(15,669)	(52,982)	(198,646)
Net cash flows generated from/(used in)				
operating activities.		<u>1,972,960</u>	<u>(136,842)</u>	<u>1,430,499</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	Section II Notes	Year ended 31 March		
		2014 JPY’000	2015 JPY’000	2016 JPY’000
Cash flows generated from/(used in) investing activities				
Purchases of items of property, plant and equipment and intangible assets		(629,475)	(402,796)	(529,195)
Proceeds from disposal of land, items of property, plant and equipment and intangible assets		1,060,925	105,897	8,124
Maturity of government bonds		39,846	—	—
Increase in an amount due from a related party		—	—	(775,055)
Net cash flows generated from/(used in) investing activities		471,296	(296,899)	(1,296,126)
Cash flows used in financing activities				
Proceeds from bank borrowings		150,000	—	1,274,931
Borrowings provided by a related party . . .		103,467	714,215	7,267,978
Repayment of borrowings from a related party		—	—	(715,509)
Dividends paid		(1,000,000)	(463,259)	(1,235,000)
Deemed distribution to the then shareholders		—	(693,569)	(7,139,751)
Net cash flows used in financing activities		(746,533)	(442,613)	(547,351)
Net increase/(decrease) in cash and cash equivalents		1,697,723	(876,354)	(412,978)
Cash and cash equivalents at the beginning of year		1,230,950	3,018,000	2,315,069
Effect of foreign exchange rate changes, net		89,327	173,423	(76,282)
Cash and cash equivalents at the end of year		3,018,000	2,315,069	1,825,809
Analysis of balances of cash and cash equivalents				
Cash and cash equivalents as stated in the consolidated statements of financial position	24	3,018,000	2,315,069	1,825,809

APPENDIX I

ACCOUNTANTS’ REPORT

Statement of financial position of the Company

	Section II Notes	At 31 March		
		2014	2015	2016
		JPY’000	JPY’000	JPY’000
NON-CURRENT ASSET				
Investment in a subsidiary	19	100	100	128,423
Total non-current asset		100	100	128,423
CURRENT ASSETS				
Cash and cash equivalents		583	667	2,388
Due from a subsidiary	19	—	—	7,369,874
Total current assets		583	667	7,372,262
CURRENT LIABILITIES				
Other payables and accruals	26	—	—	107,661
Due to a subsidiary	19	—	—	2,265
Due to related parties	35(b)	764	892	7,371,818
Total current liabilities		764	892	7,481,744
NET CURRENT LIABILITIES		(181)	(225)	(109,482)
TOTAL ASSETS LESS CURRENT LIABILITIES		(81)	(125)	18,941
(NET LIABILITIES)/NET ASSETS		(81)	(125)	18,941
EQUITY				
Share capital	30	100	100	100
Reserves	32	(181)	(225)	18,841
Total equity		(81)	(125)	18,941

APPENDIX I

ACCOUNTANTS’ REPORT

II. NOTES TO THE FINANCIAL INFORMATION

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 PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands.

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

The Company and its subsidiaries now comprising the Group underwent the Reorganization as set out in the sub-section headed “Reorganization” in the section headed “Our History” in the Document. As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside of Hong Kong, have substantially similar characteristics to a private limited liability company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration	Nominal value of issued ordinary shares/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Seiyou Holdings Limited (Note (a))	British Virgin Islands 25 October 2013	USD1,000	100%	—	Investment holding
Honma Holdings Group Limited (Note (b))	Hong Kong 18 November 2013	USD1,000,000	—	100%	Investment holding
World Power International Trading (Shanghai) Co., Ltd. (Note (c))	People’s Republic of China (“PRC”) 27 December 2013	RMB10,000,000	—	100%	Trading
Hong Kong Honma Golf Company Limited (Note (d))	Hong Kong 2 April 1996	HKD28,782,200	—	100%	Trading
Honma Golf (Macau) Co., Ltd. (Note (e)) . . .	Macau 29 May 2012	MOP100,000	—	100%	Trading
Honma Golf Co., Ltd. (“Honma Japan”) (Note (f))	Japan 18 February 1959	JPY500,000,000	—	100%	Manufacture and sales of golf related products
Honma Golf Stock Company Limited (Note (g))	Taiwan 10 June 1996	NTD68,000,000	—	100%	Trading
Honma Golf (Thailand) Company Limited (Note (h))	Thailand 28 May 1997	THB2,000,000	—	48.99%	Trading

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Notes:

- (a) No statutory financial statements have been prepared for this subsidiary, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.
- (b) The statutory financial statements of this entity for the period from 18 November 2013 (date of incorporation) to 31 March 2014 and the years ended 31 March 2015 and 2016 prepared under Hong Kong Financial Reporting Standards (“HKFRSs”) were audited by Ernst & Young, Hong Kong.
- (c) The statutory financial statements of this entity for the period from 27 December 2013 (date of registration) to 31 December 2014 and the year ended 31 December 2015 prepared under the People’s Republic of China Generally Accepted Accounting Principles (“PRC GAAP”) were audited by Ernst & Young Hua Ming LLP.
- (d) The statutory financial statements of this entity for the year ended 31 December 2014 and for the fifteen months ended 31 March 2016 prepared under HKFRSs were audited by Ernst & Young, Hong Kong.
- (e) The statutory financial statements of this entity for the year ended 31 December 2014 prepared under Macau Financial Reporting Standards (“MFRSs”) were audited by Lok Chi Cheong Certified Public Accountant. The statutory financial statements of this entity for the fifteen months ended 31 March 2016 prepared under MFRSs were audited by Ernst & Young, Macau.
- (f) The statutory financial statements of this entity for the year ended 31 March 2014 prepared under the Japan Generally Accepted Accounting Principles (“Japan GAAP”) were audited by GYOSEI & CO. The statutory financial statements of this entity for the years ended 31 March 2015 and 2016 prepared under Japan GAAP were audited by Ernst & Young ShinNihon LLC.
- (g) The statutory financial statements of this entity for the years ended 31 March 2014 and 2015 prepared under Taiwan Generally Accepted Accounting Principles (“Taiwan GAAP”) were audited by Deloitte & Touche. The statutory financial statements of this entity for the year ended 31 March 2016 prepared under Taiwan GAAP were audited by Ernst & Young, Taiwan.
- (h) The statutory financial statements of this entity for the year ended 28 February 2014, for the one month ended 31 March 2014 and for the year ended 31 March 2015 prepared under NPAEs — Non-Publicly Accountable Entities were audited by Professional Auditing Service Co., Ltd. The statutory financial statements of this entity for the year ended 31 March 2016 prepared under NPAEs — Non-Publicly Accountable Entities were audited by Ernst & Young, Thailand.

Honma Golf (Thailand) Company Limited (“Honma Thailand”) is accounted for as a subsidiary of the Group because the Group has the power to control the board of directors and to govern the financial and operating policies of Honma Thailand. The Group holds 48.99% of the total shares of Honma Thailand, which are ordinary shares. The rest of the shares of Honma Thailand, being 51.01% of the total shares, are preference shares. Each preference share only entitled one fifth of the voting right as compared to each ordinary share. As a result, the Group is entitled to appoint all directors to the board of directors of Honma Thailand.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganization as more fully explained in the sub-section headed “Reorganization” in the section headed “Our History” in the Document, the Company has undertaken a series of reorganization steps in 2013 and 2014. The Reorganization was completed on 12 July 2014, and the Company became the holding company of the companies now comprising the Group on 12 July 2014. The companies now comprising the Group were under the common control of Mr. Liu Jianguo (“Mr. Liu”) before and after the completion of the Reorganization. Accordingly, for the purpose of this report, the Financial Information has been prepared by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Relevant Periods.

The consolidated statements of profit or loss, statements of comprehensive income, statements of change in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries first came under the common control of Mr. Liu, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 March 2014, 2015 and 2016 have been prepared to present the assets and liabilities of the subsidiaries now comprising the Group using their existing book values. No adjustments are made to reflect fair value, or recognize any new assets or liabilities as a result of the Reorganization.

Equity interests in subsidiaries held by parties other than Mr. Liu prior to the Reorganization are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on consolidation.

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2.2 BASIS OF PREPARATION AND CONSOLIDATION

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting periods commencing from 1 April 2015 have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. The Financial Information is presented in Japanese Yen (“JPY”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries for the Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

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

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

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following IFRSs that have been issued but are not yet effective in the Financial Information:

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment</i> ⁴
IFRS 9	<i>Financial Instruments</i> ⁴
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁶
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ¹
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ¹
IFRS 14	<i>Regulatory Deferral Accounts</i> ²
IFRS 15	<i>Revenue from Contracts with Customers</i> ⁴
Amendments to IFRS 15	<i>Clarifications to IFRS 15</i> ⁴
IFRS 16	<i>Leases</i> ⁵
Amendments to IAS 1	<i>Disclosure Initiative</i> ¹
Amendments to IAS 7	<i>Disclosure Initiative</i> ³
Amendments to IAS 12	<i>Deferred Tax: Recovery of Underlying Assets</i> ³
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortization</i> ¹
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> ¹
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs ¹

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 January 2018

⁵ Effective for annual periods beginning on or after 1 January 2019

⁶ No mandatory effective date yet determined but available for early adoption

Base on the preliminary assessment by the management, the following standard may have significant impact to the Group:

In September 2014, the International Accounting Standards Board (“IASB”) issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group

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performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on current available information and may be subject to changes arising from future detailed analysis or additional reasonable and supportable information being made available to the Group in the future. The Group expected impacts arising from the adoption of IFRS 9 are summarized as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investment are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investment are derecognized.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables (add any other debt instruments as applicable). The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables (add any other debt instruments as applicable) upon the adoption of IFRS 9.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In September 2015, the IASB issued an amendment to IFRS 15 regarding a one-year deferral of the mandatory effective date of IFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The management of the Group is in the process of making an assessment of the potential impact of the application of IFRS 15 and it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the a detailed review is performed by the Group.

IFRS 16 — Leases was issued by the IASB in May 2016. It will be effective for annual periods beginning on or after 1 January 2019. This new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. The new standard maintains substantially the lessor accounting requirements in the current standard.

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A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of lease arrangement. Right-of-use asset includes the amount of initial measurement of lease liability, any lease payment made to the lessor at or before the lease commencement date, estimated cost to be incurred by the lessee for dismantling or removing the underlying assets from and restoring the site, as well as any other initial direct cost incurred by the lessee. Lease liability represents the present value of the lease payments. Subsequently, depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 — Property, Plant and Equipment, while lease liability will be increased by the interest accrual, which will be charged to profit or loss, and deducted by lease payments.

The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

As set out in note 34 to the Financial Information, total operating lease commitment of the Group as a lessee in respect of office properties and shops with terms more than 12 months as at 31 March 2016 amounting to JPY890,548,000. The management of the Group do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s results but it is expected that certain portion of these lease commitments will be required to be recognised in the combined statement of financial position as right-of-use assets and lease liabilities.

The management of the Group does not anticipate that the application of other amendments will have a material effect on the amounts recognised in the Group’s Financial Information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Related parties

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

- (a) the party is a person or a close member of that person’s family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group, or of a parent of the Group;or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);

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- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment

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

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

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

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

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

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

Intangible assets (other than goodwill)

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

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

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

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

Software	5 years
Licenses	10 years
Telephone use right	infinite life

The telephone use rights are used by subsidiary in Japan. Basically, in Japan, users are able to use fixed line telephone eternally and no specific expiring date for telephone use right is set. Accordingly, useful lives of telephone use rights are assessed as indefinite.

Research and development costs

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

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

Freehold land

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

Leases

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

Investments and other financial assets

Initial recognition and measurement

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

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

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Subsequent measurement

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

Loans and receivables

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

Available-for-sale investments

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

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

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

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

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

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

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

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

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Available-for-sale investments

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

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

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

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Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the services have been rendered and it is probable that the economic benefits will flow to the Group and the relevant fees can be measured reliably;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (e) dividend income, when the shareholders’ right to receive payment has been established.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted by using income approach (discount cash flow method, in particular). Further details of which are given in note 31 to the Financial Information.

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

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

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

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

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Other employee benefits

Pension scheme

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

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

Defined benefit plan

Subsidiary of the Group incorporated in Japan operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

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

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

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

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

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

Borrowing costs

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

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Dividends

Dividends proposed by the Directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

Foreign currencies

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS

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

Estimation uncertainty

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

Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

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Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets were JPY66,779,000, JPY795,962,000 and JPY906,321,000 as at 31 March 2014, 2015 and 2016, respectively. Further details are disclosed in note 20 to the Financial Information.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are disclosed in notes 15, 16 and 17 to the Financial Information.

Defined benefit plans

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

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

The mortality rate is based on publicly available mortality tables for the specific countries. Salary increase rate is based on expected future inflation rates for the respective countries. The turnover rate is based on historical analysis of withdrawal rate. The carrying values of net employee defined benefit liability were JPY2,004,176,000, JPY1,812,789,000 and JPY2,098,879,000 as at 31 March 2014, 2015 and 2016, respectively. Further details are disclosed in note 29 to the Financial Information.

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management’s judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment losses over the period in which such estimate has been changed.

The net carrying values of trade receivables were JPY1,648,687,000, JPY2,173,912,000 and JPY3,513,139,000 as at 31 March 2014, 2015 and 2016, respectively. The carrying values of other receivables were JPY11,935,000, JPY21,651,000 and JPY26,980,000 as at 31 March 2014, 2015 and 2016, respectively. Further details are disclosed in notes 22 and 23 to the Financial Information.

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Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in market conditions. Management reassesses these estimates at each reporting date. The carrying values of inventories were JPY6,518,059,000, JPY7,059,638,000 and JPY7,389,330,000 as at 31 March 2014, 2015 and 2016, respectively. Further details are disclosed in note 21 to the Financial Information.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has only one reportable operating segment: the manufacture and 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.

Geographic information

(a) Revenue from external customers

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Japan	9,099,791	9,705,131	11,889,359
Korea	1,932,702	2,233,705	2,816,042
China (including Hong Kong and Macau)	1,879,086	3,335,914	4,190,468
North America	651,300	698,402	793,164
Europe	542,918	626,731	665,997
Rest of the world	1,607,660	1,925,209	2,013,731
	<u>15,713,457</u>	<u>18,525,092</u>	<u>22,368,761</u>

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

(b) Non-current assets

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Japan	3,524,235	3,612,802	4,030,452
Other Asia Pacific countries.	257,673	150,520	75,922
	<u>3,781,908</u>	<u>3,763,322</u>	<u>4,106,374</u>

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

Information about major customers

Revenue of approximately JPY1,603,228,000, JPY1,873,437,000 and JPY2,516,544,000 for the Relevant Periods was derived from a single customer, including sales to a group of entities which are known to be under common control with that customer.

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5. REVENUE, OTHER INCOME AND GAINS

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

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

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
<u>Revenue</u>			
Sale of goods	15,564,396	18,353,428	22,193,493
Rendering of services	149,061	171,664	175,268
Total	<u>15,713,457</u>	<u>18,525,092</u>	<u>22,368,761</u>

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
<u>Other income and gains</u>			
Government grants	48,499	788	536
Foreign exchange gains, net.	—	55,137	—
Gains on disposal of land, property, plant and equipment, net	834,418	487	6,742
Rental income.	11,142	11,376	10,955
Others	31,334	23,037	58,892
Total	<u>925,393</u>	<u>90,825</u>	<u>77,125</u>

6. OTHER EXPENSES/(INCOME), NET

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Foreign exchange losses, net	2,969	—	40,601
Compensation expenditure	1,917	20,370	—
Impairment of property, plant and equipment (note 15)	57,326	13,794	—
Reversal for impairment of property, plant and equipment (note 15)	—	—	(159,356)
Others	6,939	12,084	14,190
Total	<u>69,151</u>	<u>46,248</u>	<u>(104,565)</u>

7. FINANCE COSTS

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

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Interest on bank borrowings.	<u>10,776</u>	<u>7,490</u>	<u>24,073</u>

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8. FINANCE INCOME

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Accretion income from loans and other receivables	11,566	8,602	5,952
Interest income	1,837	611	21,355
Total	<u>13,403</u>	<u>9,213</u>	<u>27,307</u>

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

9. PROFIT BEFORE TAX

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

		Year ended 31 March		
		2014	2015	2016
		JPY’000	JPY’000	JPY’000
Cost of inventories sold		6,311,786	7,567,031	9,117,177
Cost of service provided		41,951	53,019	56,741
Depreciation	15	278,645	301,887	314,398
Amortization of intangible assets	17	50,863	35,793	46,543
Research and development costs		442,495	503,220	535,265
Provision/(reversal) for impairment of property, plant and equipment	15	57,326	13,794	(159,356)
Provision for impairment of intangible assets	17	1,219	—	—
Provision for impairment of trade and bills receivables	22	29	120	261
Minimum lease payments under operating leases		1,102,382	1,335,165	1,430,378
Auditors’ remuneration		19,167	38,301	59,018
Employee benefit expense :				
Wages and salaries		3,303,808	3,648,301	3,690,861
One-off employee incentive		—	567,000	—
Pension and social security costs		161,537	185,387	186,129
Defined benefit plan expenses	29	176,305	185,399	184,184
Employee benefits		474,701	496,721	576,361
Other benefits		104,873	179,575	85,345
Equity-settled share-based payment expenses	31	—	—	128,323
Foreign exchange losses/(gains), net		2,969	(55,137)	40,601
Write-down/(reversal) of inventories to net realizable value		(173,655)	(23,140)	34,846
Net gains on disposal of items of land and property, plant and equipment		(834,418)	(487)	(6,742)

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10. DIRECTORS’ AND CHIEF EXECUTIVE’S REMUNERATION

Directors’ remuneration for the Relevant Periods, disclosed pursuant to the Listing Rules, is as follows:

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Other emoluments:			
Salaries, allowances and benefits in kind	31,113	38,376	49,631
Performance related bonuses	6,741	18,773	12,140
Equity-settled share-based payment expenses	—	—	22,039
Pension scheme contributions	2,865	3,566	4,373
	<u>40,719</u>	<u>60,715</u>	<u>88,183</u>

During the Relevant Periods, certain directors were granted Restricted Stock Units (“RSUs”), in respect of their services to the Group. The fair value of such RSUs, which has been recognized in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the Financial Information for the Relevant Periods is included in the above directors’ remuneration disclosures.

(a) Executive directors

	Salaries, allowances and benefits in kind*	Performance related bonuses	Equity-settled share-based payment expenses	Pension scheme contributions	Total remuneration
	JPY’000	JPY’000	JPY’000	JPY’000	JPY’000
Year ended 31 March 2014					
Executive directors:					
Mr.Liu	15,202	—	—	174	15,376
Mr.Yasuki Ito	7,746	3,521	—	1,334	12,601
Mr.Yuji Murai	8,165	3,220	—	1,357	12,742
	<u>31,113</u>	<u>6,741</u>	<u>—</u>	<u>2,865</u>	<u>40,719</u>
Year ended 31 March 2015					
Executive directors:					
Mr.Liu	17,041	—	—	209	17,250
Mr.Yasuki Ito	10,495	10,688	—	1,691	22,874
Mr.Yuji Murai	10,840	8,085	—	1,666	20,591
	<u>38,376</u>	<u>18,773</u>	<u>—</u>	<u>3,566</u>	<u>60,715</u>
Year ended 31 March 2016					
Executive directors:					
Mr.Liu	17,943	—	7,345	269	25,557
Mr.Yasuki Ito	13,948	5,493	4,898	1,645	25,984
Mr.Yuji Murai	11,229	6,647	4,898	1,701	24,475
Mr.Zuo Jun	6,511	—	4,898	758	12,167
	<u>49,631</u>	<u>12,140</u>	<u>22,039</u>	<u>4,373</u>	<u>88,183</u>

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

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There was no arrangement under which an executive director waived or agreed to waive any remuneration during the Relevant Periods.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the Relevant Periods included 3, 3 and 3 directors, respectively, details of whose remuneration are set out in note 10 above. Details of the total remuneration of the remaining 2, 2 and 2 highest paid employees who are neither a director nor chief executive of the Group, during the Relevant Periods are as follows:

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Salaries, allowances and benefits in kind	22,413	22,927	23,573
Performance related bonuses	4,467	11,648	9,543
Equity-settled share-based payment expenses	—	—	7,350
Pension scheme contributions	3,109	3,421	3,453
	<u>29,989</u>	<u>37,996</u>	<u>43,919</u>

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

	Number of employees		
	Year ended 31 March		
	2014	2015	2016
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>2</u>	<u>2</u>

12. INCOME TAX

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

Pursuant to the rules and regulations of Cayman and BVI, the Group is not subject to any income tax in Cayman and BVI.

The subsidiaries incorporated in Hong Kong and Honma Holdings are subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Relevant Periods.

Pursuant to the rules and regulations of Japan, the subsidiary incorporated in Japan, is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the effective statutory tax rates for these taxes were 38%, 35.6% and 33.06% for the years ended 31 March 2014, 2015 and 2016, respectively.

According to the Macau Complementary Tax (“MCT”) Law, taxable profits below Macau Pataca (“MOP”) 300,000 are exempted from tax, and taxable profits over MOP300,000 are subject to the rate of 12% throughout the Relevant Periods.

The subsidiaries incorporated in Taiwan and Thailand are subject to income tax at the rates of 17% and 20% on the assessable profits throughout the Relevant Periods, respectively.

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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.

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

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Current income tax - Japan	31,037	91,165	263,581
Current income tax - elsewhere	67,190	197,685	79,904
Withholding tax on dividend declared.	—	—	65,000
Deferred tax (note 20).	19,958	(587,317)	(13,889)
Total tax charge /(credit) for the year.	<u>118,185</u>	<u>(298,467)</u>	<u>394,596</u>

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

	Year ended 31 March					
	2014		2015		2016	
	JPY’000	%	JPY’000	%	JPY’000	%
Profit before tax	<u>2,706,794</u>		<u>2,003,602</u>		<u>3,959,136</u>	
Tax at the statutory tax rate (33.06% for the year ended 31 March 2016, 35.6% for the year ended 31 March 2015 and 38% for the year ended 31 March 2014).	1,028,582	38.0	713,282	35.6	1,308,890	33.06
Different tax rates or tax basis for entities outside Japan	(76,911)	(3.0)	(96,026)	(5.0)	(47,029)	(1.0)
Tax effect of non-deductible expenses	14,736	1.0	21,691	1.0	6,315	—
Tax effect of non-taxable income	(2,259)	—	(667)	—	—	—
Over provision in prior years.	(569)	—	(142)	—	—	—
Effect of withholding tax on the distributable profits of the Group’s subsidiaries in PRC and Japan	96,142	4.0	141,679	7.0	161,724	4.0
Impact of previously unrecognized tax losses and temporary differences	(941,536)	(35.0)	(1,078,284)	(54.0)	(1,035,304)	(26.0)
Tax charge/(credit) at the Group’s effective rate.	<u>118,185</u>	<u>5.0</u>	<u>(298,467)</u>	<u>(15.0)</u>	<u>394,596</u>	<u>10.0</u>

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13. DIVIDENDS

The dividends declared by the Company’s subsidiaries to their then shareholders and dividends declared by the Company during the Relevant Periods were as follows:

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Dividends declared by the Company’s subsidiaries to their then shareholders	1,463,259	—	—
Dividends declared by the Company.	—	—	1,235,000
	<u>1,463,259</u>	<u>—</u>	<u>1,235,000</u>

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this Financial Information, is not considered meaningful due to the Reorganization and the preparation of the results of the Group on basis disclosed in note 2.1 above.

15. PROPERTY, PLANT AND EQUIPMENT

	Building	Machinery	Leasehold improvement	Motor vehicles	Office equipment	Construction in progress	Total
	JPY’000	JPY’000	JPY’000	JPY’000	JPY’000	JPY’000	JPY’000
31 March 2014							
Cost:							
At 1 April 2013	7,115,277	1,525,253	1,859,859	29,484	1,154,184	14,081	11,698,138
Additions	—	2,442	137,144	32,019	84,566	86,394	342,565
Transfer from construction in progress	18,714	7,747	14,525	—	24,730	(65,716)	—
Disposals	(42,631)	(8,603)	(369,867)	—	(67,631)	—	(488,732)
Exchange realignment.	—	231	21,576	512	5,694	23	28,036
At 31 March 2014.	<u>7,091,360</u>	<u>1,527,070</u>	<u>1,663,237</u>	<u>62,015</u>	<u>1,201,543</u>	<u>34,782</u>	<u>11,580,007</u>
Accumulated depreciation:							
At 1 April 2013	5,658,304	1,364,676	1,051,695	11,152	878,540	—	8,964,367
Depreciation provided during the year	124,007	25,427	46,003	12,271	70,937	—	278,645
Disposals	(26,583)	(8,467)	(250,321)	—	(56,245)	—	(341,616)
Exchange realignment.	—	203	10,905	67	2,903	—	14,078
At 31 March 2014.	<u>5,755,728</u>	<u>1,381,839</u>	<u>858,282</u>	<u>23,490</u>	<u>896,135</u>	<u>—</u>	<u>8,915,474</u>
Accumulated impairment:							
At 1 April 2013	184,588	140	665,452	198	167,932	—	1,018,310
Impairment provided during the year	54,630	1,728	939	—	29	—	57,326
Disposals	(16,049)	—	(119,545)	—	(10,883)	—	(146,477)
At 31 March 2014.	<u>223,169</u>	<u>1,868</u>	<u>546,846</u>	<u>198</u>	<u>157,078</u>	<u>—</u>	<u>929,159</u>
Net book value:							
At 31 March 2014.	<u>1,112,463</u>	<u>143,363</u>	<u>258,109</u>	<u>38,327</u>	<u>148,330</u>	<u>34,782</u>	<u>1,735,374</u>

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	Building	Machinery	Leasehold improvement	Motor vehicles	Office equipment	Construction in progress	Total
	JPY’000	JPY’000	JPY’000	JPY’000	JPY’000	JPY’000	JPY’000
31 March 2015							
Cost:							
At 1 April 2014	7,091,360	1,527,070	1,663,237	62,015	1,201,543	34,782	11,580,007
Additions	—	5,935	7,296	—	62,191	229,420	304,842
Transfer from construction in progress	65,335	55,562	23,059	—	82,688	(226,644)	—
Disposals	(175)	(17,673)	(205,698)	(11,325)	(137,872)	—	(372,743)
Exchange realignment	—	7,388	52,384	2,405	16,631	—	78,808
At 31 March 2015	<u>7,156,520</u>	<u>1,578,282</u>	<u>1,540,278</u>	<u>53,095</u>	<u>1,225,181</u>	<u>37,558</u>	<u>11,590,914</u>
Accumulated depreciation:							
At 1 April 2014	5,755,728	1,381,839	858,282	23,490	896,135	—	8,915,474
Depreciation provided during the year	111,452	29,542	57,091	10,267	93,535	—	301,887
Disposals	(146)	(17,050)	(138,582)	(1,302)	(77,133)	—	(234,213)
Exchange realignment	—	5,754	26,176	959	7,271	—	40,160
At 31 March 2015	<u>5,867,034</u>	<u>1,400,085</u>	<u>802,967</u>	<u>33,414</u>	<u>919,808</u>	<u>—</u>	<u>9,023,308</u>
Accumulated impairment:							
At 1 April 2014	223,169	1,868	546,846	198	157,078	—	929,159
Impairment provided during the year	—	—	3,169	—	10,625	—	13,794
Disposals	—	—	(27,049)	—	(21,934)	—	(48,983)
At 31 March 2015	<u>223,169</u>	<u>1,868</u>	<u>522,966</u>	<u>198</u>	<u>145,769</u>	<u>—</u>	<u>893,970</u>
Net book value:							
At 31 March 2015	<u>1,066,317</u>	<u>176,329</u>	<u>214,345</u>	<u>19,483</u>	<u>159,604</u>	<u>37,558</u>	<u>1,673,636</u>
31 March 2016							
Cost:							
At 1 April 2015	7,156,520	1,578,282	1,540,278	53,095	1,225,181	37,558	11,590,914
Additions	39,820	111,389	55,762	4,296	99,513	198,762	509,542
Transfer from construction in progress	46,741	180,083	—	—	1,796	(228,620)	—
Disposals	(15,725)	(29,725)	(97,174)	—	(44,718)	—	(187,342)
Exchange realignment	—	(4,831)	(25,487)	(801)	(6,521)	—	(37,640)
At 31 March 2016	<u>7,227,356</u>	<u>1,835,198</u>	<u>1,473,379</u>	<u>56,590</u>	<u>1,275,251</u>	<u>7,700</u>	<u>11,875,474</u>
Accumulated depreciation:							
At 1 April 2015	5,867,034	1,400,085	802,967	33,414	919,808	—	9,023,308
Depreciation provided during the year	94,782	44,644	70,052	9,519	95,401	—	314,398
Disposals	(14,489)	(28,433)	(33,541)	—	(25,023)	—	(101,486)
Exchange realignment	—	(3,236)	(17,499)	(801)	(4,828)	—	(26,364)
At 31 March 2016	<u>5,947,327</u>	<u>1,413,060</u>	<u>821,979</u>	<u>42,132</u>	<u>985,358</u>	<u>—</u>	<u>9,209,856</u>
Accumulated impairment:							
At 1 April 2015	223,169	1,868	522,966	198	145,769	—	893,970
Reversal of impairment during the year	—	—	(152,130)	(22)	(7,204)	—	(159,356)
Disposals	(1,150)	—	(63,634)	—	(19,690)	—	(84,474)
At 31 March 2016	<u>222,019</u>	<u>1,868</u>	<u>307,202</u>	<u>176</u>	<u>118,875</u>	<u>—</u>	<u>650,140</u>
Net book value:							
At 31 March 2016	<u>1,058,010</u>	<u>420,270</u>	<u>344,198</u>	<u>14,282</u>	<u>171,018</u>	<u>7,700</u>	<u>2,015,478</u>

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Impairment testing of property, plant and equipment

There has been total impairment provision of JPY1,018,310,000 at the beginning of the Relevant Period. An impairment of JPY56,387,000 has been provided for certain idle buildings and an impairment of JPY939,000 has been provided for certain cash-generating units (“CGUs”) of self-operated stores, respectively, during the year ended 31 March 2014 with recoverable amount of nil and JPY4,838,000 as of 31 March 2014, respectively. An impairment of JPY13,794,000 has been provided for certain CGUs of self-operated stores for the year ended 31 March 2015 with recoverable amount of JPY697,000 as of 31 March 2015, and an impairment of JPY159,356,000 has been reversed for certain CGUs of self-operated stores for the year ended 31 March 2016 with recoverable amount of JPY392,769,000 as at 31 March 2016 to be in line with the improvement of their performances. The increased carrying amount of these assets attributable to the reversal of impairment loss does not exceed the respective carrying amounts of these assets that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for these assets in prior years.

The recoverable amounts of these idle buildings and self-operated stores have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a period over the remaining useful lives of the relevant assets. The discount rates applied to the cash flow projections were 13% during the Relevant Periods.

Assumptions were used in the value in use calculation of the CGUs as of 31 March 2014, 2015 and 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of the CGUs:

Budgeted gross margins — Management determined gross margin based on past performance and its expectations for the development of the market.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development of shops and discount rates are consistent with external information sources.

16. FREEHOLD LAND

The carrying amounts of the Group’s freehold land is analyzed as follows:

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Cost:			
As at 1 April	3,204,681	1,940,789	1,940,789
Disposal	(1,263,892)	—	—
As at 31 March	1,940,789	1,940,789	1,940,789
Impairment:			
As at 1 April	1,154,892	—	—
Disposal	(1,154,892)	—	—
As at 31 March	—	—	—
Net book value:			
As at 31 March	<u>1,940,789</u>	<u>1,940,789</u>	<u>1,940,789</u>

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The freehold land is owned by Honma Japan which is located in Japan. During the year ended 31 March 2014, Honma Japan sold the land of Yuza-machi in Yamagata prefecture to a third party.

For impairment assessment, the freehold land is allocated to the cash-generating unit of the manufacturing plant in Japan comprised by buildings, machinery, office equipment, intangible assets and the freehold land. The recoverable amount was determined by the directors of the Company, based on value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management, using the same assumptions applied to the impairment assessment of CGUs of self-operated stores. Further details are disclosed in note 15 to the Financial Information.

17. INTANGIBLE ASSETS

31 March 2014

	Software	Telephone use right	Total
	JPY’000	JPY’000	JPY’000
Cost at 1 April 2013, net of accumulated amortization and impairment	157,054	5,970	163,024
Additions	110,379	1,292	111,671
Disposal	(116,795)	(73)	(116,868)
Amortization provided during the year	(50,863)	—	(50,863)
Impairment during the year	—	(1,219)	(1,219)
At 31 March 2014.	<u>99,775</u>	<u>5,970</u>	<u>105,745</u>
At 31 March 2014:			
Cost	655,525	41,694	697,219
Accumulated amortization	(555,750)	—	(555,750)
Impairment	—	(35,724)	(35,724)
Net carrying amount	<u>99,775</u>	<u>5,970</u>	<u>105,745</u>

31 March 2015

	Software	Telephone use right	Total
	JPY’000	JPY’000	JPY’000
Cost at 1 April 2014, net of accumulated amortization and impairment	99,775	5,970	105,745
Additions	91,102	—	91,102
Disposal	(15,863)	—	(15,863)
Amortization provided during the year	(35,793)	—	(35,793)
Exchange realignment	3,706	—	3,706
At 31 March 2015.	<u>142,927</u>	<u>5,970</u>	<u>148,897</u>
At 31 March 2015:			
Cost	736,003	41,694	777,697
Accumulated amortization	(593,076)	—	(593,076)
Impairment	—	(35,724)	(35,724)
Net carrying amount	<u>142,927</u>	<u>5,970</u>	<u>148,897</u>

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31 March 2016

	Licenses	Software	Telephone use right	Total
	JPY’000	JPY’000	JPY’000	JPY’000
Cost at 1 April 2015, net of accumulated amortization and impairment	—	142,927	5,970	148,897
Additions	6,220	43,202	—	49,422
Amortization provided during the year	(1,491)	(45,052)	—	(46,543)
Exchange realignment	—	(1,669)	—	(1,669)
At 31 March 2016.	<u>4,729</u>	<u>139,408</u>	<u>5,970</u>	<u>150,107</u>
At 31 March 2016:				
Cost	6,220	774,792	41,694	822,706
Accumulated amortization	(1,491)	(635,384)	—	(636,875)
Impairment	—	—	(35,724)	(35,724)
Net carrying amount	<u>4,729</u>	<u>139,408</u>	<u>5,970</u>	<u>150,107</u>

18. OTHER NON-CURRENT ASSETS

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Available-for-sale investments			
Unlisted equity investments, at fair value	100	100	100
Listed equity investments, at fair value	<u>20,843</u>	<u>23,265</u>	<u>15,605</u>
	20,943	23,365	15,705
Loans and other receivables			
Long-term loan receivables.	1,306	—	—
Rental deposits	<u>681,089</u>	<u>746,647</u>	<u>653,682</u>
	682,395	746,647	653,682
Long-term prepaid expenses.	<u>15,913</u>	<u>12,744</u>	<u>7,908</u>
	<u>719,251</u>	<u>782,756</u>	<u>677,295</u>

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

Loans and other receivables mainly referred to the shop rental deposits.

19. INVESTMENT IN A SUBSIDIARY

Company

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Unlisted shares, at cost	<u>100</u>	<u>100</u>	<u>128,423</u>

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Particulars of the subsidiaries of the Group are set out in note 1 to the Financial Information.

The amount due from a subsidiary included in the Company’s current assets were nil, nil and JPY7,369,874,000 as at 31 March 2014, 2015 and 2016, respectively. The amount due to a subsidiary included in the Company’s current liabilities are nil, nil and JPY2,265,000 as at 31 March 2014, 2015 and 2016, respectively. The amounts due from and to subsidiaries are unsecured, interest-free and repayable on demand.

20. DEFERRED TAX

Deferred tax liabilities

	Fair value on available-for sale investments	Depreciation allowance in excess of related depreciation	Withholding tax	Total
	JPY’000	JPY’000	JPY’000	JPY’000
At 1 April 2013	4,114	69,962	—	74,076
Deferred tax credited to other comprehensive income during the year . .	(201)	—	—	(201)
Deferred tax charged/(credited) to the statement of profit or loss during the year	—	(9,405)	96,142	86,737
At 31 March 2014 and 1 April 2014.	3,913	60,557	96,142	160,612
Deferred tax charged to other comprehensive income during the year . .	768	—	—	768
Deferred tax charged to the statement of profit or loss during the year	—	187	141,679	141,866
At 31 March 2015 and 1 April 2015.	4,681	60,744	237,821	303,246
Deferred tax credited to other comprehensive income during the year . .	(1,153)	—	—	(1,153)
Deferred tax charged/(credited) to the statement of profit or loss during the year	—	(254)	96,724	96,470
At 31 March 2016	<u>3,528</u>	<u>60,490</u>	<u>334,545</u>	<u>398,563</u>

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Deferred tax assets

	Unrealized profit	Tax losses	Impairment of inventories	Accrued payroll	Others	Total
	JPY’000	JPY’000	JPY’000	JPY’000	JPY’000	JPY’000
At 1 April 2013	—	—	—	—	—	—
Deferred tax credited to the statement of profit or loss during the year	<u>66,779</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>66,779</u>
At 31 March 2014 and 1 April 2014.	66,779	—	—	—	—	66,779
Deferred tax credited/(charged) to the statement of profit or loss during the year	<u>(7,973)</u>	<u>446,528</u>	<u>11,306</u>	<u>200,669</u>	<u>78,653</u>	<u>729,183</u>
At 31 March 2015 and 1 April 2015.	58,806	446,528	11,306	200,669	78,653	795,962
Deferred tax credited/(charged) to the statement of profit or loss during the year	<u>(18,110)</u>	<u>263,643</u>	<u>6,250</u>	<u>(163,362)</u>	<u>21,938</u>	<u>110,359</u>
At 31 March 2016	<u>40,696</u>	<u>710,171</u>	<u>17,556</u>	<u>37,307</u>	<u>100,591</u>	<u>906,321</u>

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

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Tax losses.	5,216,115	2,959,364	587,035
Deductible temporary differences.	<u>7,052,965</u>	<u>5,846,427</u>	<u>4,955,935</u>
Total	<u>12,269,080</u>	<u>8,805,791</u>	<u>5,542,970</u>

As of 31 March 2014, 2015 and 2016, the Group had tax losses of JPY5,216,115,000, JPY4,310,024,000, JPY2,888,302,000, respectively, that are available for offsetting against future taxable profits of the companies in which the losses arose, subject to the rules of the tax jurisdictions in which the Group operates. Deferred tax assets have not been recognized in respect of certain tax losses and deductible temporary differences mentioned above as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilized.

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

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

As at 31 March 2014, 2015 and 2016, there were no significant unrecognized deferred tax liabilities for taxes that would be payable on the unremitted earnings of the Group’s subsidiaries as the Group has no liability to additional tax should such amounts be remitted due to the availability of double taxation relief.

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

21. INVENTORIES

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Raw materials	412,678	470,260	750,035
Work in progress	861,292	1,170,539	1,486,927
Finished goods	5,660,682	5,812,292	5,580,667
	6,934,652	7,453,091	7,817,629
Less: provision	(416,593)	(393,453)	(428,299)
	<u>6,518,059</u>	<u>7,059,638</u>	<u>7,389,330</u>

22. TRADE AND BILLS RECEIVABLES

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Trade receivables	1,648,838	2,174,183	3,513,671
Bills receivable	57,142	147,539	63,506
	1,705,980	2,321,722	3,577,177
Less: provision	(151)	(271)	(532)
	<u>1,705,829</u>	<u>2,321,451</u>	<u>3,576,645</u>

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

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Within 1 month.	1,050,132	1,450,585	2,181,335
1 to 3 months	451,828	479,055	836,585
3 to 12 months	146,727	234,401	486,180
Over 1 year	—	9,871	9,039
	<u>1,648,687</u>	<u>2,173,912</u>	<u>3,513,139</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.

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

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Opening balance	122	151	271
Addition	29	271	532
Reversal	—	(151)	(271)
Ending balance	<u>151</u>	<u>271</u>	<u>532</u>

Included in the above provision for impairment of trade receivables was a provision for individually impaired trade receivables of JPY151,000, JPY271,000 and JPY532,000 with carrying amounts before provision of JPY151,000, JPY271,000 and JPY532,000, as at 31 March 2014, 2015 and 2016.

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

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Neither past due nor impaired	1,465,990	1,562,495	2,811,360
Less than 3 months past due	182,697	379,492	604,445
Over 3 months but within 1 year past due	—	222,054	88,295
Over 1 year past due	—	9,871	9,039
	<u>1,648,687</u>	<u>2,173,912</u>	<u>3,513,139</u>

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

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been

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a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The bills receivable were due within 4 months. No bills receivable were discounted or endorsed as at 31 March 2014, 2015 and 2016.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Prepaid rental expenses	115,876	99,335	92,440
Prepaid expenses	28,622	40,552	229,099
Deductible input VAT and prepaid corporate income tax . .	57,780	133,597	140,957
Advances to suppliers	135,130	87,184	120,749
Rental deposits	12,048	53,404	59,807
Other receivables	11,935	21,651	26,980
	<u>361,391</u>	<u>435,723</u>	<u>670,032</u>

None of the above assets is either past due or impaired. In the opinion of the directors, no provision was required as at 31 March 2014, 2015 and 2016. The carrying amounts of the prepayments, deposits and other receivables were approximate to their fair values.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Cash and bank balances	3,018,000	2,315,069	1,825,809
Short-term time deposits	—	136,527	121,676
	3,018,000	2,451,596	1,947,485
Less: pledged deposits	—	(136,527)	(121,676)
Cash and cash equivalents	<u>3,018,000</u>	<u>2,315,069</u>	<u>1,825,809</u>
Denominated in JPY	1,656,930	1,571,132	949,127
Denominated in USD	373,801	260,521	289,217
Denominated in HKD	792,234	259,858	292,147
Denominated in TWD	109,936	155,874	152,664
Denominated in RMB	45,889	6,226	62,094
Denominated in other currencies	39,210	61,458	80,560
	<u>3,018,000</u>	<u>2,315,069</u>	<u>1,825,809</u>

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

At 31 March 2015 and 2016, short-term time deposits amounting to JPY136,527,000 and JPY121,676,000 were pledged to secure bills payable.

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25. TRADE AND BILLS PAYABLES

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Trade payables	776,783	640,375	773,829
Bills payables	41,873	684,010	608,378
	<u>818,656</u>	<u>1,324,385</u>	<u>1,382,207</u>

The trade and bills payables as at 31 March 2014, 2015 and 2016 were all aged within 3 months.

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

26. OTHER PAYABLES AND ACCRUALS

	Group			Company		
	At 31 March			At 31 March		
	2014	2015	2016	2014	2015	2016
	JPY’000	JPY’000	JPY’000	JPY’000	JPY’000	JPY’000
Payables for purchase of property, plant and equipment	28,848	21,996	51,765	—	—	—
Advances from customers . . .	199,046	183,004	173,814	—	—	—
Staff payroll and welfare payables	503,442	746,162	245,344	—	—	—
Other tax payables	143,550	114,148	107,515	—	—	—
Other payables and accruals. .	586,121	485,655	684,897	—	—	107,661
	<u>1,461,007</u>	<u>1,550,965</u>	<u>1,263,335</u>	<u>—</u>	<u>—</u>	<u>107,661</u>

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

27. INTEREST-BEARING BANK BORROWINGS

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Current:			
Bank loans - unsecured	<u>500,000</u>	<u>500,000</u>	<u>1,707,554</u>
Analyzed into:			
Bank loans repayable:			
Within one year	<u>500,000</u>	<u>500,000</u>	<u>1,707,554</u>

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Bank borrowings bear interest at floating and fixed rates. The Group’s bank borrowings bore effective interest rates as follows:

	At 31 March		
	2014	2015	2016
Effective interest rates.	<u>1.4757%</u>	<u>1.2750%</u>	<u>0.82%-2.48%</u>

At 31 March 2014, 2015 and 2016, there were no properties pledged to secure bank borrowings granted to the Group.

28. OTHER NON-CURRENT LIABILITIES

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Asset retirement obligations.	81,840	82,013	75,179
Other long-term payables.	38,553	25,969	18,301
Rental deposits received as lessor	14,251	18,350	14,235
	<u>134,644</u>	<u>126,332</u>	<u>107,715</u>

Movement for asset retirement obligations are as below:

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Beginning balance.	85,180	81,840	82,013
Addition.	—	902	—
Utilised	(5,710)	(240)	(7,507)
Reversal of provision made	(1,009)	(1,265)	—
Change in discount rate.	3,379	776	673
Ending balance	<u>81,840</u>	<u>82,013</u>	<u>75,179</u>

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

29. EMPLOYEE DEFINED BENEFIT PLANS

Net employee defined benefit liability:

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Retirement benefit plan	<u>2,004,176</u>	<u>1,812,789</u>	<u>2,098,879</u>

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

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

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

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

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligation were carried out on 30 September 2015 by Mizuho Trust & Banking Co., Ltd., a member of the actuarial society of Japan, using the projected unit credit actuarial valuation method.

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

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Current service cost	157,069	164,852	170,186
Interest cost	19,236	20,547	13,998
Net benefit expenses	<u>176,305</u>	<u>185,399</u>	<u>184,184</u>
Recognized in cost of sales	61,147	73,406	66,130
Recognized in selling and distribution costs	80,650	76,079	80,385
Recognized in administrative expenses	<u>34,508</u>	<u>35,914</u>	<u>37,669</u>
	<u>176,305</u>	<u>185,399</u>	<u>184,184</u>

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

Changes for the year ended 31 March 2014 in the defined benefit obligation and fair value of plan assets:

	1 April 2013	Service cost	Net interest	Sub-total included in profit or loss	Benefits paid	Return on plan assets	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income	Contributions by employer	31 March 2014
	JPY'000	JPY'000	JPY'000	JPY'000 (note 9)	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000
Defined benefit obligation	3,625,528	157,069	33,584	190,653	(43,848)	—	—	97,387	(9,376)	88,011	—	3,860,344
Fair value of plan assets	(1,546,123)	—	(14,348)	(14,348)	21,597	(181,607)	—	—	—	(181,607)	(135,687)	(1,856,168)
Benefit liability	2,079,405	157,069	19,236	176,305	(22,251)	(181,607)	—	97,387	(9,376)	(93,596)	(135,687)	2,004,176

Changes for the year ended 31 March 2015 in the defined benefit obligation and fair value of plan assets:

	1 April 2014	Service cost	Net interest	Sub-total included in profit or loss	Benefits paid	Return on plan assets	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income	Contributions by employer	31 March 2015
	JPY'000	JPY'000	JPY'000	JPY'000 (note 9)	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000
Defined benefit obligation	3,860,344	164,852	39,665	204,517	(220,964)	—	—	99,710	30,033	129,743	—	3,973,640
Fair value of plan assets	(1,856,168)	—	(19,118)	(19,118)	111,768	(270,687)	—	—	—	(270,687)	(126,646)	(2,160,851)
Benefit liability	2,004,176	164,852	20,547	185,399	(109,196)	(270,687)	—	99,710	30,033	(140,944)	(126,646)	1,812,789

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Changes for the year ended 31 March 2016 in the defined benefit obligation and fair value of plan assets:

	1 April 2015	Service cost	Net interest	Sub-total included in profit or loss	Benefits paid	Return on plan assets	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income	Contributions by employer	31 March 2016
	JPY'000	JPY'000	JPY'000	JPY'000 (note 9)	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000
Defined benefit obligation	3,973,640	170,186	30,852	201,038	(89,069)	—	(3,422)	161,399	5,698	163,675	—	4,249,284
Fair value of plan assets	(2,160,851)	—	(16,854)	(16,854)	42,410	100,698	—	—	—	100,698	(115,808)	(2,150,405)
Benefit liability	1,812,789	170,186	13,998	184,184	(46,659)	100,698	(3,422)	161,399	5,698	264,373	(115,808)	2,098,879

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

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Stocks	905,904	1,166,285	953,409
Bonds	600,850	803,863	780,229
General account of life insurance companies	101,445	133,190	369,515
Others	247,969	57,513	47,252
Total	<u>1,856,168</u>	<u>2,160,851</u>	<u>2,150,405</u>

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

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Method of allocating projected retirement benefits	Projected unit credit method	Projected unit credit method	Projected unit credit method
Discount rate	1.03%	0.78%	0.36%
Salary increase rate (aged based, on average)	1.8%	1.8%	1.8%
Turnover rate (aged based, on average)	2.2%	2.2%	2.2%
Mortality (Mortality Table published by Ministry of Health, Labour and Welfare dated on)	31 March 2010	31 March 2010	26 March 2015

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

Assumption	Change in assumption	Increase/(decrease) in defined benefit obligations At 31 March		
		2014	2015	2016
		JPY’000	JPY’000	JPY’000
Discount rate	Increase by 0.5%	(200,434)	(178,191)	(197,969)
	Decrease by 0.5%	212,488	199,204	208,705

The sensitivity analyzes above have 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.

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The following is the expected contributions to the defined benefit plan in future years:

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Within the next 12 months (next annual reporting period) .	135,687	126,646	115,808
Between 2 and 5 years	542,748	506,584	463,232
Between 5 and 10 years.	678,435	633,230	579,040
Total expected payments	<u>1,356,870</u>	<u>1,266,460</u>	<u>1,158,080</u>

The average durations of the defined benefit plan obligation as at 31 March 2014, 2015 and 2016 are 10.8 years, 10.1 years and 9.6 years, respectively.

The actuarial valuation showed that the market value of plan assets was JPY1,856,168,000, JPY2,160,851,000 and JPY2,150,405,000 as at 31 March 2014, 2015 and 2016, respectively, and represented 48%, 54% and 51% of the defined benefit obligation that had accrued to qualifying employees. The deficiency of JPY2,004,176,000, JPY1,812,789,000 and JPY2,098,879,000 as at 31 March 2014, 2015 and 2016, respectively, are expected to be cleared over the remaining service period.

30. SHARE CAPITAL

	At 31 March		
	2014	2015	2016
	USD’000	USD’000	USD’000
Issued capital (1,000 ordinary shares in issue) USD’000 .	<u>1</u>	<u>1</u>	<u>1</u>
Equivalent to JPY’000.	<u>100</u>	<u>100</u>	<u>100</u>

The Company was incorporated on 7 October 2013 with issued capital of US\$1,000 in the Cayman Islands.

Share-based payment

Details of the Company’s equity-settled share-based payment expenses and the RSUs issued under the RSU scheme are included in note 31 to the Financial Information.

31. SHARE-BASED PAYMENT

By a resolution of the board of directors on 20 October 2015, the Group granted 27,007 RSUs (representing approximately 2.88% of total shares in issue, assuming there were a total of 937,000 shares in issue in capital of the Company) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations in future years. All the RSUs granted were based on the Company’s and individual’s performance. The grant date was as following:

RSUs granted	Grant date
19,973	20 October 2015
7,034	3 November 2015

The vesting schedule of the RSUs is 40% on the date on which the shares of the Company are [REDACTED], 30% after 12 months from the [REDACTED] and 30% after 24 months from the [REDACTED].

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The following RSUs were outstanding during the year:

	<u>Year ended 31 March 2016</u>
	Number of RSUs
At the beginning of the year	—
Granted during the year	27,007
Forfeited during the year	(1,465)
Exercised during the year	—
At the end of the year	<u>25,542</u>

The fair value of the RSUs granted during the year ended 31 March 2016 was JPY433,340,000 (JPY17,000 each) of which the Group recognized RSU expenses of JPY128,323,000 during the year ended 31 March 2016.

The fair value of the RSUs granted during the Relevant Periods was estimated as at the date of grant by using income approach (discount cash flow method, in particular), taking into account the terms and conditions upon which the RSUs were granted. The following table lists the inputs to the model used:

	<u>Year ended 31 March 2016</u>
Discount rate	13%
Terminal growth rate	2%
Discount on lack of marketability	24%

Management estimated the discount rate based on risks relating to the industry. Terminal growth rate is based on industry growth rate. Discount on lack of marketability is based on risks relating to nature of the Company.

32. RESERVES

(a) Group

(i) Surplus reserve

Pursuant to the related countries’ regulation and board meeting, the Group made appropriation to reserve fund based on net profit.

(ii) Available-for-sale investment revaluation reserve

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

(iii) Exchange translation reserve

This is the foreign currency translation difference that occurred when consolidating financial statements of foreign subsidiaries prepared in foreign currencies.

(iv) Merger reserve

The merger reserve of the Group represents the capital contributions from the then equity holders of the Group’s subsidiaries. The deduction during the year ended 31 March 2015 represents purchase consideration paid to the then equity holders for the acquisition of subsidiaries now comprising the Group pursuant to the Reorganization.

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(b) Company

	Equity settled share-based payment reserve	Accumulated losses	Other reserve	Total
	JPY’000	JPY’000	JPY’000	JPY’000
Balance at 1 April 2013.	—	—	—	—
Total comprehensive income for the year . .	—	(75)	—	(75)
Others	—	—	(106)	(106)
Balance at 31 March 2014.	—	(75)	(106)	(181)
Total comprehensive income for the year . .	—	(13)	—	(13)
Others	—	—	(31)	(31)
Balance at 31 March 2015.	—	(88)	(137)	(225)
Total comprehensive income for the year . .	—	1,125,606	—	1,125,606
Dividends declared (note 13).	—	(1,235,000)	—	(1,235,000)
Equity-settled share-based payment expenses (note 31).	128,323	—	—	128,323
Others	—	—	137	137
Balance at 31 March 2016.	<u>128,323</u>	<u>(109,482)</u>	<u>—</u>	<u>18,841</u>

33. CONTINGENT LIABILITIES

As at 31 March 2014, 2015 and 2016, the Group had no significant contingent liabilities.

34. OPERATING LEASE COMMITMENTS

(a) As lessor

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

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

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Within one year	34,218	34,848	22,410
After one year but within five years.	<u>57,258</u>	<u>22,410</u>	<u>—</u>
	<u>91,476</u>	<u>57,258</u>	<u>22,410</u>

(b) As lessee

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

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

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Within one year	991,017	951,379	778,352
After one year but within five years.	1,130,719	752,016	833,014
Over five years.	153,256	78,592	57,534
	<u>2,274,992</u>	<u>1,781,987</u>	<u>1,668,900</u>

35. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Group include:

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

(a) Transactions with related parties

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
(i) Sales of finished goods			
Honma Golf (Shanghai) Company Limited	<u>664,509</u>	<u>601,734</u>	<u>393,004</u>

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

(ii) Purchase of trading goods			
Honma Golf (Shanghai) Company Limited	<u>—</u>	<u>336,849</u>	<u>254,613</u>

The purchases of goods from the related party were made according to the prices and terms offered by the related party.

(iii) Rental expense charged by related parties			
Shanghai POVOS Enterprise (Group) Co., Ltd.*	<u>5,934</u>	<u>27,993</u>	<u>32,270</u>

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

(iv) Borrowings provided to a related party			
Honma Golf (Shanghai) Company Limited	<u>—</u>	<u>—</u>	<u>775,055</u>

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(v)	Interests received from a related party			
	Honma Golf (Shanghai) Company Limited	<u>—</u>	<u>—</u>	<u>15,191</u>
(vi)	Borrowings provided by a related party			
	Kouunn Holdings Limited	<u>103,467</u>	<u>714,215</u>	<u>7,267,978</u>
(vii)	Repayment of borrowings to a related party,			
	Kouunn Holdings Limited	<u>—</u>	<u>—</u>	<u>715,509</u>
(viii)	Expenses paid on behalf of a related party			
	Honma Golf (Shanghai) Company Limited	<u>40,058</u>	<u>6,706</u>	<u>35,460</u>
(ix)	Expenses paid on behalf of the Group by a related party			
	Mr. Liu.	<u>—</u>	<u>—</u>	<u>1,667</u>
(x)	Property, plant and equipment purchased from a related party			
	Honma Golf (Shanghai) Company Limited	<u>109,537</u>	<u>—</u>	<u>—</u>

The purchases of property, plant and equipment from the related party were made according to book value of the seller after taking into account the prevailing market price.

* The related party transactions in respect also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Balances with related parties

Group

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Due from a related party			
Honma Golf (Shanghai) Company Limited	<u>—</u>	<u>—</u>	<u>795,292</u>

The credit periods granted to related parties are mainly 3 months. For amount due from related parties, balances arising from operating activities in trade nature are nil, nil and JPY129,774,000 as at 31 March 2014, 2015 and 2016, respectively. The remaining balances of the amount due from related parties are in non-trade nature and amounted to nil, nil and JPY665,518,000 as at 31 March

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2014, 2015 and 2016, respectively. The balances of amount due from related parties as at 31 March 2016 aged from 3 months to one year and no impairment was recognized as it was reasonably assured that these balances can be collected.

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Due to related parties			
Honma Golf (Shanghai) Company Limited	2,299,477	1,307,770	—
Marlion Holdings Limited	—	6,206,457	—
Mr. Liu	—	—	1,667
Kouunn Holdings Limited	103,467	817,682	7,370,151
Shanghai POVOS Enterprise (Group) Co., Ltd.	1,391	—	7,937
	<u>2,404,335</u>	<u>8,331,909</u>	<u>7,379,755</u>

For amount due to related parties, balances arising from operating activities are JPY 1,728,072,000 as at 31 March 2014, with JPY527,061,000 of aging within one year and JPY1,201,011,000 of aging from one year to two years, JPY264,939,000 with aging within one year, as at 31 March 2015 and JPY9,604,000 with aging within one year, as at 31 March 2016. Amounts due to related parties have no fixed terms of repayment.

Except for borrowings provided to Honma Golf (Shanghai) Company Limited of JPY775,055,000 which bears interest at a rate of 2.5% p.a., amounts due from and due to related parties were interest-free and unsecured.

Company

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Due to related parties			
Mr. Liu	—	—	1,667
Kouunn Holdings Limited	764	892	7,370,151
	<u>764</u>	<u>892</u>	<u>7,371,818</u>

(c) Compensation of key management personnel of the Group:

	Year ended 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Short-term employee benefits	63,275	91,724	104,428
Pension scheme contributions	5,927	6,987	7,825
Total compensation paid to key management personnel	<u>69,202</u>	<u>98,711</u>	<u>112,253</u>

Further details of directors’ emoluments are included in note 10 to the Financial Information.

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36. FINANCIAL INSTRUMENTS BY CATEGORY

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

31 March 2014

Financial assets

	Loans and receivables	Available- for-sale financial assets	Total
	JPY'000	JPY'000	JPY'000
Trade and bills receivables	1,705,829	—	1,705,829
Cash and cash equivalents	3,018,000	—	3,018,000
Financial assets included in prepayments, deposits and other receivables	23,983	—	23,983
Other non-current assets	682,395	20,943	703,338
Total	<u>5,430,207</u>	<u>20,943</u>	<u>5,451,150</u>

Financial liabilities

	Financial liabilities at amortized cost
	JPY'000
Trade and bills payables	818,656
Due to related parties	2,404,335
Interest-bearing bank borrowings	500,000
Financial liabilities included in other payables and accruals	614,969
Other non-current liabilities	14,251
Total	<u>4,352,211</u>

31 March 2015

Financial assets

	Loans and receivables	Available- for-sale financial assets	Total
	JPY'000	JPY'000	JPY'000
Trade and bills receivables	2,321,451	—	2,321,451
Pledged deposits	136,527	—	136,527
Cash and cash equivalents	2,315,069	—	2,315,069
Financial assets included in prepayments, deposits and other receivables	75,055	—	75,055
Other non-current assets	746,647	23,365	770,012
Total	<u>5,594,749</u>	<u>23,365</u>	<u>5,618,114</u>

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Financial liabilities

	Financial liabilities at amortized cost
	JPY’000
Trade and bills payables	1,324,385
Due to related parties	8,331,909
Interest-bearing bank borrowings	500,000
Financial liabilities included in other payables and accruals.	507,651
Other non-current liabilities	18,350
Total	<u>10,682,295</u>

31 March 2016

Financial assets

	Loans and receivables	Available-for-sale financial assets	Total
	JPY’000	JPY’000	JPY’000
Trade and bills receivables	3,576,645	—	3,576,645
Pledged deposits	121,676	—	121,676
Cash and cash equivalents	1,825,809	—	1,825,809
Financial assets included in prepayments, deposits and other receivables	86,787	—	86,787
Due from a related party	795,292	—	795,292
Other non-current assets	<u>653,682</u>	<u>15,705</u>	<u>669,387</u>
Total	<u>7,059,891</u>	<u>15,705</u>	<u>7,075,596</u>

Financial liabilities

	Financial liabilities at amortized cost
	JPY’000
Trade and bills payables	1,382,207
Due to related parties	7,379,755
Interest-bearing bank borrowings	1,707,554
Financial liabilities included in other payables and accruals.	736,662
Other non-current liabilities	14,235
Total	<u>11,220,413</u>

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, an amount due from a related party, trade and bills

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payables, interest-bearing bank borrowings, amounts due to related parties and financial liabilities included in other payables and accruals. Their fair values are approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale 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 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 Relevant Periods.

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

Fair value hierarchy

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

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

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

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

The Group did not have any financial liability measured at fair value as at 31 March 2014, 2015 and 2016.

Assets measured at fair value:

31 March 2014

	Level 1	Level 2	Level 3	Total
	JPY’000	JPY’000	JPY’000	JPY’000
Available-for-sale investments	20,843	—	100	20,943

31 March 2015

	Level 1	Level 2	Level 3	Total
	JPY’000	JPY’000	JPY’000	JPY’000
Available-for-sale investments	23,265	—	100	23,365

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31 March 2016

	Level 1	Level 2	Level 3	Total
	JPY’000	JPY’000	JPY’000	JPY’000
Available-for-sale investments	15,605	—	100	15,705

During the years ended 31 March 2014, 2015 and 2016, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise of interest-bearing bank borrowings, trade and bill payables, due to related parties, financial liabilities included in other payables and accruals. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various financial assets such as trade receivables, cash and short-term deposits, which arose directly from its operations. The main risks faced by the Group are foreign currency risk, credit risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board of Directors reviews and agrees policies for managing each of the risks which are summarized below:

Interest rate risk

The Group’s exposure to risk of changes in market interest rates relates primarily to the Group’s interest-bearing bank borrowings with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group’s profit before tax (through the impact on floating rate borrowings).

	Increase/decrease in interest rate	(Decrease)/increase in profit before tax (JPY’000)	(Decrease)/increase in profit before tax as percentage of profit before tax %
Year ended 31 March 2014	+1%/-1%	(5,000)/5,000	(0.18)/0.18
Year ended 31 March 2015	+1%/-1%	(5,000)/5,000	(0.25)/0.25
Year ended 31 March 2016	+1%/-1%	(10,000)/10,000	(0.25)/0.25

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units’ functional currencies. Approximately 23.7%, 22.1% and 22.6% of the Group’s sales for the years ended 31 March 2014, 2015 and 2016 were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 27.4%, 27.0% and 34.4% of costs for the years ended 31 March 2014, 2015 and 2016 were denominated in currencies other than the units’ functional currencies.

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The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group’s profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in rate of foreign currency	Increase/ (decrease) in profit before tax
	%	JPY’000
Year ended 31 March 2014		
If USD strengthens against JPY	5	11,794
If USD weakens against JPY	(5)	(11,794)
Year ended 31 March 2015		
If USD strengthens against JPY	5	13,727
If USD weakens against JPY	(5)	(13,727)
Year ended 31 March 2016		
If USD strengthens against JPY	5	(25,967)
If USD weakens against JPY	(5)	25,967

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group’s exposure to bad debts is not significant.

The credit risk of the Group’s other financial assets, which comprise bank balances, an amount due from a related party, financial assets included in prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group’s trade receivables are widely dispersed in different regions.

Further quantitative data in respect of the Group’s exposure to credit risk arising from trade and bills receivables are disclosed in note 22 to the Financial Information.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets (e.g., trade receivables, other financial assets) and projected cash flows from operations.

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing loans and borrowings.

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The maturity profile of the Group’s financial liabilities as at 31 March 2014, 2015 and 2016, based on contractual undiscounted payments, is as follows:

31 March 2014

	On demand	Less 1 year	Over 1 year	Total
	JPY’000	JPY’000	JPY’000	JPY’000
Trade and bills payables	—	818,656	—	818,656
Other payables and accruals.	614,969	—	—	614,969
Interest-bearing bank borrowings	—	507,379	—	507,379
Other non-current liabilities	14,251	—	—	14,251
Due to related parties	2,404,335	—	—	2,404,335
	<u>3,033,555</u>	<u>1,326,035</u>	<u>—</u>	<u>4,359,590</u>

31 March 2015

	On demand	Less 1 year	Over 1 year	Total
	JPY’000	JPY’000	JPY’000	JPY’000
Trade and bills payables	—	1,324,385	—	1,324,385
Other payables and accruals.	507,651	—	—	507,651
Interest-bearing bank borrowings	—	506,375	—	506,375
Other non-current liabilities	18,350	—	—	18,350
Due to related parties	8,331,909	—	—	8,331,909
	<u>8,857,910</u>	<u>1,830,760</u>	<u>—</u>	<u>10,688,670</u>

31 March 2016

	On demand	Less 1 year	Over 1 year	Total
	JPY’000	JPY’000	JPY’000	JPY’000
Trade and bills payables	—	1,382,207	—	1,382,207
Other payables and accruals.	736,662	—	—	736,662
Interest-bearing bank borrowings	—	1,718,455	—	1,718,455
Other non-current liabilities	14,235	—	—	14,235
Due to related parties	7,379,755	—	—	7,379,755
	<u>8,130,652</u>	<u>3,100,662</u>	<u>—</u>	<u>11,231,314</u>

Capital management

The primary objectives of the Group’s capital management are to safeguard the Group’s ability to continue as a going concern and to maintain healthy debt to equity ratios in order to support its business and maximise shareholders’ value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2014, 2015 and 2016.

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The Group monitors capital, which is the total equity, using a debt to equity ratio, which is interest-bearing bank borrowing divided by total equity. The debt to equity ratios as at the end of the reporting periods were as follows:

	At 31 March		
	2014	2015	2016
	JPY’000	JPY’000	JPY’000
Interest-bearing bank borrowings	500,000	500,000	1,707,554
Total Equity	8,608,846	3,515,792	5,527,297
Debt to equity ratio.	6%	14%	31%

39. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the shareholders’ meeting dated 26 April 2016, the Company declared JPY1,995,000,000 dividends to its shareholders and the dividends has been paid in May 2016.

Pursuant to a sale and purchase agreement dated 9 May 2016 entered into between Kouunn Holdings Limited, Mr. Liu, the Company and Fosun Industrial Holdings Limited (“Fosun”), Kouunn Holdings Limited agreed to sell and Fosun agreed to purchase 7.5% in the total issued share capital of the Company.

40. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 31 March 2016.

Yours faithfully
Ernst & Young
Certified Public Accountants
 Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountants’ Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company’s reporting accountants, as set out in Appendix I to this document, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this document and the Accountants’ Report set out in Appendix I to this document.

(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The unaudited pro forma data relating to our net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the [REDACTED] on our net tangible assets as at 31 March 2016 as if the [REDACTED] had taken place on that date.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to the owners of the Company as at 31 March 2016 or any subsequent dates, including following the [REDACTED].

	Audited consolidated net tangible assets of our Group attributable to the owners of the Company as at March 31, 2016	Estimated net proceeds from the [REDACTED]	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of the Company	Unaudited pro forma adjusted net tangible assets per Share	
	JPY in million	JPY in million	JPY in million	JPY	HK\$ equivalent
	(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5)
Based on an [REDACTED] of per Share					
HK\$[REDACTED].	[5,804.0]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of per Share					
HK\$[REDACTED].	[5,804.0]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

1. The consolidated net tangible assets of our Group attributable to owners of the Company as of 31 March 2016 is extracted from “Appendix I — Accountants’ Report” to this document, which is based on the audited consolidated equity attributable to owners of the Company as of 31 March 2016 of JPY5,954.1 million less intangible assets as of 31 March 2016 of JPY150.1 million.
2. The estimated net proceeds from the [REDACTED] are based on estimated [REDACTED] of HK\$[REDACTED] or HK\$[REDACTED] per Share after deduction of the underwriting fees and other related expenses payable by our Company and takes no account of any Shares which may be issued upon the exercise of the [REDACTED].
3. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company does not take into account a dividend of JPY1,995 million paid by the Company in May 2016. Had the dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED]) and HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED]), respectively.
4. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares are in issue assuming the [REDACTED] has been completed on 31 March 2016 and an [REDACTED] of HK\$[REDACTED] per Share, being the low end of the [REDACTED] range, and [REDACTED] Shares are in issue assuming that the [REDACTED] has been completed on 31 March 2016 and an [REDACTED] of HK\$[REDACTED] per Share, being the high end of the [REDACTED] range, excluding Shares which may be issued upon the exercise of the [REDACTED].
5. The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.00 to JPY[13.19].
6. No adjustment has been made to reflect any trading results or other transactions of our Group entered into subsequent to 31 March 2016.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

(B) LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from our independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this document, in respect of the unaudited pro forma financial information of the Group.

[REDACTED]

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III

PROPERTY VALUATION

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this document received from AVISTA Valuation Advisory Limited, an independent valuer, in connection with its valuation of the property interests of the Group as at 30 June 2016.



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[REDACTED]

The Board of Directors
Honma Golf Limited
PO Box 309
Ugland House
Grand Cayman
KY1-1104, Cayman Islands

Dear Sirs / Madams,

INSTRUCTIONS

In accordance with the instructions to us to value property interests held by Honma Golf Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) (detail of properties are more particularly listed in the Summary of Values of this report), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing our opinion of the market value of the property interests as at 30 June 2016 (the “valuation date”).

PREMISES OF VALUE

The valuation is our opinion of market value which is defined by the Hong Kong Institute of Surveyors as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

BASIS OF VALUATION

In valuing the property interests, we have complied with all the requirements set out in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited (the “Listing Rules”), the HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council.

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value or costs of sale and purchase or offset for any associated taxes.

APPENDIX III

PROPERTY VALUATION

CATEGORISATION OF PROPERTY INTERESTS

In the course of our valuation, the appraised property interests have been categorized according to type of interests held by the Group, which in turn being classified into the following groups:

Group I — Property interests held and occupied by the Group in Japan

Group II — Property interests held by the Group for investment in Japan

VALUATION METHODOLOGY

In the course of our valuation, unless otherwise stated, we have valued the properties in their designated uses with the understanding that the properties will be used as such (hereafter referred to as “**continued uses**”).

In valuing the property in Group I, we have valued the property by the market approach assuming sale with the benefit of vacant possession in their existing states by making reference to comparable sales transactions as available in the relevant markets.

In valuing the property in Group II, we have valued the property by the income approach by taking into account the current rent passing derived from the existing tenancies and the reversionary potential of the property interests.

TITLE INVESTIGATION

We have been provided by the Company with copy of extract of the title documents and tenancy agreements relating to the property interests in Japan. Where possible, we have examined the original documents to verify the existing title to the property interests in Japan and any material encumbrances that might be attached to the property interests or any amendments which may not appear on the copies handed to us.

However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We are not aware of any title defects, easements or right of way affecting the property and our valuation assume that none exists, except only where otherwise stated and we have therefore relied on the title documents provided by the Group regarding the Group’s interests in Japan properties.

SITE INVESTIGATION

We have inspected the exterior and, where possible, the accessible portions of the interior of the properties being appraised. The inspection was carried out by Mr. Oswald Au (Director), Mr. Jason Wang (Director) and Mr. Raymond Chan (Assistant Manager), during the period from 17 May 2016 to 20 May 2016. However, we have not been commissioned to carry out structural survey nor to arrange for an inspection of the services. We are, therefore, not able to report whether the properties are free of rot, infestation or any other structural defects. We formulate our view as to the overall conditions of the properties taking into account the general appearance, the apparent standard and age of fixtures and fittings and the existence of utility services. Hence it must be stressed that we have had regard to you with a view as to whether the buildings are free from defects or as to the possibility of latent defects which might affect our valuation. In the course of our inspection, we did not note any serious defects. No tests were carried out on any of the services. We have assumed that utility services, such as electricity, telephone, water, etc., are available and free from defect.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverized fly ash, or any other deleterious material has been used in the construction of the properties. We are therefore unable to report that the properties are free from risk in this respect. For the purpose of this valuation, we have assumed that deleterious material has not been used in the construction of the properties.

APPENDIX III

PROPERTY VALUATION

We have not been commissioned to carry out detailed site measurements to verify the correctness of the land or building areas in respect of the properties but have assumed that the areas provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable.

Moreover, we have not carried out any site investigation to determine the suitability of the ground conditions or the services for any property development erected or to be erected thereon. Nor did we undertake archaeological, ecological or environmental surveys for the property interests. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Should it be discovered that contamination, subsidence or other latent defects exists in the properties or on adjoining or neighbouring land or that the properties had been or are being put to contaminated use, we reserve right to revise our opinion of value.

SOURCE OF INFORMATION

Unless otherwise stated, we shall rely to a considerable extent on the information provided to us by the Company or the legal or other professional advisers on such matters as statutory notices, planning approval, zoning, easements, tenure, completion date of building, development proposal, identification of property, particulars of occupation, site areas, floor areas, matters relating to tenure, tenancies and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore approximations and for reference only. We have not searched original plans, developer brochures and the like to verify them.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and we have no reason to suspect that any material information has been withheld.

VALUATION ASSUMPTIONS

Unless stated as otherwise, we have assumed that the respective title owner of the properties have an enforceable title of the property interests and have free and uninterrupted rights to occupy, use, sell, lease, charge, mortgage or otherwise dispose of the properties without the need of seeking further approval from and paying additional premium to the Government for the unexpired land use term as granted. Unless noted in the report, vacant possession is assumed for the property concerned.

Moreover, we have assumed that the design and construction of the properties are/will be in compliance with the local planning regulations and requirements and had been/would have been duly examined and approved by the relevant authorities.

Continued uses assumes the properties will be used for the purposes for which the properties are designed and built, or to which they are currently adapted. The valuation on the property in continued uses does not represent the amount that might be realised from piecemeal disposition of the property in the open market.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed. Moreover, it is assumed that all required licences, consents or other legislative or administrative authority from any local, provincial or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

It is also assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined and considered in the valuation report. In addition, it is assumed that the utilisation of the land and improvements are within the boundaries of the properties described and that no encroachment or trespass exists, unless noted in the report.

APPENDIX III

PROPERTY VALUATION

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have further assumed that the properties were not transferred or involved in any contentious or non-contentious dispute as at the valuation date. We have also assumed that there was not any material change of the properties in between dates of our inspection and the valuation date.

CURRENCY

Unless otherwise stated, all amounts are denominated in Japanese Yen (JPY). Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited
Sr Oswald W Y Au
MHKIS(GP) AAPI MSc(RE)
Registered Professional Surveyor (GP)
Director

Note: Mr. Oswald W Y Au holds a Master's Degree of Science in Real Estate from the University of Hong Kong. He is also a member of Hong Kong Institute of Surveyors (General Practice) and Associate Member of Australian Property Institute. In addition, he is a Registered Professional Surveyor (General Practice) registered with Surveyors Registration Board. He has over 10 years' experience in the valuation of properties including Hong Kong, the PRC, the U.S., Canada, East and Southeast Asia including Singapore, Japan and Korea.

APPENDIX III

PROPERTY VALUATION

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in Japan

No.	Property	Market value in existing state as at 30 June 2016	Interest Attributable to the Group	Market value Attributable to the Group as at 30 June 2016
		JPY		JPY
1.	A factory complex erected on 16 parcels of land located at 27-18, Nakasunahata, Miyauri, Sakata-shi, Yamagata, Japan	2,925,200,000	100%	2,925,200,000
	山形県酒田市宮海字中砂畑27-18			
	Sub-total:	<u>2,925,200,000</u>		<u>2,925,200,000</u>

Group II — Property interests held by the Group for investment in Japan

No.	Property	Market value in existing state as at 30 June 2016	Interest Attributable to the Group	Market value Attributable to the Group as at 30 June 2016
		JPY		JPY
2.	A semi-detached house located at 1-8-5, Akebonocho, Sakata-shi, Yamagata, Japan	22,070,000	100%	22,070,000
	山形県酒田市曙町1丁目8番地5			
	Sub-total:	<u>22,070,000</u>		<u>22,070,000</u>
	Grand-total:	<u>2,947,270,000</u>		<u>2,947,270,000</u>

APPENDIX III

PROPERTY VALUATION

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in Japan

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2016
				<i>JPY</i>
1.	A factory complex erected on 16 parcels of land located at 27-18, Nakasunahata, Miyaumi, Sakata-shi, Yamagata, Japan 山形県酒田市宮海字中砂畑27-18	The property is erected on 16 parcels of land having a total site area of approximately 163,157 sq. m. with 44 various major buildings and structures erected thereon. The buildings and structures include 1 block of office building, 1 block of canteen, 15 blocks of workshops/warehouses and 27 blocks of other ancillary facilities which were completed between 1982 and 1997. They have a total gross floor area of approximately 53,851 sq. m. The property is held freehold.	The property is occupied by the Group for industrial use as at the valuation date.	2,925,200,000 (100% interest attributable to the Group: JPY 2,925,200,000)

Notes:

- The owner of the land with a total site area of 163,157 sq. m. is HONMA GOLF CO.,LTD. (“株式会社本間ゴルフ”).
- The owner of the building with a total gross floor area of 53,851 sq. m. is HONMA GOLF CO.,LTD. (“株式会社本間ゴルフ”).
- In our valuation, we have made reference to several transactions which have characteristics comparable to the property. We have adopted the range of unit rates of between JPY50,000 – JPY80,000/sq.m. The unit rates assumed by us are consistent with the said transaction. Due adjustments to the unit rates of those asking price reference have been made to reflect factors including but not limited to time, location and size in arriving at the key assumptions.

APPENDIX III

PROPERTY VALUATION

VALUATION CERTIFICATE

Group II — Property interests held by the Group for investment in Japan

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2016
				<i>JPY</i>
2.	A semi-detached house located at 1-8-5, Akebonocho, Sakata-shi, Yamagata, Japan 山形縣酒田市曙町1丁目8番地5	The property is erected on a parcel of land having a site area of approximately 264.61 sq. m. with a 2-storey building and structures erected thereon. The buildings and structures include a 2 storey residential property which was completed in 1994. It has a gross floor area of approximately 167.4 sq. m. The property is held freehold.	The property was leased to 4 independent 3rd parties for residential use as at the valuation date.	22,070,000 (100% interest attributable to the Group: JPY 22,070,000)

Notes:

- The owner of the land with a site area of 264.61 sq. m. is HONMA GOLF CO.,LTD. (“株式会社本間ゴルフ”).
- The owner of the building with a gross floor area of 167.4 sq. m. is HONMA GOLF CO.,LTD. (“株式会社本間ゴルフ”).
- Pursuant to 4 tenancy agreements, the property with a total lease area of approximately 155.72 sq.m. has been leased to 4 independent third parties for various terms with the expiry date between 13rd July 2017 to 31st March 2018 at a total monthly rent of JPY180,000 for residential use.
- In our valuation, we have made reference to several rentals evidence and asking rent of similar residential property in the locality which are in the region of JPY1,000 — JPY1,500 per sq.m./month. The market yield assumed by us is 10% which is in line with the market yield of this property sector in the region of 8% to 12%.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

This Appendix contains a summary of the Memorandum and Articles of Association of our Company. As the information set out below is in summary form, it does not contain all of the information that may be important to potential investors. As stated in “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix VI, a copy of the Memorandum and Articles of Association is available for inspection.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on [September 18, 2016] and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VI in the section headed “Documents available for inspection.”

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on [September 18, 2016] and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US\$[1,000] divided into [1,000] shares of US\$[1] each.

2.2 Directors

(a) Power to Allot and Issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to Dispose of the Assets of the Company or Any Subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or Payment for Loss of Office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial Assistance to Purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of Interest in Contracts with the Company or Any of Its Subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

**APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN COMPANIES LAW**

- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, Appointment and Removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

(i) Borrowing Powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to Constitutional Documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of Rights of Existing Shares or Classes of Shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of Capital

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 *Special Resolution — Majority Required*

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 *Voting Rights*

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual General Meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

2.9 Accounts and Audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of Meetings and Business to be Conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

2.11 Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to Purchase Its Own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.13 Power of Any Subsidiary of the Company to Own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and Other Methods of Distribution

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

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No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

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Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on Shares and Forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

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The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of Register of Members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.18 Quorum for Meetings and Separate Class Meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.19 Rights of Minorities in Relation to Fraud or Oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on Liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable Members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 October 2013 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account.” At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

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Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 5 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

7 Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

13 Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking is for a period of twenty years from [June 28,] 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder, the Company's legal advisors on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

We were incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on October 7, 2013. We have established a principal place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong and have been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on June 15, 2016. Ms. Cheng Pik Yuk (鄭碧玉) and Ms. Ng Sin Yee Clare (吳倩儀) of Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong have been appointed as the authorized representatives of our Company for the acceptance of service of process and notices in Hong Kong.

As we were incorporated in the Cayman Islands, our corporate structure and Memorandum and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum and Articles of Association is set out in “Summary of the Constitution of Our Company and Cayman Companies Law” in Appendix IV.

2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of US\$50,000, divided into 50,000 shares of par value of US\$1.00 each.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this document:

- on October 7, 2013, our Company allotted and issued one share at par value to NovaSage Nominees (Cayman) Limited as the initial subscriber, which was transferred to Kouunn Holdings on the same day; then we allotted and issued 999 shares to Kouunn Holdings at a consideration of US\$999.0 on the same day;
- on [●], 2016, our Company sub-divided each of its issued and unissued shares of par value US\$1.00 each into 400,000 Shares of par value US\$0.0000025 each, such that following the sub-division, the authorized share capital of our Company is US\$50,000 dividend into 20,000,000,000 Shares of par value US\$0.0000025 each; and
- on [●] 2016, our Company allotted and issued a total of 75,059,000 Shares credited as fully paid at par to the holders of Shares on the register of members of our Company at the close of business on [●] 2016 in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalization of the sum of [US\$187.6] of the distributable reserves of the Company.

Immediately following the completion of the [REDACTED], assuming that the [REDACTED] is not exercised and without taking into account any Shares which may be issued under the RSU Scheme or upon the exercise of options which may be granted under the Post-[REDACTED] Share Option Scheme, the issued share capital of our Company will be US\$[REDACTED], divided into [REDACTED] Shares of par value US\$[REDACTED] each, all fully paid or credited as fully paid and [REDACTED] Shares of par value US\$[REDACTED] each will remain unissued.

Save as disclosed above and in this document, there has been no alteration in the share capital of our Company since our incorporation.

3. Resolutions in Writing of the Shareholders of Our Company Passed on [September 18], 2016

Pursuant to the written resolutions passed by the Shareholders on [September 18], 2016:

- (a) our Company approved and adopted the Memorandum and Articles of Association conditional and effective upon [REDACTED];

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- (b) our Company subdivided each existing issued and unissued share of par value US\$1.00 each into 400,000 Shares of par value US\$0.0000025 each, such that following the sub-division, the authorized share capital of our Company is US\$50,000 divided into 20,000,000,000 Shares of par value US\$0.0000025 each;
- (c) subject to the Company having sufficient distributable reserves, our Directors were authorized to allot and issue a total of 75,059,000 Shares credited as fully paid at par to the holders of Shares on the register of members of our Company at the close of business on the date immediately preceding the bulk-printing of this document in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalization of the sum of US\$187.6 of the distributable reserves of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;
- (d) conditional on (1) the [REDACTED] granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this document (including any Shares which may be issued pursuant to the exercise of the [REDACTED], additional RSUs which may be further granted under the RSU Scheme or options which may be granted under the Post-[REDACTED] Share Option Scheme), (2) the [REDACTED] being fixed on the Price Determination Date and (3) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
 - (i) the [REDACTED] and the [REDACTED] were approved and the Directors were authorized to allot and issue the new Shares pursuant to the [REDACTED] and the [REDACTED];
 - (ii) the granting of the [REDACTED] was approved;
 - (iii) the proposed [REDACTED] was approved and the Directors were authorized to implement the [REDACTED];
 - (iv) a general unconditional mandate was granted to the Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to (a) a rights issue, (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association, (c) the exercise of options which may be granted under the Post-[REDACTED] Share Option Scheme or (d) the exercise of any subscription or conversion rights attaching to any warrants or securities which are convertible into Shares or in issue prior to the date of passing the relevant resolution or (e) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of (1) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED], under the RSU Scheme or upon the exercise of any options which may be granted under the Post-[REDACTED] Share Option Scheme) and (2) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in paragraph (vi) below, such mandate to remain in effect during the period from the passing of the resolution until the earliest of the conclusion of our next annual general meeting, the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting and the date on which the resolution is varied or revoked by an ordinary resolution of the Shareholders in general meeting (the “Applicable Period”);

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- (v) a general unconditional mandate was granted to the Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose Shares with a total nominal value of not more than 10% of the total nominal value of the share capital of our Company in issue immediately following completion of the [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED], under the RSU Scheme or upon the exercise of any options which may be granted under the Post-[REDACTED] Share Option Scheme), such mandate to remain in effect during the Applicable Period; and
- (vi) the general unconditional mandate mentioned in paragraph (iv) above be extended by the addition to the aggregate nominal amount of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (v) above, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the Company’s share capital in issue immediately following completion of the [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED], under the RSU Scheme or upon the exercise of any options which may be granted under the Post-[REDACTED] Share Option Scheme); and
- (e) conditional on (1) the [REDACTED], and permission to deal in, the Shares to be issued pursuant to the exercise of any options which may be granted pursuant to the Post-[REDACTED] Share Option Scheme and (2) the commencement of [REDACTED] of the Shares on the Main Board of the Stock Exchange, (i) the adoption of the Post-[REDACTED] Share Option Scheme was approved and (ii) the Board was authorized to allot, issue and deal with Shares pursuant to the exercise of any options which may be granted pursuant to the Post-[REDACTED] Share Option Scheme.

4. Our Corporate Reorganization

The companies comprising the Group underwent the Reorganization in preparation for the [REDACTED]. Please see “Our History” for further details.

5. Changes in the Share Capital of Our Subsidiaries

Our subsidiaries are referred to in the Accountant’s Report, the text of which is set out in Appendix I. Save for the subsidiaries mentioned in the Accountant’s Report, we do not have any other subsidiaries.

The following alterations in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this document:

(a) WP International Trading

On December 27, 2013, WP International Trading was established in the PRC as a limited liability company with a registered capital of RMB5,500,000, which has been fully paid up.

On July 23, 2015, the registered capital of WP International Trading was increased from RMB5,500,000 to RMB10,000,000, which has been fully paid up.

Save as disclosed above, there have been no alterations in the share capital of our subsidiaries within the two years immediately preceding the date of this document.

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6. Repurchases of Our Own Securities

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) Shareholders’ Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our then Shareholders on [●], 2016, a general unconditional mandate (the “Repurchase Mandate”) was given to the Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate nominal value of our Company’s share capital in issue immediately following the completion of the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED], under the RSU Scheme or upon the exercise of any options which may be granted under the Post-[REDACTED] Share Option Scheme), such mandate to expire at the conclusion of our next annual general meeting, the date by which our next annual general meeting is required by the Cayman Companies Law or by our Articles of Association or any other applicable laws of the Cayman Islands to be held or when revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever first occurs.

(ii) Source of Funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange as amended from time to time. Subject to the foregoing, any repurchases by our Company may be made out of the profits of our Company, out of the share premium account of our Company or out of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Law and the Memorandum and Articles of Association, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Cayman Companies Law and the Memorandum and Articles of Association, out of capital.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited

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from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of Repurchased Shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and cancelled and the certificates for those securities must be cancelled and destroyed.

(v) Suspension of Repurchase

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) 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 a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Connected Persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person and a core connected person is prohibited from knowingly selling his securities to the company.

(b) Reasons for Repurchases

The Directors believe that the ability to repurchase Shares is in the interests of our Company and the Shareholders. Repurchases may, depending on the circumstances, result in an increase in the net assets and/or earnings per Share. The Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then pertaining. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

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(c) Funding of Repurchases

In repurchasing securities, our Company may only apply funds lawfully available for such purpose in accordance with the Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. There could be a material adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this document) in the event that the repurchase mandate were to be carried out in full at any time during the share repurchase period. However, the Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the repurchase mandate, on the basis of [REDACTED] Shares in issue immediately following the completion of the [REDACTED] and assuming the [REDACTED] is not exercised and without taking into account any Shares which may be issued under the RSU Scheme or upon the exercise of any options which may be granted pursuant to the Post-[REDACTED] Share Option Scheme, could accordingly result in up to approximately [REDACTED] Shares being repurchased by our Company during the period prior to:

- (i) the conclusion of our next annual general meeting; or
- (ii) the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) the date when the repurchase mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates, has any present intention to sell any Shares to our Company or our subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

No core connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the repurchase mandate is exercised.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue, being the relevant minimum prescribed percentage as required by the Stock Exchange, could only be implemented if the Stock Exchange agreed to waive the requirement regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the repurchase mandate to such an extent that, under the circumstances, there would be insufficient public float as prescribed under the Listing Rules.

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B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this document and are or may be material:

- (a) the Deed of Indemnity; and
- (b) the Hong Kong Underwriting Agreement.

2. Material Intellectual Property Rights of the Group

As of the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

(a) Trademarks

As of the Latest Practicable Date, we have registered the following trademarks which are material to our business:

No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
1		28	Honma Japan	Japan	2713023	March 29, 1996	March 29, 2026
2	本間ゴルフ	18,25,28	Honma Japan	Hong Kong	300424511	May 23, 2005	May 22, 2025
3	本間ゴルフ	18	Honma Japan	PRC	1926598	February 7, 2003	February 6, 2023
4	本間ゴルフ	25	Honma Japan	PRC	1939020	October 28, 2002	October 27, 2022
5	本間ゴルフ	28	Honma Japan	PRC	1941392	September 7, 2002	September 6, 2022
6	本間ゴルフ	41	Honma Japan	PRC	12997267	December 14, 2014	December 13, 2024
7		14	Honma Japan	Japan	1772153	May 30, 1985	May 30, 2025
8		24,25	Honma Japan	Japan	2078670	September 30, 1988	September 30, 2018
9		41	Honma Japan	Japan	3101208	November 30, 1995	November 30, 2025
10		35	Honma Japan	Japan	5146088	June 27, 2008	June 27, 2018
11		37	Honma Japan	Japan	3147517	April 30, 1996	April 30, 2026
12		16	Honma Japan	Japan	3339841	August 15, 1997	August 15, 2017
13		18,25,28	Honma Japan	Japan	4766613	April 23, 2004	April 23, 2024
14		18	Honma Japan	PRC	546843	March 20, 1991	March 19, 2021
15		28	Honma Japan	PRC	546905	March 20, 1991	March 19, 2021

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No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
16		25,28	Honma Japan	PRC	547677	March 30, 1991	March 29, 2021
17		41	Honma Japan	PRC	12997268	December 14, 2014	December 13, 2024
18		18,25,28	Honma Japan	Hong Kong	199408041AA	March 7, 1991	March 7, 2022
19		18	Honma Japan	Republic of Korea	158183	August 17, 1988	August 17, 2018
20		18,25	Honma Japan	Republic of Korea	56435	June 28, 1978	June 28, 2018
21		28	Honma Japan	Republic of Korea	56648	July 15, 1978	July 15, 2018
22		25	Honma Japan	Republic of Korea	55883	May 29, 1978	May 29, 2018
23		20,24,25	Honma Japan	Japan	1933798	February 25, 1987	February 25, 2017
24		18,25	Honma Japan	Japan	2207624	January 30, 1990	January 30, 2020
25		16	Honma Japan	Japan	3339840	August 15, 1997	August 15, 2017
26		25	Honma Japan	Japan	4131962	April 3, 1998	April 3, 2018
27		18	Honma Japan	Japan	4137041	April 17, 1998	April 17, 2018
28		28	Honma Japan	Japan	4193192	October 2, 1998	October 2, 2018
29		25,28	Honma Japan	PRC	547678	March 20, 1991	March 29, 2021
30		18	Honma Japan	PRC	546847	March 20, 1991	March 19, 2021
31		28	Honma Japan	PRC	546904	March 20, 1991	March 19, 2021
32		25	Honma Japan	Republic of Korea	55882	May 29, 1978	May 29, 2018
33		28	Honma Japan	Republic of Korea	56671	July 18, 1978	July 18, 2018
34		18,25	Honma Japan	Republic of Korea	56434	June 28, 1978	June 28, 2018

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No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
35		18	Honma Japan	Republic of Korea	155776	June 14, 1988	June 14, 2018
36		18,25,28	Honma Japan	Hong Kong	03057/2001	July 26, 2000	July 26, 2017
37	TOUR WORLD	18,25,28	Honma Japan	Japan	5563266	March 8, 2013	March 8, 2023
38	TOUR WORLD	28	Honma Japan	PRC	1158570 (international registration)	March 5, 2013	March 5, 2023
39	TOUR WORLD	28	Honma Japan	Republic of Korea	1158570 (international registration)	March 5, 2013	March 5, 2023
40	TOUR WORLD	28	Honma Japan	Hong Kong	302518524	February 6, 2013	February 5, 2023
41	BERES	18,25,28	Honma Japan	Japan	5769799	June 5, 2015	June 5, 2025
42	BERES	28	Honma Japan	PRC	4934585	May 21, 2009	May 20, 2019
43	BERES	28	Honma Japan	Hong Kong	301016928	December 18, 2007	December 17, 2017
44	BERES	18,25,28	Honma Japan	Republic of Korea	40-0675178	August 22, 2006	August 22, 2026
45	TW-G1	28	Honma Japan	Japan	5660500	March 28, 2014	March 28, 2024
46	TW-G1	28	Honma Japan	PRC	13799403	February 21, 2015	February 20, 2025
47	TW-G1	28	Honma Japan	Hong Kong	302838637	December 16, 2013	December 15, 2023
48	TW-G1	28	Honma Japan	Republic of Korea	40-1079326	January 6, 2015	January 6, 2025
49	TW-G1x	28	Honma Japan	Japan	5660501	March 28, 2014	March 28, 2024
50	TW-G1x	28	Honma Japan	PRC	13799404	February 21, 2015	February 20, 2025
51	TW-G1x	28	Honma Japan	Hong Kong	302838646	December 16, 2013	December 15, 2023
52	G1X	28	Honma Japan	Hong Kong	303365055	April 8, 2015	April 7, 2025
53	G1X	28	Honma Japan	Republic of Korea	40-1151128	December 29, 2015	December 29, 2025
54	TW-G1x	28	Honma Japan	Republic of Korea	40-1079331	January 6, 2015	January 6, 2025
55	BeZEAL	18, 25, 28	Honma Japan	Japan	5785014	August 7, 2015	August 7, 2025
56	BeZEAL	28	Honma Japan	Hong Kong	303480507	July 22, 2015	July 21, 2025

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As of the Latest Practicable Date, we have applied for the registration of the following trademarks which are material to our business:

No.	Trademark	Type and class	Name of applicant	Place of application	Application number	Application date
1	GIX	28	Honma Japan	PRC	16713516	April 15, 2015
2	Be ZEAL	28	Honma Japan	PRC	1271321 (international registration)	July 24, 2015
3	Be ZEAL	28	Honma Japan	Republic of Korea	1271321 (international registration)	July 24, 2015

(b) Patents

As of the Latest Practicable Date, we have registered the following patents which are material to our business:

No.	Patent name	Registered Owner	Place of Registration	Registration Number	Duration
1	Golf Club	Honma Japan	Japan	Patent No. 4671447	January 28, 2011 – October 23, 2029
2	Golf Club	Honma Japan	United States	8,876,626	November 4, 2014 – October 12, 2030
3	Golf Club	Honma Japan	PRC	ZL201080047834.8	April 1, 2015 – October 11, 2030
4	Golf Club	Honma Japan	Hong Kong	HK1168314	September 25, 2015 – October 12, 2030
5	Golf Club	Honma Japan	Japan	Patent No. 5774407	July 10, 2015 – August 3, 2031
6	Golf Club Head with Uneven-thick phase	Honma Japan	Japan	Patent No. 5795919	August 21, 2015 – September 21, 2031
7	Putter for Golf	Honma Japan	Japan	Utility Model Right No. 3144242	July 30, 2008 – June 10, 2018
8	Putter for Golf	Honma Japan	Japan	Utility Model Right No. 3169560	July 13, 2011 – May 25, 2021

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As of the Latest Practicable Date, we have applied for the registration of the following patents which are material to our business:

No.	Patent name	Name of Applicant	Place of Application	Application Number	Application Date
1	Golf Club	Honma Japan	Thailand	1201001851	October 12, 2010
2	Golf Club	Honma Japan	Republic of Korea	10-2012-7012643	October 12, 2010
3	Golf Club	Honma Japan	Japan	2013-117801	June 6, 2013
4	Golf Club	Honma Japan	Japan	2014-075081	April 1, 2014
5	Shaft for Golf Club	Honma Japan	Japan	2014-135754	July 1, 2014
6	Manufacturing Method and Golf Club Head of Golf Club Head	Honma Japan	Japan	2014-211177	October 15, 2014
7	Shaft for Golf Club	Honma Japan	Japan	2015-074922	April 1, 2015

(c) Domain Names

As of the Latest Practicable Date, we have registered the following domain names which are material to our business:

No.	Domain name	Registrant	Registration date	Expiry date
1	http://www.honmagolf.co.jp/	Honma Japan	November 10, 1997	November 30, 2016
2	http://www.scorecafe.jp	Honma Japan	September 14, 2012	September 30, 2017
3	http://www.honmagolfkorea.com	Honma Japan	March 7, 2011	March 7, 2017
4	http://www.teamhonmakorea.com	Honma Japan	July 16, 2013	July 16, 2017

(d) Designs

As of the Latest Practicable Date, we have registered the following designs which are material to our business:

No.	Title of design	Registered owner	Registration number	Place of registration	Filing date	Expiration date
1	Head of Putter Golf Club	Honma Japan	Design Right No. 1481918	Japan	September 13, 2013	September 13, 2033

Save as aforesaid, as at the Latest Practicable Date, there were no other trade or service marks, patents, designs, intellectual or industrial property rights which were material in relation to our Group’s business.

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C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests of the Directors and the Chief Executive of Our Company*

After the completion of the Share Subdivision and the Capitalization Issue and immediately following the completion of the [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED] or upon the exercise of additional RSUs which may be further granted under the RSU Scheme or any options which may be granted under the Post-[REDACTED] Share Option Scheme, so far as the Directors are aware, the interests or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed, will be as follows:

(i) *Interest in our Company*

Name of Director/Chief Executive	Capacity/nature of interest ⁽¹⁾	Number of underlying shares	Approximate percentage of shareholding interest immediately following the completion of the [REDACTED] ⁽²⁾
Chairman Liu ⁽³⁾	Interest in controlled corporation	[REDACTED]	[REDACTED]
	Beneficial owner	[REDACTED]	[REDACTED]
Ito Yasuki (伊藤 康樹) ⁽⁴⁾	Beneficial owner	[REDACTED]	[REDACTED]
Murai Yuji (邨井 勇二) ⁽⁵⁾	Beneficial owner	[REDACTED]	[REDACTED]
Zuo Jun (左軍) ⁽⁶⁾	Beneficial owner	[REDACTED]	[REDACTED]

Notes:

- (1) All interests stated are long positions.
- (2) The calculation is based on the total number of [REDACTED] Shares in issue immediately following the completion of the Share Subdivision, the Capitalization Issue and the [REDACTED] (assuming that the [REDACTED] is not exercised and without taking into account any Shares which may be issued upon the exercise of additional RSUs which may be further granted under the RSU scheme or options which may be granted under the Post-[REDACTED] Share Option Scheme).
- (3) Chairman Liu is the sole beneficial owner of Kouunn Holdings. By virtue of the SFO, Chairman Liu is deemed to be interested in the Shares held by Kouunn Holdings. Chairman Liu is also interested in [REDACTED] RSUs granted to him under the RSU Scheme entitling him to receive [REDACTED] Shares subject to vesting.
- (4) Mr. Ito Yasuki is interested in [REDACTED] RSUs granted to him under the RSU Scheme entitling him to receive [REDACTED] Shares subject to vesting.
- (5) Mr. Murai Yuji is interested in [REDACTED] RSUs granted to him under the RSU Scheme entitling him to receive [REDACTED] Shares subject to vesting.
- (6) Mr. Zuo Jun is interested in [REDACTED] RSUs granted to him under the RSU Scheme entitling him to receive [REDACTED] Shares subject to vesting.

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(ii) Interest in associated corporations of our Company

Name of Director	Name of associated corporation	Nature of interest	Number of shares held	Approximate percentage of shareholding interest
Chairman Liu	Kouunn Holdings	Beneficial Owner	1,000	100%

(b) Interests of the Substantial Shareholders

Save as disclosed in “Substantial Shareholders,” our Directors and chief executive are not aware of any other person (other than a Director or chief executive of our Company) who, after the completion of the Share Subdivision and the Capitalization Issue and immediately following the completion of the [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED], under the RSU Scheme or any options which may be granted under the Post-[REDACTED] Share Option Scheme, will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company or any other member of our Group.

2. Directors’ Service Contracts

Each of our executive Directors has entered into a service contract with our Company on [September 18], 2016, and we have issued letters of appointment to each of our non-executive Directors and each of our independent non-executive Directors. The service contracts with each of our executive Directors and the letters of appointment with each of our non-executive Directors are for an initial fixed term of three years commencing from [September 18], 2016. The letters of appointment with each of our independent non-executive Directors are for an initial fixed term of three years commencing from [September 18], 2016. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of our Directors has entered into, or has proposed to enter into, a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors’ Remuneration

The aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid to the Directors for the years ended March 31, 2014, 2015 and 2016 were approximately JPY40.7 million, JPY60.7 million and JPY88.2 million, respectively.

Save as disclosed above, no other payments have been made or are payable, in respect of the years ended March 31, 2014, 2015 and 2016, by any of member of the Group to any of the Directors.

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Pursuant to the service contracts entered into between our Company and each of our executive Directors and the appointment letters issued to each of the non-executive Directors and independent non-executive Directors, the basic remuneration and the contractual annual performance bonus payable to each of our Directors are as follows:

Director	Basic Remuneration (per annum)	Performance bonus (per annum)
	<i>JPY</i>	<i>JPY</i>
Chairman Liu	18,211,723	—
Ito Yasuki	16,366,366	5,767,650
Murai Yuji	13,556,077	6,979,350
Zuo Jun	15,264,066	—
Lu Pochin Christopher	7,905,000	—
Wang Jianguo	4,743,000	—
Xu Hui	4,743,000	—

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of the Directors for the year ending March 31, 2017 to be approximately JPY93.5 million.

4. Directors’ Competing Interests

None of our Directors are interested in any business apart from the Group’s business which competes or is likely to compete, directly or indirectly, with the business of the Group.

5. Disclaimers

Save as disclosed in this document:

- (a) none of the Directors or chief executive of our Company has any interests or short positions in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange;
- (b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;
- (c) none of the Directors nor any of the persons listed in “— E. Other Information — 5. Qualification of Experts” below is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (d) none of the Directors nor any of the persons listed in “— E. Other Information — 5. Qualification of Experts” below is materially interested in any contract or arrangement with the Group subsisting at the date of this document which is unusual in its nature or conditions or which is significant in relation to the business of the Group as a whole;

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- (e) save in connection with Underwriting Agreements, none of the persons listed in “— E. Other Information — 5. Qualification of Experts” below (i) is interested legally or beneficially in any of the Shares or any shares of any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (f) save as contemplated under the Underwriting Agreements, none of our Directors, their respective associates (as defined under the Listing Rules), or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in our Company’s five largest customers and five largest suppliers.

D. SHARE INCENTIVE SCHEMES

1. RSU Scheme

The following is a summary of the principal terms of the RSU Scheme approved and adopted by our Company on October 20, 2015. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares.

(a) Purposes of the RSU Scheme

The purpose of the RSU Scheme is to incentivize Directors, senior management and employees for their contribution to our Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of our Group by providing them with the opportunity to own equity interests in our Company.

(b) RSUs

A RSU gives a participant in the RSU Scheme (the “RSU Participant”) a conditional right when the RSU vests to obtain Shares, less any tax, stamp duty and other charges applicable, as determined by our Board in its absolute discretion. Each RSU represents one underlying Share. A RSU may include, if so specified by our Board in its entire discretion, cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares.

(c) Participants in the RSU Scheme

Persons eligible to receive RSUs under the RSU Scheme are existing employees, directors (whether executive or non-executive, but excluding independent non-executive directors) or officers of our Company or any of our subsidiaries (the “RSU Eligible Persons”). Our Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion.

(d) Term of the RSU Scheme

The RSU Scheme will be valid and effective for a period of ten (10) years, commencing from the date of the first grant of the RSUs, being October 20, 2015 (unless it is terminated earlier in accordance with its terms) (the “RSU Scheme Period”).

(e) Grant and acceptance

(i) Making an offer

An offer to grant a RSU will be made to a RSU Eligible Person selected by our Board (the “RSU Selected Person”) by a letter, in such form as our Board may determine (the “RSU Grant Letter”). The RSU Grant Letter will specify the RSU Selected Person’s name, the manner of acceptance of the RSU, the number of RSUs granted and the number of underlying Shares represented by the RSUs, the vesting criteria and

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conditions, the vesting schedule, the exercise price of the RSUs (where applicable) and such other details as our Board considers necessary and are not inconsistent with the RSU Scheme, and will require the RSU Selected Person to undertake to hold the RSU on the terms on which it is granted and to be bound by the provisions of the RSU Scheme.

(ii) Acceptance of an offer

A RSU Selected Person may accept an offer of the grant of RSUs in such manner as set out in the RSU Grant Letter. Once accepted, the RSUs are deemed granted from the date of the RSU Grant Letter (the “RSU Grant Date”).

(iii) Restrictions on grants

Our Board may not grant any RSUs to any RSU Selected Persons in any of the following circumstances:

- the securities laws or regulations require that a document or other offering documents be issued in respect of the grant of the RSUs or in respect of the RSU Scheme, unless our Board determines otherwise;
- where granting the RSUs would result in a breach by our Company, our subsidiaries or any of their directors of any applicable securities laws, rules or regulations; or
- where such grant of any RSUs would result in a breach of the limits of the RSU Scheme (as set out in paragraph (f) below).

(f) Maximum number of Shares pursuant to RSUs

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 RSU Trustee for the purpose of the RSU Scheme from time to time.

(g) Rights attached to RSUs

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

(h) Rights attached to Shares

Any Shares transferred to a RSU Participant in respect of any RSUs will be subject to all the provisions of the Articles and will rank pari passu with the fully paid Shares in issue on the date of the transfer or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members, and accordingly will entitle the holder to participate in all dividends or other distributions paid or made on or after the date of the transfer or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members.

(i) Assignment of RSUs

The RSUs granted pursuant to the RSU Scheme are personal to each RSU Participant, and are not assignable. RSU Participants are prohibited from selling, transferring, assigning, charging, mortgaging, encumbering, hedging or creating any interest in favour of any other person over or in relation to any property held by the RSU Trustee (as defined in paragraph (k) below) on trust for the RSU Participants, the RSUs, or any interest or benefits therein.

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(j) Vesting of RSUs

Our Board can determine the vesting criteria, conditions and the time schedule when the RSUs will vest and such criteria, conditions and time schedule shall be stated in the RSU Grant Letter.

Within a reasonable time after the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, our Board will send a vesting notice (the “Vesting Notice”) to each of the relevant RSU Participants. The Vesting Notice will confirm the extent to which the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, and the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) involved.

(k) Appointment of the RSU Trustee

Our Company has appointed The Core Trust Company Limited (the “RSU Trustee”) as the trustee to assist in the administration of the RSU Scheme. Our Company may (i) allot and issue Shares to the RSU Trustee and/or the RSU Nominee to be held by the RSU Trustee and/or the RSU Nominee and which will be used to satisfy the Shares underlying the RSUs upon exercise and/or (ii) direct and procure the RSU Trustee to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the Shares underlying the RSUs upon exercise. Our Company shall procure that sufficient funds are provided to the RSU Trustee by whatever means as our Board may in its absolute discretion determine to enable the RSU Trustee to satisfy its obligations in connection with the administration of the RSU Scheme. All the Shares underlying the RSUs granted and to be granted under the RSU Scheme will be transferred, allotted or issued to the RSU Nominee, a company indirectly wholly-owned by the RSU Trustee, which, as at [REDACTED], holds (as the RSU Nominee) [REDACTED] Shares underlying the RSUs granted under the RSU Scheme for the benefit of eligible participants pursuant to the RSU Scheme.

(l) Exercise of RSUs

RSUs held by a RSU Participant that are vested as evidenced by the Vesting Notice may be exercised (in whole or in part) by the RSU Participant serving an exercise notice in writing on the RSU Trustee and copied to our Company. Any exercise of RSUs must be in respect of a board lot of 500 Shares each or an integral multiple thereof (except where the number of RSUs which remains unexercised is less than one board lot).

In an exercise notice, the RSU Participant shall request the RSU Trustee to, and the Board shall direct and procure the RSU Trustee to, within three (3) business days (a day (other than a Saturday or Sunday or days on which a tropical cyclone warning number 8 or above or a “black” rain warning signal is hoisted in Hong Kong at any time between 9 am and 5 pm) on which the Stock Exchange is open for trading and clearing banks in Hong Kong and the PRC are open for transactions of normal banking business), transfer the Shares underlying the RSUs exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the RSU Participant which our Company has allotted and issued to the RSU Trustee as fully paid up Shares or which the RSU Trustee has either acquired by purchasing existing Shares or by receiving existing Shares from any Shareholder, subject to the RSU Participant paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the RSU Trustee or as the RSU Trustee directs; or

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

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(m) Rights on a takeover

If a general offer to acquire the Shares (whether by takeover offer, merger, or otherwise in a like manner) is made to all of our Shareholders (or Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and the general offer to acquire the Shares is approved and the offer becomes or is declared unconditional in all respects, a RSU Participant's RSUs will vest immediately, even if the vesting period has not yet commenced.

(n) Rights on a compromise or arrangement

If a compromise or arrangement between our Company and our Shareholders or creditors is proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies and a notice is given by our Company to our Shareholders to convene a general meeting to consider and if thought fit approve such compromise or arrangement and such Shareholders' approval is obtained, a RSU Participant's RSUs will vest immediately, even if the vesting period has not yet commenced.

(o) Rights on voluntary winding-up

If an effective resolution is passed during the RSU Scheme Period for the voluntary winding-up of the Company (other than for the purposes of a reconstruction, amalgamation or scheme of arrangement), all outstanding RSUs shall be treated as having vested immediately. No Shares will be transferred, and no cash alternative will be paid, to the RSU Participant, but the RSU Participant will be entitled to receive out of the assets available in liquidation on an equal basis with our Shareholders such sum as they would have received in respect of the RSUs.

(p) Lapse of RSUs

(i) Full lapse of RSU

Any unvested RSU will automatically lapse immediately where:

- such RSU Participant's employment or service terminates for any reason; or
- the RSU Participant makes any attempt or takes any action to sell, transfer, assign, charge, mortgage, encumber, hedge or create any interest in favour of any other person over or in relation to any RSUs or any interests or benefits pursuant to the RSUs.

(ii) If at any time, a RSU Participant:

- ceases to be an employee;
- fails, during the course of his employment, to devote the whole of his time and attention to the business of our Group or to use his best endeavours to develop the business and interests of our Group;
- is concerned during the course of his employment with our Group (without the prior written consent of our Company) with any (competitive or other) business other than that of our Group; and/or
- is in breach of his contract of employment with or any other obligation to our Group (including without limitation certain restrictive covenants),

then all vested and unvested RSUs shall automatically lapse and such RSU Participant shall have no claim whatsoever in respect of the RSUs or the underlying Shares.

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(q) Cancellation of RSUs

Our Board may at its discretion cancel any RSU that has not vested or lapsed, provided that:

- (i) our Company or our subsidiaries pay to the RSU Participant an amount equal to the fair value of the RSU at the date of the cancellation as determined by the Board, after consultation with our auditors or an independent financial adviser appointed by our Board;
- (ii) our Company or our relevant subsidiary provides to the RSU Participant a replacement award (or a grant or option under any other restricted share unit scheme, share option scheme or share-related incentive scheme) of equivalent value to the RSUs to be cancelled; or
- (iii) our Board makes any arrangement as the RSU Participant may agree in order to compensate him/her for the cancellation of the RSUs.

(r) Reorganization of capital structure

In the event of any capitalization issue, rights issue, consolidation, sub-division or reduction of the share capital of our Company, our Board may make such equitable adjustments, designed to protect the RSU Participants’ interests, to the number of Shares underlying the outstanding RSUs or to the amount of the equivalent value, as it may deem appropriate at its absolute discretion.

(s) Amendment of the RSU Scheme

Save as provided in the RSU Scheme, our Board may alter any of the terms of the RSU Scheme at any time. Written notice of any amendment to the RSU Scheme shall be given to all RSU Participants.

Any alterations to the terms and conditions of the RSU Scheme which are of a material nature or any changes to the terms of the RSUs granted which shall operate to affect materially adversely any subsisting rights of any RSU Participant shall be subject to the consent of the RSU Participants amounting to three-fourths in nominal value of all underlying RSUs so held by the RSU Participants on the date of the relevant resolution passed by our Board in approving the amendment of the RSU Scheme or the terms of the RSUs granted (as the case may be), except where the alterations or changes take effect automatically under the existing terms of the RSU Scheme. Our Board’s determination as to whether any proposed alteration to the terms and conditions of the RSU Scheme or the terms of the RSUs granted (as the case may be) is material shall be conclusive.

(t) Termination of the RSU Scheme

Our Board may terminate the RSU Scheme at any time before the expiry of the RSU Scheme Period. The provisions of the RSU Scheme shall remain in full force and effect in respect of RSUs which are granted pursuant to the rules of the RSU Scheme prior to the termination of the operation of the RSU Scheme. Our Company or our relevant subsidiary shall notify the RSU Trustee and all RSU Participants of such termination and of how any property held by the RSU Trustee on trust for the RSU Participants (including, but not limited to, any Shares held) and the outstanding RSUs shall be dealt with.

(u) Administration of the RSU Scheme

Our Board has the power to administer the RSU Scheme, including the power to construe and interpret the rules of the RSU Scheme and the terms of the RSUs granted under it. Our Board may delegate the authority to administer the RSU Scheme to a committee of our Board (such as the remuneration committee). Our Board may also appoint one or more independent third-party contractors (including the RSU Trustee) to assist in the administration of the RSU Scheme and delegate such powers and/or functions relating to the administration of the RSU Scheme as our Board thinks fit.

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Our Board’s determinations under the RSU Scheme need not be uniform and may be made by it selectively with respect to persons who are granted, or are eligible to be granted, RSUs under it. If a Director is a RSU Participant he may, notwithstanding his own interest and subject to our Articles, vote on any Board resolution concerning the RSU Scheme (other than in respect of his own participation in it), and may retain RSUs under it.

Each RSU Participant waives any right to contest, amongst other things, the value and number of RSUs or Shares or equivalent value of cash underlying the RSUs or Shares and our Board’s administration of the RSU Scheme.

(v) *General*

An application has been made to the [REDACTED], and permission to deal in, new Shares underlying the RSUs that have been granted pursuant to the RSU Scheme.

(w) *Outstanding RSUs granted*

As at the Latest Practicable Date, RSUs in respect of underlying Shares representing approximately [REDACTED]% of the total issued share capital of the Company after the completion of the Share Subdivision and the Capitalization Issue and immediately following the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED], additional RSUs which may be further granted under the RSU Scheme or options which may be granted under the Post-[REDACTED] Share Option Scheme) had been granted to 152 RSU Participants pursuant to the RSU Scheme. Assuming the total number of Shares in issue on the [REDACTED] will be [REDACTED], the RSUs granted to the RSU Participants as of the Latest Practicable Date will represent [REDACTED] underlying Shares. 4 of the RSU Participants are Directors, 6 are directors of our subsidiaries, 3 of the RSU Participants are members of our senior management and 2 are executive managers of our subsidiaries.

Details of the RSUs granted under the RSU Scheme as at the date of this document and details of the vesting period are set out in the paragraph headed “— 2. Details of the RSUs granted under the RSU Scheme” below.

2. Details of the RSUs granted under the RSU Scheme

Name of Grantees of RSU	Position held with our Group	Address	Number of Shares represented by RSUs	Date of Grant	Approximate percentage of shareholding immediately following the Completion of the [REDACTED] ⁽¹⁾ (%)
Director of our Company					
Liu Jianguo (劉建國)	Chairman of the Board, President and Executive Director	No.9 Huahui Road, Songjiang District, Shanghai, PRC	[REDACTED]	November 3, 2015	[REDACTED]
Ito Yasuki (伊藤 康樹)	Executive Director, Chief Marketing Officer and President of Japan Operations	5-8-17-905, Higashiikebukuro, Toshima-ku, Tokyo, 170-0013, Japan	[REDACTED]	October 20, 2015	[REDACTED]
			[REDACTED]	May 31, 2016	[REDACTED]
Murai Yuji (邨井 勇二)	Executive Director and Chief Sales Officer	1-5-4-601, Heiwadai, Nagareyamacity, Chiba, Japan	[REDACTED]	October 20, 2015	[REDACTED]

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Name of Grantees of RSU	Position held with our Group	Address	Number of Shares represented by RSUs	Date of Grant	Approximate percentage of shareholding immediately following the Completion of the [REDACTED]⁽¹⁾ (%)
			[REDACTED]	May 31, 2016	[REDACTED]
Zuo Jun (左軍)	Executive Director, Chief Administrative Officer and President of China Operations	Room 502, No. 1, Lane 926, Xinsongjiang Road, Songjiang District, Shanghai, PRC	[REDACTED]	November 3, 2015	[REDACTED]
Director of our subsidiary (excluding those who are also Directors of our Company)					
Xu Kang (徐康)	Director of Honma Japan	No.33, Lane 40, Fushan Road, Shanghai, China	[REDACTED]	November 3, 2015	[REDACTED]
			[REDACTED]	May 31, 2016	[REDACTED]
Shigeru Kyuma (久馬 茂)	Director of Honma Hong Kong and Honma Macau	Flat D, 49/F., Tower 6, Harbour Green, No. 8 Sham Mong Road, Kowloon	[REDACTED]	October 20, 2015	[REDACTED]
Masanao Hayashi (林 真尚)	Director of Honma Taiwan and Honma Thailand	3-3-16-804 Hisamoto, Takatsu-ku, Kawasaki, Kanagawa, 213-0011, Japan	[REDACTED]	October 20, 2015	[REDACTED]
Yusuke Hiraide (平出 祐介)	Director of Honma Taiwan	8F-2, No. 659, Sec. 1, Neihu Rd., Neihu Dist., Taipei, Taiwan	[REDACTED]	October 20, 2015	[REDACTED]
Masaru Takahashi (高橋 大)	Director of Honma Thailand	136/138, Soi 23 Sukhumvit Road, Klongton-Nua, Wattana, Bangkok 10110	[REDACTED]	October 20, 2015	[REDACTED]
Li Sihong (李思洪)	Director of WP International Trading	No. 276, Lane 2500, Xinsongjiang Road, Shanghai	[REDACTED]	November 3, 2015	[REDACTED]
Senior management members of our Company (excluding those who are also Directors of our Company)					
Suwa Hiroshi (諏訪 博士)	Managing Executive Officer of Product Development	2-16-2 Takamidai, Sakata-shi, Yamagata 998-0051	[REDACTED]	October 20, 2015	[REDACTED]

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Name of Grantees of RSU	Position held with our Group	Address	Number of Shares represented by RSUs	Date of Grant	Approximate percentage of shareholding immediately following the Completion of the [REDACTED]⁽¹⁾ (%)
Ueda Kenji (上田 健次)	Executive Officer of Production	#113, 4-8-33, Kitashinagawa, Sinagawaku, Tokyo 140-0001	[REDACTED]	October 20, 2015	[REDACTED]
Bian Weiwen (邊蔚文)	Chief Financial Officer	Room 2703, Building No. 9, Cuihu Third Schedule, Lane 506, Huangpo South Road, Shanghai, PRC	[REDACTED]	November 3, 2015	[REDACTED]
			[REDACTED]	May 31, 2016	[REDACTED]
Other executive managers of our subsidiaries					
Odauchi Hisaki (小田内 久希)	Operating Director of the Management Division of Honma Japan	Linden Heim 101 Kosugijin'ya cho 1-16-10 Nakahara-ku, Kanagawa Prefecture, Kawasaki, Japan	[REDACTED]	October 20, 2015	[REDACTED]
			[REDACTED]	May 31, 2016	[REDACTED]
Liu Qi (劉琦)	Senior Manager of the PRC Strategic Department of WP International Trading	Room 501, No. 26, Lane 621 Xuanzhong Road Shanghai, PRC	[REDACTED]	November 3, 2015	[REDACTED]
Rank/position held with our Group	Number of Shares represented by RSUs		Date of Grant		Approximate percentage of shareholding immediately following the Completion of the [REDACTED]⁽¹⁾ (%)
2 general managers	413,712		October 20, 2015		[REDACTED]
21 senior managers	2,952,092		October 20, 2015		[REDACTED]
68 managers	4,486,612		October 20, 2015		[REDACTED]
43 store managers	1,335,100		October 20, 2015		[REDACTED]
3 other employees	462,384		November 3, 2015		[REDACTED]

Note:

- (1) Excluding any Shares which may be issued pursuant to the exercise of the [REDACTED], under the RSU Scheme or upon the exercise of any options which may be granted under the Post-[REDACTED] Share Option Scheme.”

As at the date of this document, no single grantee among the 137 other employees who have been granted RSUs under the RSU Scheme is entitled to a total number of RSUs exceeding the total entitlement of any single Director or senior management members of our Company.

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

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For the RSUs granted on October 20, 2015, November 3, 2015 and May 31, 2016 to the named individual grantees of RSU set out in the table above, they shall (unless our Company shall otherwise determine and so notify the RSU Participant in writing) vest as follows:

- (i) as to 40% of the RSUs on the [REDACTED];
- (ii) as to 30% of the RSUs on the date ending 12 months after the [REDACTED]; and
- (iii) as to 30% of the RSUs on the date ending 24 months after the [REDACTED].

3. Post-[REDACTED] Share Option Scheme

The following is a summary of the principal terms of the Post-[REDACTED] Share Option Scheme conditionally approved and adopted by our Shareholders on [September 18, 2016] and its implementation is conditional on the [REDACTED].

For the purpose of this section only, unless the context otherwise requires the following words shall have the following meanings:

“Eligible Person”	means any director or employee of the Group who in the sole discretion of the Board has contributed or will contribute to the Group;
“Grantee”	means any Eligible Person who accepts an offer in accordance with the terms of the Scheme or (where the context so permits) any person entitled to exercise any option in consequence of the death of the original Grantee; and
“Offer Date”	means the date on which an offer of the grant of an option is made to an Eligible Person.

(a) Purpose

The purpose of the Post-[REDACTED] Share Option Scheme is to provide incentives and/or rewards to Eligible Persons for their contribution to, and continuing efforts to promote the interests of, the Group.

(b) Who may participate

Subject to the terms of the Post-[REDACTED] Share Option Scheme, the Board shall be entitled at any time within the period of 10 years after the adoption date to grant options to any Eligible Person as the Board in its absolute discretion select.

(c) Grant of options to connected persons or any of their associates

Each grant of options to a Director (including an independent non-executive Director) of our Company, chief executive or substantial Shareholder of our Company, or any of their respective associates, must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed Grantee of the options).

Where any grant of options to a substantial Shareholder or an independent non-executive Director of our Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Post-[REDACTED] Share Option Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the Offer Date:

- representing in aggregate over 0.1% of the Shares in issue at the Offer Date; and
- having an aggregate value, based on the closing price of the Shares as stated on the Stock Exchange on the Offer Date, in excess of HK\$5 million,

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such grant of options must be approved by the Shareholders in general meeting. Our Company will send a circular to the Shareholders in accordance with the Listing Rules and any Shareholder who is a connected person of our Company shall abstain from voting in favor of the resolution to approve such grant of options.

(d) Restrictions on the time of grant of Options

No offer shall be made and no Option shall be granted to any 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:

- 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 our Company’s results for any year, half-year, quarterly or other interim period; and
- the deadline for our 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.

(e) Exercise price

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

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

provided that, for the purpose of determining the exercise price where the Shares have been [REDACTED] on the Stock Exchange for less than five business days, the issue price of the Shares in the Company’s [REDACTED] of the Shares shall be used as the closing price of the Shares for any business day falling within the period before the [REDACTED].

Participants are required to pay HK\$1.00 as consideration for the acceptance of an option granted to them.

(f) Maximum number of Shares

- (i) The maximum number of Shares which may be issued upon exercise of all options to be granted under the Post-[REDACTED] Share Option Scheme and all other share option schemes existing at such time of the Company shall not in aggregate exceed 10% of the total number of Shares in issue as at the [REDACTED] (the “Scheme Mandate Limit”). Options lapsed in accordance with the terms of the Post-[REDACTED] Share Option Scheme and (as the case may be) such other share option schemes of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may renew the Scheme Mandate Limit at any time subject to prior Shareholders’ approval but in any event, the total number of Shares which may be issued upon exercise of all options to be granted under the Post-[REDACTED] Share Option Scheme and any other share option schemes of the Company under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of approval of the renewal of the Scheme Mandate Limit. Options previously granted under the existing share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the refreshed Scheme Mandate Limit.

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- (ii) Notwithstanding the foregoing, the Company may grant options beyond the Scheme Mandate Limit to Eligible Persons if:
- separate Shareholders’ approval has been obtained for granting options beyond the Scheme Mandate Limit to Eligible Persons specifically identified by the Company before such Shareholders’ approval is sought; and
 - the Company, in connection with the seeking of such separate Shareholders’ approval, has first sent a circular to Shareholders containing such information as may be required by the Listing Rules then prevailing to be included in such circular.
- (iii) Subject to paragraph (iv) below, the maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted to any Eligible Persons under the Post-[REDACTED] Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in any 12 month period shall not at the time of grant exceed 1% of the Shares in issue.
- (iv) Where any further grant of options to an Eligible Person would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by Shareholders in general meeting with such Eligible Person and his associates abstaining from voting. The Company must send a circular to the Shareholders containing the information required under the Listing Rules.
- (v) At any time, the maximum number of Shares which may be issued upon exercise of all options which then have been granted and have yet to be exercised under the Post-[REDACTED] Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time.

(g) Time of exercise of options

Subject to the terms of grant of any option, an option may be exercised by the Grantee at any time during the option period and in accordance with the vesting schedule and other terms specified in the offer.

(h) Duration of the Post-[REDACTED] Share Option Scheme

No option may be vested more than 10 years after the date of grant. Subject to earlier termination by our Company in general meeting or by the Board, the Post-[REDACTED] Share Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date.

(i) Performance targets

Subject to such terms and conditions as the Board may determine, there is no minimum period for which an option must be held before it can be exercised and no performance target needs to be achieved by the Grantee before the options can be exercised.

(j) Rights attaching to the Shares

(i) Dividends and voting rights

Shares issued on the exercise of an option will rank equally in all respects with the Shares in issue on the date of exercise of the option. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of exercise of the option.

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(ii) Restrictions on transfer

An option shall be personal to the Grantee and shall not be assignable nor transferable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (whether legal or beneficial) in favor of any third party over or in relation to any option.

(k) Amendments to the Post-[REDACTED] Share Option Scheme

Save for certain specific provisions, the Board may alter any of the other terms of the Post-[REDACTED] Share Option Scheme. Those specific provisions of the Post-[REDACTED] Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Grantees, and changes to the authority of the Board in relation to any alteration of the terms of the Post-[REDACTED] Share Option Scheme shall not be made, in either case, without the prior approval of Shareholders in general meeting.

Any alterations to the terms and conditions of the Post-[REDACTED] Share Option Scheme which are of a material nature, or any change to the terms of options granted, must also, to be effective, be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Post-[REDACTED] Share Option Scheme. The Post-[REDACTED] Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules.

(l) Effects of alterations to share capital

In the event of any alteration to the capital structure of the Company while any option has been granted or remains exercisable, whether by way of capitalization issue, rights issue, subdivision or consolidation of shares or reduction of share capital of the Company (but excluding any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction to which the Company is a party), adjustments (if any) shall be made at the Board's discretion to:

- (i) the number of Shares to be issued on exercise of the options; and/or
- (ii) the subscription price for the Shares.

The auditors or financial advisors engaged by the Company for the purpose of adjustments shall certify in writing to the Board that such adjustments satisfy the requirements set out in Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to share option schemes (the “Supplemental Guidance”). The capacity of the auditors or financial advisor is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on the Company and the Grantees.

Any such adjustments shall give the Grantees the same proportion of the equity capital of the Company and any adjustments to the advantage of the Grantees to the exercise price or to the number of Shares subject to the options must be approved by the Shareholders in general meeting, and no adjustment may be made to the extent that Shares would be issued at less than their nominal value. In addition, any adjustment to be made will comply with the Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time.

(m) Rights on termination of employment

If the Grantee ceases to be an Eligible Person by reason of the termination of his employment, appointment or directorship, the option shall lapse on the date of cessation and not be exercisable. The date of such cessation shall be his last actual working day at his work place with the Group whether salary is paid in lieu of notice or not.

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(n) Rights on death

If the Grantee of an outstanding option dies before exercising his option, such option may be exercised by his personal representative(s) within a period of six months following the date of his death.

(o) Rights on a general offer by way of voluntary offer or takeover

In the event of a general offer by way of voluntary offer or takeover (other than by way of scheme of arrangement) being made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, the Company shall forthwith give notice thereof to the Grantee and the Grantee shall be entitled to exercise the option to its full extent or, if the Company shall give the relevant notification, to the extent notified by the Company at any time within such period as shall be notified by the Company.

(p) Rights on a general offer by way of scheme of arrangement

In the event of a general offer by way of scheme of arrangement being made to all the Shareholders and approved by the necessary number of Shareholders at the requisite meetings, the Company shall forthwith give notice thereof to the Grantee and the Grantee may at any time thereafter (but before such time as shall be notified by the Company) exercise the option to its full extent or, if the Company shall give the relevant notification, to the extent notified by the Company.

(q) Rights on winding up

In the event a notice is given by the Company to the Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall forthwith give notice thereof to the Grantee and the Grantee may at any time thereafter (but before such time as shall be notified by the Company) exercise the option to its full extent or, if the Company shall give the relevant notification, to the extent notified by the Company, and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed Shareholders' meeting, allot, issue and register in the name of the Grantee such number of fully paid Shares which fall to be issued on exercise of such option.

(r) Rights on retirement

In the event the date of retirement of a Grantee falls before the date of the Grantee exercising the option in full, the Grantee shall be entitled within a period of six months from the date of retirement.

(s) Lapse of option

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

- the expiry of the option period;
- the date of cessation referred to in paragraph (m);
- the date of cessation referred to in paragraph (r);
- the expiry of any of the periods referred to in paragraph (n);
- the expiry date specified in the notice from the Company referred to in paragraph (o);
- subject to the scheme of arrangement becoming effective, the expiry date specified in the notice from the Company referred to in paragraph (p);

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- the date of the commencement of the winding-up of the Company;
- the date on which the Grantee ceases to be an Eligible Person by reason of the termination of his employment, appointment or directorship on the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his integrity or honesty or on any other ground on which an employer would be entitled to terminate his employment summarily;
- any other expiration events as the Company may notify the Grantee from time to time;
- the date on which the Grantee commits a breach by selling, transferring, charging, mortgaging, encumbering or creating any interest in favor of any third party over or in relation to any option;
- where the Grantee is an employee or Director of a member of the Group (other than the Company), the date on which such member ceases to be a member of the Group;
- unless the Board otherwise determines, and other than in the circumstances listed above, the date the Grantee ceases to be an Eligible Person (as determined by a Board resolution) for any reason; and
- the date on which the option is cancelled by the Board as provided in paragraph (u).

(t) Termination of the Post-[REDACTED] Share Option Scheme

The Company, by resolution in general meeting, or the Board, may at any time terminate the operation of the Post-[REDACTED] Share Option Scheme and in such event no further option will be offered but in all other respects the provisions of the Post-[REDACTED] Share Option Scheme shall remain in full force and effect and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Post-[REDACTED] Share Option Scheme.

(u) Cancellation of option

The Company may cancel any option granted but not exercised at anytime.

(v) General

An application has been made to the [REDACTED], and permission to deal in, the new Shares which may be issued pursuant to the exercise of the options which may be granted pursuant to the Post-[REDACTED] Share Option Scheme.

As of the Latest Practicable date, no option had been granted or agreed to be granted by our Company pursuant to the Post-[REDACTED] Share Option Scheme.

Details of the Post-[REDACTED] Share Option Scheme, including particulars and movements of the options granted during each financial year of our Company, and our employee costs arising from the grant of the options will be disclosed in our annual report.

E. OTHER INFORMATION

1. Estate duty

The Controlling Shareholders have entered into a deed of indemnity dated [September 18, 2016] with and in favor of our Company (for itself and as trustee for its subsidiaries) (the “Deed of Indemnity”) whereby the Controlling Shareholders have given indemnities in connection with, among other things, any liability for estate duty under the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, or legislation similar thereto in Hong Kong or any jurisdictions outside Hong Kong which might be incurred by any member of our Company on or before the [REDACTED], and other taxation (including all fines, penalties,

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costs, charges, expenses and interests relating to taxation) which may be made against any member of our Company in respect of, among other things, any income, profits or gains earned, accrued or received on or before the [REDACTED], save:

- (a) to the extent that specific provision or reserve has been made for such taxation in the audited consolidated financial information of our Group as set out in Appendix I (the “Accounts”);
- (b) to the extent that the liability for such taxation would not have arisen but for any act or omission of, or delay by, any member of our Group after the [REDACTED];
- (c) to the extent the taxation arises or is incurred only as a result of a retrospective change in law or regulations or the interpretation or practice thereof by any relevant authority coming into force after the [REDACTED].

In addition, our Controlling Shareholders have also given indemnities to our Company (for itself and as trustee for its subsidiaries) against all fines, penalties, claims, costs, expenses and losses (to the extent that provision, reserve or allowance has not been made for such fines, penalties, claims, costs, expenses or losses in the Accounts) suffered by any member of our Group incurred as a result of or in connection with any non-compliance incident which occurred before the [REDACTED].

2. Litigation

As of the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Group, that would have a material adverse effect on its business, financial condition or results of operations.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to [REDACTED], and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the [REDACTED] (including the additional Shares which may be issued pursuant to the exercise of the [REDACTED]), the Shares to be issued under the RSU Scheme, and the Shares to be issued pursuant to the exercise of the options which may be granted pursuant to the Post-[REDACTED] Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Please refer to “Underwriting — Independence of the Sole Sponsor” for details regarding the independence of the Sole Sponsor.

The fees payable to the Sole Sponsor are US\$1 million and are payable by our Company.

4. No Material Adverse Change

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since March 31, 2016 (being the date to which the latest audited consolidated financial statements of the Group were prepared).

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5. Qualification of Experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice which are contained in this document:

Name	Qualification
Morgan Stanley Asia Limited (摩根士丹利亞洲有限公司)	Licensed corporation under the SFO to conduct type 1 (Dealing in securities), type 4 (Advising on securities), type 5 (Advising on future contracts), type 6 (Advising on corporate finance) and type 9 (Asset management) as defined under the SFO
Ernst & Young	Certified Public Accountants
Nagashima Ohno & Tsunematsu	Legal advisors as to Japan law
Commerce & Finance Law Offices	Legal advisors as to PRC law
Maples and Calder	Legal advisors as to Cayman Islands law
Lee and Li, Attorneys-at-Law	Legal advisors as to Taiwan law
AVISTA Valuation Advisory Limited	Independent Property Valuer
Frost & Sullivan	Independent Industry Consultant

6. Consents of Experts

Each of Morgan Stanley Asia Limited (摩根士丹利亞洲有限公司), Ernst & Young, Nagashima Ohno & Tsunematsu, Commerce & Finance Law Offices, Maples and Calder, Lee and Li, Attorneys-at-Law, AVISTA Valuation Advisory Limited and Frost & Sullivan has given and has not withdrawn its consent to the issue of this document with the inclusion of its report and/or letter and/or opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

7. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this document.

8. Preliminary Expenses

The preliminary expenses incurred by our Company were approximately JPY50,000 and were payable by us.

9. Binding Effect

This document shall have the effect, if an application is made in pursuance of this document, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

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10. Bilingual Document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Miscellaneous

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:
- (i) neither we nor any of our subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group;
 - (iv) no commission has been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any of our subsidiaries;
 - (v) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
 - (vi) there is no arrangement under which future dividends are waived or agreed to be waived.
- (b) Our Directors confirm that:
- (i) since March 31, 2016 (being the date on which the latest audited consolidated financial statements of the Group was made up), there has been no material adverse change in our financial or trading position or prospects;
 - (ii) there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this document; and
 - (iii) our Company has no outstanding convertible debt securities or debentures.
- (c) No company within our Group is presently listed on any stock exchange or traded on any trading system.

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the [REDACTED];
- (b) a copy of each of the material contracts referred to in “Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix V; and
- (c) the written consents referred to in “Statutory and General Information — E. Other Information — 6. Consents of Experts” in Appendix V.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Simpson Thacher & Bartlett, ICBC Tower, 35/F, 3 Garden Road, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and Articles of Association of our Company;
- (b) the Accountants’ Report and the report on the unaudited pro forma financial information prepared by Ernst & Young, the texts of which are set out in Appendices I and II;
- (c) the letter, summary of values and valuation certificates relating to our property interests prepared by AVISTA Valuation Advisory Limited, the text of which is set out in Appendix III;
- (d) the legal opinions issued by Commerce & Finance Law Offices, our PRC legal advisor [REDACTED] in respect of certain aspects of the Group and the property interests of the Group;
- (e) the letter of advice prepared by Maples and Calder, our Cayman legal advisor, summarizing certain aspects of the Cayman Companies Law referred to in Appendix IV;
- (f) a letter of advice issued by Lee and Li, Attorneys-at-Law, our Taiwan legal advisor, in respect of certain aspects of Taiwan laws and regulations governing investments by a PRC investor in a Taiwanese private company;
- (g) the market research report issued by Frost & Sullivan, our industry consultant, on the global golf products industry;
- (h) the material contracts referred to in “Statutory and General Information — B. Further Information About Our Business — 1. Summary of Material Contracts” in Appendix V;
- (i) the written consents referred to in “Statutory and General Information — E. Other Information — 6. Consents of Experts” in Appendix V;
- (j) service contracts and letters of appointment referred to in “Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 2. Directors’ Service Contracts” in Appendix V;
- (k) the rules of the RSU Scheme;
- (l) the rules of the Post-[REDACTED] Share Option Scheme; and
- (m) the Cayman Companies Law.