2022/23 ANNUAL REPORT

HONMA GOLF LIMITED
本間高爾夫有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6858

Contents

Corporate Information

Board of Directors

Executive Directors

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

Mr. Ito Yasuki (伊藤康樹)

Mr. Murai Yuji (邨井勇二)

Mr. Zuo Jun (左軍)

Non-executive Directors

Mr. Yang Xiaoping (楊小平)

Mr. Ho Ping-hsien Robert (何平僊)

Independent Non-executive Directors

Mr. Lu Pochin Christopher (盧伯卿)

Mr. Wang Jianguo (汪建國)

Mr. Xu Hui (徐輝)

Audit Committee

Mr. Lu Pochin Christopher (盧伯卿) *(Chairman)*

Mr. Wang Jianguo (汪建國)

Mr. Xu Hui (徐輝)

Remuneration Committee

Mr. Wang Jianguo (汪建國) *(Chairman)*

Mr. Xu Hui (徐輝)

Mr. Zuo Jun (左軍)

Nomination Committee

Mr. Liu Jianguo (劉建國) *(Chairman)*

Mr. Wang Jianguo (汪建國)

Mr. Lu Pochin Christopher (盧伯卿)

Company Secretary

Ms. Sham Ying Man (岑影文)

Authorized Representatives

Mr. Zuo Jun (左軍)

Ms. Sham Ying Man (岑影文)

Auditor

Ernst & Young

Certified Public Accountants

Registered Public Interest Entity Auditor

Company's Website

www.honmagolf.com

Stock Code

6858

Registered Office in Cayman Islands

The offices of Maples Corporate Services Limited

PO Box 309

Ugland House

Grand Cayman KY1-1104

Cayman Islands

Headquarters in Japan

35F Roppongi Hills Mori Tower

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

Roppongi

Minatoku

Tokyo, Japan

Corporate Information

Shanghai Office

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

Principal Place of Business in Hong Kong

5/F, Manulife Place
348 Kwun Tong Road
Kowloon, Hong Kong

The Cayman Islands Principal Share Registrar and Transfer Agent

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

Hong Kong Share Registrar

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

Principal Bankers

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

Financial Summary

	For the year ended 31 March				
	2023	2022	2021	2020	2019
	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000
Operating Results					
Revenue	**29,494,999**	28,971,099	22,735,119	23,787,214	27,770,704
Gross profit	**14,988,255**	15,685,627	11,445,205	12,117,617	16,056,776
Gross profit margin	**50.8%**	54.1%	50.3%	50.9%	57.8%
Operating profit	**3,856,557**	5,456,791	1,232,820	405,095	5,309,429
Net profit/(loss)	**3,255,605**	6,191,188	1,859,106	(732,413)	4,208,839
Profit/(loss) before tax	**4,092,869**	7,560,291	2,420,307	(357,679)	5,604,221
Profit/(loss) for the year attributable to owners of the Company	**3,255,488**	6,191,197	1,859,041	(732,363)	4,209,367

	As at 31 March				
	2023	2022	2021	2020	2019
	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000
Assets and Liabilities					
Assets					
Non-current assets	**8,208,542**	8,132,717	8,862,108	9,184,866	6,124,873
Current assets	**32,158,818**	33,294,755	27,631,389	29,712,451	32,962,725
Total assets	**40,367,360**	41,427,472	36,493,497	38,897,317	39,087,598
Equity and liabilities					
Total equity	**26,030,928**	25,352,602	21,321,136	21,263,797	29,192,727
Non-current liabilities	**2,201,905**	2,543,336	2,355,906	2,373,707	1,754,481
Current liabilities	**12,134,527**	13,531,534	12,816,455	15,259,813	8,140,390
Total liabilities	**14,336,432**	16,074,870	15,172,361	17,633,520	9,894,871
Total equity and liabilities	**40,367,360**	41,427,472	36,493,497	38,897,317	39,087,598
Net current assets	**20,024,291**	19,763,221	14,814,934	14,452,638	24,822,335
Total assets less current liabilities	**28,232,833**	27,895,938	23,677,042	23,637,504	30,947,208

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**") of Honma Golf Limited (the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 March 2023.

The recent financial year was a challenging one for the Group, primarily not only because of the negative impact of continued economic and political uncertainties, sharp and continued devaluation in Japanese yen, but also because of an unexpected disruption to the retail business in China and its resulting weak consumption sentiment. Nevertheless, the Group's financial performance remained resilient and achieved continued growth with total revenue amounted to JPY29,514.8 million for the year ended 31 March 2023. In addition, the Group also maintained a strong and healthy net operating cash inflow of JPY3,682.9 million for the year ended 31 March 2023.

In the past twelve months, the competition in the global golf market has been increasingly heterogeneous with competitors rapidly launching new golf products to continuously appeal to the newer golf populations. In order to gain a solid foothold in such fiercely competitive market, the Group continued implementing its growth strategy "single brand, multi-categories and Asia-focused". The Group strategically focuses on the development of its home markets in Asia and exquisite trending products, while at the same time, continues to seek new possibilities by exploring and developing new categories and products to meet consumers' evolving needs.

Japan, Korea, China and North America markets recording steady growth

Geographically, revenue from most regions, especially the Group's home markets, increased during the year ended 31 March 2023. In particular, as the Group's largest market, revenue from Japan rose by 15.8% on a year-on-year basis to JPY9,841.4 million for the year ended 31 March 2023. Such growth was mainly attributed to a complete sales recovery in all channels and product categories, after reprioritization of the Group's channel and product strategies.

Revenue from Korea and China, the Group's other two home markets, also increased by 3.8% and 2.0% on a year-on-year basis, respectively. Such growth proves the Group's insight to focus on its home markets, albeit the widespread market disruptions due to the unexpected novel coronavirus ("**COVID-19**") resurgence in China during the year. The Group believes that with the ease of pandemic and lifting of social distancing restrictions, the market in China will recover soon.

Furthermore, the Group adopts a hybrid and flexible marketing strategies based on real-time feedbacks. During the year, the Group decided to reprioritize its distribution in North America and Europe by focusing on a smaller but premier group of accounts that are most capable to represent HONMA's tradition and pursue in the super-premium and premium-performance consumer segments. With such strategic adjustment, the revenue from North America increased by 3.2% on a year-on-year basis during the year ended 31 March 2023.

Chairman's Statement

Combining Japanese traditional craftsmanship with world standard innovative technology to provide a complete golf lifestyle experience

With the goal of providing a complete golf lifestyle experience with various categories of products, the Group remains committed to applying artisan-style Japanese craftsmanship and world standard innovative technology to the design, manufacturing and development of a comprehensive range of exquisitely crafted and performance-driven golf clubs. The latest BERES and TOUR WORLD products, which are designed for affluent and avid golfers, applied several revolutionary proprietary technologies. Following the launch of BERES AIZU and TW757 as well as continued penetration into the super-premium and premium performance consumer segments, golf clubs sales grew by 3.3% on a year-on-year basis during the year ended 31 March 2023.

As an important part of the Group's efforts to provide a complete golf lifestyle experience, sales of apparels achieved a revenue growth of 1.6% on a year-on-year basis, even during the period that the Group kept exploring and developing new product lines. The Group strives to increase its investments in the apparel collections, comprising of professional and fashion athletic lines. Such comprehensive product offerings cater to both on-course and off-course requirements of golfers and enable the consumers to enjoy a delicate and delightful golf lifestyle in an all-round way under HONMA brand.

Surging e-commerce traffic with increased investments in manufacturing and R&D capabilities, retail network upgrade and operational efficiency

The Group continued to focus on brand communication, retail experience and digital capability to become centurial golf lifestyle brand and the choice of the affluent and avid golfers of this time. Various digital marketing efforts have been implemented to drive website traffic and target potential shoppers through re-targeting efforts in social media and search engine marketing. Thanks to the development of its e-commerce strategy, the Group was able to react quickly to changes in consumer behavior towards online shopping with an rapid increase of online channels penetration.

At the same time, the Group will continue to invest in manufacturing and research and development ("**R&D**") capabilities, upgrade retail network and enhance operational efficiency to fuel growth in clubs aimed at avid golfers, apparels and China market. In particular, during the year, the Group recruited more master craftsmen and optimized its manufacturing process in order to deliver distinguished products while enhancing operational efficiency. In the meantime, the Group will keep increasing its investments in research and development in order to make new breakthroughs in product innovation and maintain strong competitiveness in the golf industry.

Enhancing influence of HONMA brand appealing to younger golfers

The Group maintained active communication and engagement with its existing and potential consumers in the super premium and premium performance segments, with a view to re-define the HONMA brand as a dynamic, relevant and global brand through the 360-degree HONMA experience in elevated retail stores, dedicated customer events and up-to-date digital contents.

In order to appeal to more younger and avid golfers and promote HONMA's brand awareness continuously, the Group updates its global website and social media platforms regularly and frequently. The Group will also enrich its product matrix to bring more diversified, fashionable and stylish products to younger consumers. The Group's 65th anniversary exclusive series with advanced sports achieved a great success. Moreover, the Group plans to launch several new series in the following years, including a new series of apparel in collaboration with Japan pioneer design brand Poliquant, which the Group believes will lead to a deeper market penetration towards younger consumers.

I would like to take this opportunity to thank the management team and all employees for their hard work and contributions during the past year. I would also like to express my gratitude to the Group's shareholders, business partners and consumers for their support and trust in the Group. I am very optimistic about HONMA's business development in 2023 and beyond. Looking ahead, as a leading golf enterprise, the Group will continue to focus on consumers' needs, undertake its social responsibilities, and apply the highest levels of traditional Japanese craftsmanship and innovative technology to its premium, high-tech and best performing golf products.

LIU Jianguo
Chairman

21 June 2023

Management Discussion and Analysis

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

Company Profile and Overview

HONMA is one of the most prestigious and iconic brands in the golf industry. Founded in 1959, the Company combines latest innovative technologies with traditional Japanese craftsmanship to provide golfers across the globe with premium, high-tech and high performance golf clubs, balls, apparels and accessories.

As the only vertically integrated golf company with rich in-house design, development and manufacturing capabilities, extensive retail footprint in Asia and a diverse range of golf clubs and golf-related products, HONMA is perfectly positioned to continually grow its business in Asia and beyond, benefitting from the return of golfers in mature golf markets such as the United States (the "**U.S.**") and Japan and from increased participation in new and under-penetrated markets such as Korea and China.

The Company has celebrated its 65th anniversary of HONMA in 2023. Since 2021, HONMA stepped up its tour presence in Asia by retaining a HONMA team consisting of six additional female players whom are considered rising stars by the golf industry. In the meantime, the Company took several steps to improve its global brand positioning and communication in order to re-define the HONMA brand as a dynamic, relevant and global brand among younger golfers.

Key Operating Results

Across different markets, the global golf industry has seen continued increases in the purchase interest and participation of avid golfers. With this, the management of HONMA decided to strengthen and streamline its product offering around two consumer segments, namely super-premium and premium-performance consumer segments. The super-premium segment is a segment that HONMA has maintained a leading and strong market position historically. The premium-performance segment is dominated by avid golfers and has enjoyed the strongest growth momentum for years. To increase market penetration, the Group revised its product strategy by enriching its TOUR WORLD club offering to include a performance enhancement series and by upgrading its legacy BERES club family with a modern and sophisticated design and development approach to appeal to today's golfers.

The outbreak of COVID-19 led governments to implement various social distancing and shelter-in-place measures at different times throughout the year, which created significant business operation challenges and slowed retail sales. Since early 2021, the golf industry however witnessed encouraging recoveries, with a good majority of the golf courses in Asia, the U.S. and Europe re-opened for play and golfers increased participation. Since then, there have been steady and visible increase in the returned and new golf participation, and rounds played rose in most of the Group's major markets.

As a result and despite the fact that the Group's sales and supply chain operations in China experienced extended interruptions during the year ended 31 March 2023, the Group's revenue increased by 1.8% as compared to the year ended 31 March 2022.

Market wise, most markets demonstrated resilient sales momentum. Revenue from Japan grew by 15.6%, on the back of a complete sales recovery in all channels and product categories. Korea continued its growth and delivered a year-on-year revenue growth of 3.8% thanks to continued uptake in golf participation and successful launch of new products since early 2022. Revenue from China and North America recorded a year-on-year growth of 2.0% and 3.2%, respectively. Japan, Korea and China contributed 83.8% of the Group's total revenue.

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

Highlights of Major Achievements

For the year ended 31 March 2023, the Company steadfastly followed its growth strategies while carefully protecting the health of its employees and financial status. Among others, the Company delivered the following major achievements which the Company believes will continue to bring satisfactory business advancements and results in the future.

- ***Re-defining the HONMA brand.*** The Company initiated various programs to improve its global brand positioning and communication with target consumers. To re-define the HONMA brand as a dynamic, relevant and global brand among internet-savvy younger golfers, the Company completely revamped its global website and social media platforms and made regular and frequent visual and content updates to all its digital platforms to continuously promote HONMA's brand and product awareness and to appeal to younger golfers. The rapid increase in HONMA's digital communications on both earned and paid media has contributed to continued improvements in the organic traffic, conversion and other digital engagement matrices such as bounce rate, time on site, etc.

  To create an end-to-end digital ecosystem around the re-defined brand and golfers in the super-premium and premium-performance segments, the Company revamped and/or launched customer relationship management ("**CRM**") systems in multiple markets and added advanced e-commerce capabilities and consumer-centric custom tools thereon, with a view to provide consumers with the ultimate 360-degree brand experience, to strengthen HONMA's direct-to-consumer communication and to eventually increase sales both online and offline.

- ***Focusing on club products that best represent Japanese craftsmanship and world standard innovative technology in pursuit of players in super-premium and premium-performance segments.*** HONMA remains committed to applying cutting-edge technologies and artisan-style Japanese craftsmanship to the design, development and manufacturing of a comprehensive range of exquisitely crafted and performance-driven golf clubs. HONMA applied several of its revolutionary proprietary technologies to the design and development of its latest BERES and TOUR WORLD products, designed for affluent and avid golfers. Following the launch of BERES AIZU and TW757 as well as continued penetration into the super-premium and premium performance consumer segments, golf club sales grew by 3.2% during the year ended 31 March 2023, reconfirming HONMA's strong brand equity and its ability to withstand economic challenges since HONMA went into the golf business in 1959. In particular, revenue from specialized models grew by 18.3% as compared to the year ended 31 March 2022.

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

Highlights of Major Achievements (continued)

- ***Accelerating growth in golf balls business and relaunching apparel business to create a comprehensive range of golf products for golfers in the super-premium and premium-performance segments.*** Unlike its peers, HONMA continues to derive most of its revenue from the sales and distribution of golf clubs. For the year ended 31 March 2023, golf clubs generated 72.9% of the Group's total revenue. Following continued and mid-double-digit growth in revenue from golf balls over the past eight years, the Company further prioritized its product development resources and launched golf balls with its own patent in order to meet the HONMA brand positioning and play preferences of its consumers. As a result, being the largest golf balls market within the Group, Japan recorded a rock solid growth of 10.1% as compared to the year ended 31 March 2022.

  In January 2019, HONMA re-launched its apparel business. The apparel collection comprises of a professional and a fashion athletic line, catering to the distinctive requirements of golfers in China, both on-course and off-course. The year ended 31 March 2023 featured mostly HONMA's 2023 Spring/Summer collections.

- ***Reprioritising HONMA's growth strategies in North America and Europe while improving both markets' financial standing.*** North America and Europe continued to enjoy the largest golfer demographics but with varied market conditions. For the year ended 31 March 2023, the Group began to reprioritise its distribution strategy in North America and Europe by focusing on a smaller but premier group of accounts that are most capable to represent HONMA's tradition and pursue in the super-premium and premium-performance consumer segments. At the same time, the Group continued optimising its organisational set up and cost base in both markets to properly anchor their near to mid-term growth amidst social, economic and financial uncertainties.

  Following such strategic adjustment, in Europe, the Group closed 615 points of sales ("**POS**") in the year ended 31 March 2023, hence decreasing its total POSs there to 35 by 31 March 2023. During the same period, in North America, the Group opened eight new POSs, leading to a modest POS network of 345 locations.

  Despite the shift, the Company continued to make investments into its digital communication and e-commerce activities in both markets to create an important brand touchpoint for consumers researching and searching for HONMA products, local retailers or fitting experience. Various digital marketing efforts have been implemented to drive website traffic and target potential shoppers through re-targeting efforts in social media and search engine marketing. For the year ended 31 March 2023, the Company had seen continued increase in site visits while average order value climbed to about eight hundred U.S. dollar. The strong performance is a good evidence of HONMA's brand equity and consumer interest in the North American market. Accordingly, during the year ended 31 March 2023, revenue from North America grew by 3.2% as compared to the year ended 31 March 2022.

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

Highlights of Major Achievements (continued)

- ***360-degree brand experience built into new retail space and environments.*** The Company retained leading design and marketing agencies to renovate its retail space in order to provide ultimate brand experience and customizable consumer journey in major markets. For the year ended 31 March 2023, the Company opened 18 new stores in China, one in Japan and four in other areas of Asia, consistently applying the new retail visual identity, design concept and consumer experience elements using advanced technology. The Company also upgraded multiple shop-in-shops in the U.S., Japan and China using the same design concept to ultimately present the same consumer space and experience in all of its major markets.

- ***Customer events.*** Customer events have always been key to the continued enhancement of HONMA's brand, product awareness and consumer mind share. During the year ended 31 March 2023, HONMA hosted 4,061 customer days across its main markets, most of which were held on golf courses with dedicated fitters.

- ***Sponsoring TEAM HONMA players.*** As at 31 March 2023, TEAM HONMA consisted of eight professional golf players. The Company believes TEAM HONMA's image, endorsement and continued success on professional golf tournaments will continue to help drive its sales growth, especially in Japan. The Company will continue to scout and solicit additional and younger players in Asia with visible social media following to anchor brand redefinition and to better appeal to younger and avid golfers.

Product Design and Development

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

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

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

Highlights of Major Achievements (continued)

Product Design and Development (continued)

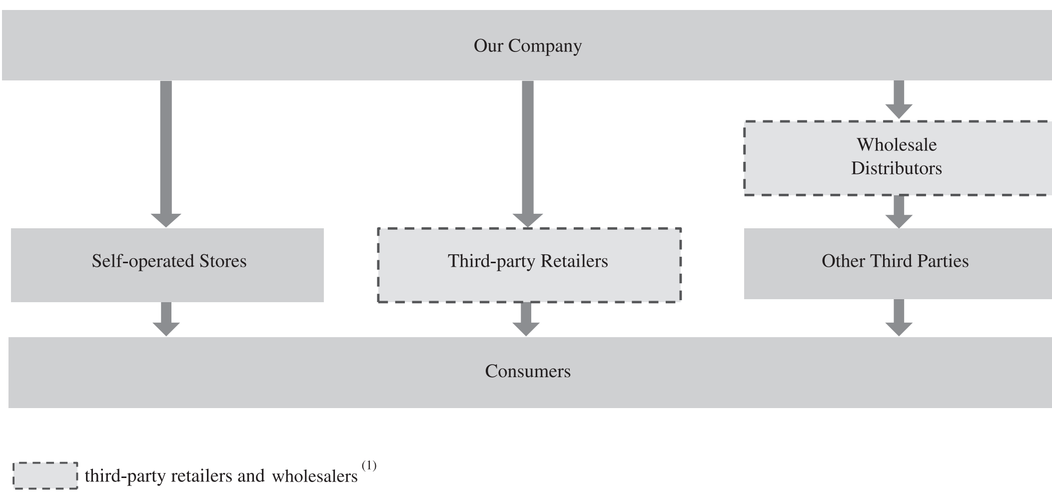
Based on extensive market research, HONMA categorises the market into nine key segments according to the importance golfers place on price, design and performance, which are correlated with their respective levels of affluence and enthusiasm towards golf, as illustrated in the chart below:

1 High Price Low Enthusiasm	Design & Price	2 High Price Middle Enthusiasm	Primarily Design	3 High Price High Enthusiasm	Design & Performance
4 Middle Price Low Enthusiasm	Performance & Price	5 Middle Price Middle Enthusiasm	Performance & Design	6 Middle Price High Enthusiasm	Primarily Performance
7 Low Price Low Enthusiasm	Primarily Price	8 Low Price Middle Enthusiasm	Price & Design	9 Low Price High Enthusiasm	Price & Performance

BERES golf clubs target consumers in Segment 2 or the so-called super-premium segment, which is the Company's traditional customer base and comprises affluent consumers willing to pay a premium price for golf clubs that offer excellent performance yet distinctively different from other golf clubs. TOUR WORLD golf clubs was first launched in 2011, target consumers in Segment 6 or the so-called premium-performance segment, which comprises golf enthusiasts who place a higher emphasis on performance. In the 2019 financial year, HONMA made the decision to enrich its TOUR WORLD club family to include a performance enhancement series hence creating stronger focus on the younger and avid golfers.

Sales and Distribution Network

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



Note:

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

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

Highlights of Major Achievements (continued)

Sales and Distribution Network (continued)

HONMA operates the largest number of self-operated stores among major golf companies. Self-operated stores provide consumers with a 360-degree experience with the HONMA brand and its products. As at 31 March 2023, the Group had 90 HONMA-branded self-operated stores, all of which were located in Asia. The Group aims to continuously upgrade the design, visual display and consumer experience of its self-operated stores to project one consistent brand image and consumer experience. The table below sets forth the number of self-operated stores opened and closed during the year ended 31 March 2023:

	For the year ended 31 March 2023			
	Period start	Opened	Closed	Period end
Japan	29	1	1	29
China (including Hong Kong and Macau)	33	18	10	41
U.S.	–	–	–	–
Rest of Asia	18	4	2	20
Total	80	23	13	90

To better serve avid golf enthusiasts, certain HONMA-branded self-operated stores offer fitting centers equipped with high-speed cameras and launch monitors to capture players' swing data. As at 31 March 2023, the Group had five fitting centers, including two in Japan, two in China and one in Korea.

As at 31 March 2023, the Group had approximately 3,717 POSs. The Group's POSs consist of (a) POS of third-party retailers ("**Retailers**") and (b) POS of wholesale distributors ("**Wholesale Distributors**") that on-sell the Group's products to other third parties and consumers. Retailers include, among others, sports megastores, which are large retailers of sports goods. As at 31 March 2023, the Group's products were sold at 1,304 POSs of sports megastores.

In Japan, the Group mainly sells products to Retailers, including nation-wide sports chain stores such as Golf 5 and Xebio. Outside Japan, the Group sells products to both Retailers and Wholesale Distributors.

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

Highlights of Major Achievements (continued)

Sales and Distribution Network (continued)

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

Updating E-commerce Capabilities and Creating One Digital Ecosystem

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

The Company also revamped its CRM systems in key markets such as Japan, China and the U.S., and upgraded its e-commerce capabilities to provide consumers with the ultimate 360-degree brand experience and to eventually increase online sales.

Manufacturing Processes

HONMA utilizes the latest innovative technologies and traditional Japanese craftsmanship to provide golfers across the globe with aesthetically beautiful and high-tech performance-driven golf clubs. The Company is the only major golf products company that utilizes professional handcrafted techniques together with significant in-house manufacturing capabilities. The Group conducts all key manufacturing processes for golf clubs at its campus located in Sakata, Yamagata prefecture of Japan (the "**Sakata Campus**"), while outsourcing non-core processes to its well-respected suppliers. This combination of in-house and outsourced manufacturing processes enables the Group to control core technical know-how and intellectual property and ensure the quality of products while controlling production costs.

Located on an approximately 163,000 square metre parcel of land, the Sakata Campus is staffed with 209 craftsmen, 32 of whom are master craftsmen with approximately 32 years of experience on average. The craftsmen's dedication to product quality enables the Group to maintain the iconic and premium status of the HONMA brand. The Group continually invests in its Sakata Campus to optimise manufacturing processes and to expand its manufacturing capacity in line with sales growth.

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

Highlights of Major Achievements (continued)

Employees

As at 31 March 2023, the Group had 745 employees worldwide, a majority of whom were based in Japan.

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

The Group offers competitive remuneration packages, including, among others, salaries, performance-based cash bonus and share-based compensation. The Group reviews its remuneration scheme regularly to ensure its consistency with market practice. Employee benefit expenses amounted to JPY4,723.7 million for the year ended 31 March 2023.

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

Brand Marketing

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

HONMA has been perceived as the symbol for luxury and was closely associated with super-rich Asians in consumer sentiments. Extensive marketing efforts have been launched to transform this perception into a modern, premium performance focus, rooted in HONMA's unique craftsmanship and superior technology. The launch of GS series and TW757 series, both of which under the TOUR WORLD club family, have generated great media buzz and consumer purchase intent for HONMA among the younger and more avid golfers.

Outlook

Business Outlook

The current financial year continued presenting operating challenges and uncertainties for HONMA. As COVID-19 related regulatory restrictions began to ease from most areas of Asia to Europe and North America, the Company expects pent-up demand to continuously and visibly expand golf participation as well as an uptick in new orders from both golfers and HONMA's retail partners.

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

Outlook (continued)

Business Outlook (continued)

For the years ahead, the Group will continue executing its long-term growth strategy to build a world-leading golf lifestyle company leveraging HONMA's brand legacy, its expanding distribution network and innovative technologies and traditional Japanese craftsmanship. In the face of uncertainties posed by the COVID-19 pandemic, the Company will also pursue active actions to reduce cost, maximize liquidity and protect its employees' health.

The Group intends to continue pursuing the following:

- ***Improve and transform HONMA brand value into customer loyalty.*** Multiple branding and marketing strategies have been executed to reinforce HONMA's brand heritage and its core brand values of premium craftsmanship and performance, allowing HONMA to fully capture its unique opportunities to lead in both super-premium and premium-performance segments. Since a key part of the Group's future growth strategy lies with continuous enhancement of brand awareness and loyalty, HONMA will continue upgrading its offline and online retail experiences based on the updated HONMA brand image, retail and visual guidelines. In Asia, HONMA opened a number of brand experience stores since July 2019 to present HONMA's new brand experience and customizable consumer journey to consumers in HONMA's home markets, followed by similar store openings in China, Korea, Taiwan, the U.S. and Europe. All these stores will form the centrepiece of HONMA's new consumer touchpoints and will act as the hub to generate traffic to HONMA's extensive shop-in-shop at third-party retailers, golf courses and its online e-commerce platforms.

- ***Further increase the Group's market share in home markets by maintaining its leading position in the super-premium segment while making solid inroads into the fast-growing premium-performance segment.*** Increasing market share in HONMA's home markets, namely Japan, Korea and China, which will be an increasingly important part of the Group's future growth strategy. While the Group already has a strong presence in its home markets, it believes that there is still significant room to increase its market shares in these markets, especially in the premium-performance segments. The Group intends to achieve this by continuously enriching its TOUR WORLD family, leveraging HONMA's improved international tour presence. At the same time, the Group will continuously nurture and foster stronger partnerships with its retail partners while intensifying investments in sales point product promotions that are relevant to these consumer segments.

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

Outlook (continued)

Business Outlook (continued)

- ***Anchoring sustainable growth in North America and Europe based on the updated product and distribution strategy.*** North America and Europe accounts for nearly 70.0% of the global golf market. During the year ended 31 March 2023, HONMA began a journey to focus on a smaller but premier group of accounts in both markets while continuously implementing its unique direct-to-consumer communication and sales strategy. The said direct-to-consumer communication and distribution approach overlays with HONMA's existing wholesales points of sale and various digital platforms, hence allowing HONMA to effectively increase its brand and product awareness while owning the entire consumer experience and purchase journey.

  Furthermore, the decision to differentiate the TOUR WORLD product offering between tour inspired better players and golfers who look for performance enhancements will provide great support to HONMA's growth strategy in North America, which market has continued to rebound with the number of golfers increasingly skewed towards premium-performance products.

- ***Nurturing complementary non-club product lines to provide customers with a complete golf lifestyle experience.*** In January 2018, HONMA announced the formation of a strategic partnership with Itochu Corporation, a leading Japanese textile and trading company. Since then, HONMA has actively expanded its apparel business, leveraging Itochu's rich industry networks and know-how while promoting HONMA as a "golf lifestyle brand". To support HONMA's apparel growth ambition, the Group has assembled dedicated apparel design and sales teams in Japan, China and Korea and created a network of quality retail footprints.

- ***Continue product innovation and development to cater for latest market trends.*** The Group devotes significant resources to new product development to ensure that its product offerings remain up to date with the latest market trends, all with close link with its manufacturing facilities in Sakata, Japan. The Group's research and development expenses amounted to JPY186.8 million and JPY199.7 million for the year ended 31 March 2022 and 2023, respectively. The research and development team of HONMA thrives to incorporate innovations in ergonomics and material sciences in its designs and collaborates closely with professional golf players to optimize product performance.

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

Outlook (continued)

Industry Outlook

The golf industry will continue to face multiple challenges in the year ending 31 March 2024 as the Group witnessed since the outbreak of the global health pandemic. These challenges include uncertain global public health situations, supply chain challenges, global economic and political uncertainties.

For the year ended March 31, 2023, the golf industry experienced continued rebound, while a good majority of the golf courses in Asia, the U.S. and Europe re-opened for play and golfers increased participation.

These positive developments have in part contributed to the Group's revenue increase for the year ended 31 March 2023. The Company does expect the overall golf industry to gradually adapt itself to the new norm and to continue showing positive rebound in participation and purchase interest.

The Group also believes that the year ending 31 March 2024 will be a crucial period for it to deliver its growth strategies amidst global economic and political uncertainties. The Group is confident in its ability to mitigate the adverse impacts of such uncertainties and will seize every possible opportunity to preserve cash, to optimize its operational efficiencies in order to foster a solid foundation for the mid- and long-term development with respect to its brand, products, distribution channel, employees and supply chain. The Group endeavours to promote sustainable business development and strives to create long-term value for all of its shareholders.

The Group will stay alert to the developments of all external challenges including those posed by COVID-19. The Group will also continue reviewing its existing business strategies from time to time and take necessary actions to mitigate business risks while safeguarding the health and safety of its employees and teams.

FINANCIAL REVIEW

The following table is a summary of the Group's consolidated statement of profit or loss with line items in absolute amounts and as percentages of the Group's total revenue for the years indicated, together with the change (expressed in percentages) from the year ended 31 March 2022 to the year ended 31 March 2023:

	For the year ended 31 March				
	2023		2022		Year-on-Year Change
	JPY	%	JPY	%	%
	(In thousands, except for percentages and per share data)				
Consolidated Statement of Profit or Loss					
Revenue	**29,494,999**	**100.0**	28,971,099	100.0	1.8
Cost of sales	**(14,506,744)**	**(49.2)**	(13,285,472)	(45.9)	9.2
Gross profit	**14,988,255**	**50.8**	15,685,627	54.1	(4.4)
Other income and gains	**515,365**	**1.7**	2,192,521	7.6	(76.5)
Selling and distribution expenses	**(9,607,191)**	**(32.6)**	(9,316,156)	(32.2)	3.1
Administrative expenses	**(1,381,057)**	**(4.7)**	(1,339,943)	(4.6)	3.1
(Provisions for)/reversal of impairment losses on financial assets	**(31,923)**	**(0.1)**	482,906	1.7	(106.6)
Other expenses, net	**(279,053)**	**(0.9)**	(89,021)	(0.3)	213.5
Finance costs	**(124,990)**	**(0.4)**	(66,414)	(0.2)	88.2
Finance income	**13,463**	*****	10,771	*	25.0
Profit before tax	**4,092,869**	**13.9**	7,560,291	26.1	(45.9)
Income tax expense	**(837,264)**	**(2.8)**	(1,369,103)	(4.7)	(38.8)
Net profit	**3,255,605**	**11.0**	6,191,188	21.4	(47.4)
Earnings per share attributable to ordinary equity holders of the parent:					
Basic and diluted					
– For profit for the year (JPY)	**5.38**		10.22		(47.4)
Non-IFRS Financial Measure					
Operating profit[1]	**3,856,557**	**13.1**	5,456,791	18.8	(29.3)
Net operating profit[2]	**2,922,546**	**9.9**	4,329,498	14.9	(32.5)

* less than 0.1%.

FINANCIAL REVIEW (continued)

Notes:

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

(2) Net operating profit is derived from net profit by (i) subtracting other income and gains, (ii) adding other expenses, (iii) adding RSU expenses and (iv) adding impact on tax related to items (i) and (ii) above. For a reconciliation of net operating profit to net profit, see "Management Discussion and Analysis – Financial Review – Non-IFRS Financial Measures – Net Operating Profit".

Revenue

The Group's total revenue increased by 1.8% from JPY28,971.1 million for the year ended 31 March 2022 to JPY29,495.0 million for the year ended 31 March 2023.

Constant Currency Revenue

On a constant currency basis, the Group's total revenue decreased by 2.5% from the year ended 31 March 2022 to the year ended 31 March 2023. For the purpose of calculating constant currency revenue, the Group has used the average exchange rate of the year ended 31 March 2022 to translate sales recorded during the year ended 31 March 2023, to the extent that the original currency for such sales is not in Japanese yen.

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

FINANCIAL REVIEW (continued)

Revenue (continued)

Revenue by Product Groups

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

	For the year ended 31 March				Year-on-Year Change	
					on as reported basis	on constant currency basis[1]
	2023		2022			
	JPY	%	JPY	%	%	%
	(In thousands, except for percentages)					
Golf clubs	**21,512,908**	**72.9**	20,843,062	71.9	3.2	(1.3)
Golf balls	**2,942,335**	**10.0**	2,974,129	10.3	(1.1)	(2.2)
Apparels	**3,009,071**	**10.2**	2,963,426	10.2	1.5	(5.3)
Accessories and other related[2]	**2,030,685**	**6.9**	2,190,482	7.6	(7.3)	(11.0)
Total	**29,494,999**	**100.0**	28,971,099	100.0	1.8	(2.5)

Notes:

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

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

Revenue from golf clubs increased by 3.2% from JPY20,843.1 million for the year ended 31 March 2022 to JPY21,512.9 million for the year ended 31 March 2023. On a constant currency basis, revenue from golf clubs decreased by 1.3% during the same period.

Revenue from apparels increased by 1.5% from JPY2,963.4 million for the year ended 31 March 2022 to JPY3,009.1 million for the year ended 31 March 2023. On a constant currency basis, revenue from apparels decreased by 5.3% during the same period.

The steady revenue increases in golf clubs and apparels were primarily driven by continued improvement in HONMA's product development, merchandise planning and retail operations.

FINANCIAL REVIEW (continued)

Revenue (continued)

Revenue by Product Groups (continued)

Revenue from golf balls decreased by 1.1% from JPY2,974.1 million for the year ended 31 March 2022 to JPY2,942.3 million for the year ended 31 March 2023, mainly due to the continued raw material supply challenges. On a constant currency basis, revenue from golf balls decreased by 2.2% during the same period.

Revenue from accessories and other related products decreased by 7.3% from JPY2,190.5 million for the year ended 31 March 2022 to JPY2,030.7 million for the year ended 31 March 2023. On a constant currency basis, revenue from accessories and other related products decreased by 11.0% during the same period. Such decrease was primarily caused by constrained sales in Japan to protect margin and sales decrease in Europe.

Revenue by Geography

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

	For the year ended 31 March				Year-on-Year Change	
					on as reported basis	on constant currency basis(1)
	2023		2022			
	JPY	%	JPY	%	%	%
	(In thousands, except for percentages)					
Japan	**9,821,561**	**33.3**	8,497,160	29.3	15.6	15.6
Korea	**7,088,661**	**24.0**	6,831,638	23.6	3.8	3.8
China (including Hong Kong and Macau)	**7,795,341**	**26.4**	7,644,271	26.4	2.0	(6.9)
North America	**1,024,159**	**3.5**	992,169	3.4	3.2	(11.0)
Europe	**442,595**	**1.5**	1,393,489	4.8	(68.2)	(72.1)
Other regions	**3,322,682**	**11.3**	3,612,372	12.5	(8.0)	(18.8)
Total	**29,494,999**	**100.0**	28,971,099	100.0	1.8	(2.5)

Note:

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

FINANCIAL REVIEW (continued)

Revenue (continued)

Revenue by Geography (continued)

For the year ended 31 March 2023, the Group's main markets recorded different sales momentum versus same period last year. Revenue from Japan, Korea, China and North America rose by 15.6%, 3.8%, 2.0% and 3.2%, respectively, on the back of a strong rebound of consumer demand, continued marketing activities to drive HONMA brand and product awareness, and successful activation of various HONMA products.

Revenue from Japan grew by 15.6% from JPY8,497.2 million for the year ended 31 March 2022 to JPY9,821.6 million for the year ended 31 March 2023, on the back of a complete sales recovery in all channels and product categories.

Revenue from Korea recorded a growth of 3.8% from JPY6,831.6 million for the year ended 31 March 2022 to JPY7,088.7 million for the year ended 31 March 2023, thanks to continued uptake in golf participation and successful launch of new products since early 2022.

Revenue from China (including Hong Kong and Macau) had a lower than expected growth of 2.0% from JPY7,644.3 million for the year ended 31 March 2022 to JPY7,795.3 million for the year ended 31 March 2023 as the market experienced widespread disruptions due to the unexpected COVID-19 outbreak in both the first quarter and third quarter of the year. On a constant currency basis, revenue from China (including Hong Kong and Macau) decreased by 6.9% during the same period.

Revenue from North America increased by 3.2% from JPY992.2 million for the year ended 31 March 2022 to JPY1,024.2 million for the year ended 31 March 2023. On a constant currency basis, revenue from North America decreased by 11.0% during the same period.

Revenue from Europe decreased by 68.2% from JPY1,393.5 million for the year ended 31 March 2022 to JPY442.6 million for the year ended 31 March 2023. On a constant currency basis, revenue from Europe decreased by 72.1% during the same period. Such decline reflected the Group's decision to change its distribution model in Europe to an indirect one.

Revenue from other regions decreased by 8.0% from JPY3,612.4 million for the year ended 31 March 2022 to JPY3,322.7 million for the year ended 31 March 2023. On a constant currency basis, revenue from other regions decreased by 18.8% during the same period.

Revenue from the Group's home markets, namely Japan, Korea and China (including Hong Kong and Macau) accounted for 83.8% of the Group's total revenue for the year ended 31 March 2023.

FINANCIAL REVIEW (continued)

Revenue (continued)

Revenue by Sales and Distribution Channels

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

	For the year ended 31 March				Year-on-Year Change	
					on as reported basis	on constant currency basis[1]
	2023		2022			
	JPY	%	JPY	%	%	%
	(In thousands, except for percentages)					
Self-operated stores	**10,216,972**	**34.6**	7,285,013	25.1	40.2	33.5
Third-party retailers and wholesalers	**19,278,027**	**65.4**	21,686,086	74.9	(11.1)	(14.6)
Total	**29,494,999**	**100.0**	28,971,099	100.0	1.8	(2.5)

Note:

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

Revenue from self-operated stores increased by 40.2% from JPY7,285.0 million for the year ended 31 March 2022 to JPY10,217.0 million for the year ended 31 March 2023. On a constant currency basis, revenue from self-operated stores increased by 33.5% during the same period. Such increase was primarily due to a robust retail sales recovery in Japan.

Revenue from sales to third-party retailers and wholesalers decreased by 11.1% from JPY21,686.1 million for the year ended 31 March 2022 to JPY19,278.0 million for the year ended 31 March 2023. On a constant currency basis, revenue from third-party retailers and wholesalers decreased by 14.6% during the same period. Such decrease was primarily due to (i) sales decrease in Europe where the Group conducts sales all through third-party retailers and wholesalers, and (ii) channel shifting of the Group's apparel business in China to self-operated stores. Sales to the Group's retail partners in Japan grew by 32.6% as most retailers recovered from extended and lingered business closure during COVID-19 pandemic.

FINANCIAL REVIEW (continued)

Cost of Sales

Cost of sales increased by 9.2% from JPY13,285.5 million for the year ended 31 March 2022 to JPY14,506.7 million for the year ended 31 March 2023. The table below sets forth a breakdown of the key components of cost of sales, each expressed in absolute amounts and as percentages of the total cost of sales during the years indicated:

	For the year ended 31 March			
	2023		2022	
	JPY	%	JPY	%
	(In thousands, except for percentages)			
Raw materials	**6,811,258**	**47.4**	6,893,588	51.9
Employee benefits	**946,921**	**6.5**	1,027,491	7.7
Manufacturing overhead[1]	**575,309**	**4.0**	466,572	3.5
Finished goods purchased from suppliers	**6,103,256**	**42.1**	4,897,821	36.9
Total	**14,506,744**	**100.0**	13,285,472	100.0

Note:

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

Gross Profit and Gross Profit Margin

Gross profit decreased by 4.4% from JPY15,685.6 million for the year ended 31 March 2022 to JPY14,988.3 million for the year ended 31 March 2023. Gross profit margin decreased from 54.1% for the year ended 31 March 2022 to 50.8% for the year ended 31 March 2023.

FINANCIAL REVIEW (continued)

Gross Profit and Gross Profit Margin (continued)

Gross Profit and Gross Profit Margin by Product Groups

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

	For the year ended 31 March			
	2023		2022	
	JPY	%	JPY	%
	(In thousands, except for percentages)			
Golf clubs	**12,772,269**	**59.4**	12,114,750	58.1
Golf balls	**862,590**	**29.3**	1,352,482	45.5
Apparels	**802,934**	**26.7**	1,454,962	49.1
Accessories and other related[1]	**550,462**	**27.1**	763,433	34.9
Total	**14,988,255**	**50.8**	15,685,627	54.1

Note:

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

Gross profit for golf clubs increased by 5.4% from JPY12,114.8 million for the year ended 31 March 2022 to JPY12,772.3 million for the year ended 31 March 2023. Gross profit margin for golf clubs increased from 58.1% for the year ended 31 March 2022 to 59.4% for the year ended 31 March 2023, primarily due to continued retail price management and manufacturing cost optimization.

Gross profit for golf balls decreased by 36.2% from JPY1,352.5 million for the year ended 31 March 2022 to JPY862.6 million for the year ended 31 March 2023. Gross profit margin for golf balls decreased from 45.5% for the year ended 31 March 2022 to 29.3% for the year ended 31 March 2023, primarily due to raw material price increase and unfavourable exchange rate against U.S. dollar as the main market of the Company is located in Japan while purchases are made in U.S. dollar.

Gross profit for apparels decreased by 44.8% from JPY1,455.0 million for the year ended 31 March 2022 to JPY802.9 million for the year ended 31 March 2023. Gross profit margin for apparels decreased from 49.1% for the year ended 31 March 2022 to 26.7% for the year ended 31 March 2023, primarily due to slow moving provision impact especially in Japan and Korea.

Gross profit for accessories and other related products decreased by 27.9% from JPY763.4 million for the year ended 31 March 2022 to JPY550.5 million for the year ended 31 March 2023. Gross profit margin for accessories and other related products decreased from 34.9% for the year ended 31 March 2022 to 27.1% for the year ended 31 March 2023, primarily due to unfavourable exchange rate against U.S. dollar as the main market of the Company is located in Japan while purchases are made in U.S. dollar.

FINANCIAL REVIEW (continued)

Other Income and Gains

Other income and gains decreased significantly from JPY2,192.5 million for the year ended 31 March 2022 to JPY515.4 million for the year ended 31 March 2023, primarily due to less foreign exchange gain compared to last year.

Selling and Distribution Expenses

Selling and distribution expenses increased from JPY9,316.2 million for the year ended 31 March 2022 to JPY9,607.2 million for the year ended 31 March 2023. Selling and distribution expenses as a percentage of revenue remained stable at 32.6% for the year ended 31 March 2022 and 2023. The following table sets forth a breakdown of selling and distribution expenses by absolute amounts and percentages of total selling and distribution expenses for the years indicated:

	For the year ended 31 March			
	2023		2022	
	JPY	%	JPY	%
	(In thousands, except for percentages)			
Employee benefits	**3,318,178**	**34.5**	3,232,196	34.7
Advertising and promotion expenses	**2,160,470**	**22.5**	2,085,342	22.4
Depreciation of right-of-use assets	**1,051,441**	**10.9**	931,415	10.0
Rental and other related fees	**590,072**	**6.1**	697,963	7.5
Others[(1)]	**2,487,030**	**25.9**	2,369,240	25.4
Total	**9,607,191**	**100.0**	9,316,156	100.0

Note:

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

Administrative Expenses

Administrative expenses remained relatively stable at JPY1,339.90 million for the year ended 31 March 2022 and JPY1,381.1 million for the year ended 31 March 2023.

FINANCIAL REVIEW (continued)

(Provision for)/Reversal of Impairment Losses on Financial Assets

We had reversal of impairment losses on financial assets of JPY482.9 million for the year ended 31 March 2022 and provision for impairment losses on financial assets of JPY31.9 million during the same period in 2023, primarily due to one-off reversal of bad debt provision of JPY545.0 million in Japan last year.

Other Expenses, Net

Other expenses increased by 213.5% from JPY89.0 million for the year ended 31 March 2022 to JPY279.1 million for the year ended 31 March 2023, primarily due to fixed assets disposal related to inefficient stores closure.

Finance Costs

Finance costs increased by 88.2% from JPY66.4 million for the year ended 31 March 2022 to JPY125.0 million for the year ended 31 March 2023, primarily due to hike in borrowing interest rate in Japan.

Finance Income

Finance income increased by 25.0% from JPY10.8 million for the year ended 31 March 2022 to JPY13.5 million for the year ended 31 March 2023, primarily due to higher average bank deposit balance.

Profit Before Tax

As a result of the foregoing, profit before tax for the year ended 31 March 2023 was JPY4,092.9 million.

Income Tax Expense

Income tax expense decreased by 38.8% from JPY1,369.1 million for the year ended 31 March 2022 to JPY837.3 million for the year ended 31 March 2023. The Group's effective tax rate increased from 18.1% for the year ended 31 March 2022 to 20.5% for the year ended 31 March 2023.

Net Profit

As a result of the foregoing, net profit for the year ended 31 March 2023 was JPY3,255.6 million. Net profit margin for the year ended 31 March 2023 was 11.0%.

Non-IFRS Financial Measures

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

The use of operating profit and net operating profit has material limitations as analytical tools, as operating profit does not include all items that have impacted profit before tax, the nearest IFRS performance measure, and net operating profit does not include all items that have impacted net profit, the nearest IFRS performance measure.

FINANCIAL REVIEW (continued)

Non-IFRS Financial Measures (continued)

Operating Profit

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

	For the year ended 31 March	
	2023	**2022**
	(In JPY thousands)	
Profit before tax	**4,092,869**	7,560,291
Adjustment for:		
Other income and gains	**(515,365)**	(2,192,521)
Other expenses	**279,053**	89,021
Operating profit	**3,856,557**	5,456,791

Net Operating Profit

The Group derives net operating profit from net profit by (i) subtracting other income and gains, (ii) adding other expenses, and (iii) adding impact on tax related to items (i) and (ii) above. Net operating profit eliminates the effect of other income and gains and other expenses, which are primarily related to non-recurring events. The following table reconciles net operating profit to net profit for the years indicated:

	For the year ended 31 March	
	2023	**2022**
	(In JPY thousands)	
Net profit	**3,255,605**	6,191,188
Adjustment for:		
Other income and gains	**(515,365)**	(2,192,521)
Other expenses	**279,053**	89,021
Impact on tax	**(96,747)**	241,810
Net operating profit	**2,922,546**	4,329,498

FINANCIAL REVIEW (continued)

Working Capital Management

	For the year ended 31 March	
	2023	2022
Inventories turnover days[(1)]	**299**	293
Trade and bills receivables turnover days[(2)]	**54**	68
Trade and bills payables turnover days[(3)]	**47**	58

Notes:

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

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

(3) Trade 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.

Inventories turnover days increased by six days from 293 days for the year ended 31 March 2022 to 299 days for the year ended 31 March 2023, primarily due to raw material stock up for BERES NX launch and bulk purchase and production on country specific models such as 65th and TW XP-2.

Trade and bills receivables turnovers days decreased by 14 days from 68 days for the year ended 31 March 2022 to 54 days for the year ended 31 March 2023, primarily due to strengthened collection in various markets.

On the other hand, trade and bills payables turnover days decreased by 11 days from 58 days for the year ended 31 March 2022 to 47 days for the year ended 31 March 2023, primarily due to less purchase during year end in view of high inventory level.

FINANCIAL REVIEW (continued)

Inventories

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

	As at 31 March 2023	As at 31 March 2022
	(In JPY thousands)	
Raw materials	**3,244,147**	2,930,047
Work in progress	**1,547,032**	1,548,424
Finished goods	**10,634,117**	8,552,042
Less: provision	**(3,127,965)**	(1,535,677)
Total	**12,297,331**	11,494,836

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

	As at 31 March 2023	As at 31 March 2022
	(In JPY thousands)	
Within 1 year	**4,426,064**	5,763,356
1 year to 2 years	**3,862,539**	2,249,881
2 to 3 years	**2,344,487**	2,545,454
3 to 4 years	**1,664,241**	442,649
Over 4 years	**–**	493,496
Total	**12,297,331**	11,494,836

FINANCIAL REVIEW (continued)

Inventories (continued)

The Group prepares its inventory aging analysis with reference to product launch date, instead of capitalisation date. For example, inventories reported as aged between two to three years in the table above represent inventories relating to products that were launched two to three years before the relevant balance sheet date. Such inventories may have been produced and/or procured and hence capitalised more recently than as shown in the said aging analysis.

The Group adopted this approach of inventory aging analysis because it allows the Group to implement a more effective inventory management process relative to each product's life cycle. The Group typically launches new club, ball and accessory products every 24 months and carries its previous older generation for another 12 months.

Liquidity and Capital Resources

During the year ended 31 March 2023, the Group financed its operations primarily through cash from operations, net proceeds received from the global offering and proceeds from bank loans. The Group intends to finance its expansion and business operations by internal resources and through organic and sustainable growth, bank borrowings, as well as the net proceeds received from the global offering.

As at 31 March 2023, the Group had JPY14,084.8 million in cash and cash equivalents, which were primarily held in Renminbi, Japanese yen and U.S. dollar. The Group's cash and cash equivalents primarily consist of cash on hand and demand deposits.

A substantial portion of the Group's operation is based in Japan, and a substantial portion of the Group's revenue and expenditures are denominated and settled in Japanese yen. As a result, the Group's currency risk is limited, and the Group did not use any derivative contracts to hedge against such risk as at 31 March 2023.

Indebtedness

As at 31 March 2023, the Group's interest-bearing bank borrowings amounted to JPY7,290.0 million, mainly of which were denominated in Japanese yen and carry interest at variable rates. All of such borrowings were unsecured and most of them were payable within one year. The effective interest rate for the balance of the Group's interest-bearing bank borrowings as at 31 March 2023 ranged from 0.17% to 3.08%.

Gearing Ratio

The Group's gearing ratio is calculated by dividing (i) the sum of interest-bearing bank borrowings and lease liabilities by (ii) total equity. As at 31 March 2023, the Group's gearing ratio was 36.3% (as at 31 March 2022, the Group's gearing ratio was 38.1%).

FINANCIAL REVIEW (continued)

Capital Expenditures

The Group's capital expenditures for the year ended 31 March 2023 amounted to JPY663.5 million, which was used primarily to purchase plant machinery and equipment, office equipment and leasehold improvement. In the year ended 31 March 2023, the Group financed its capital expenditures primarily with cash generated from operations.

Contingent Liabilities

As at 31 March 2023, the Group did not have any significant contingent liabilities.

Funding and Treasury Policy

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

Charge on Assets

The Group pledged deposits as collateral for the bank to issue letter of guarantee for HONMA Europe Value Added Tax declaration. The pledged deposits of the Group increased by 8.89% from JPY4.75 million as at 31 March 2022 to JPY5.17 million as at 31 March 2023, mainly due to change in exchange rate. The letter of guarantee was cancelled in early June 2023. There is no charge on the Group's assets as at the date of this annual report.

Material Acquisitions or Disposals and Future Plans for Major Investment

During the year ended 31 March 2023, the Group did not conduct any material investments, acquisitions or disposals. In addition, save for the expansion plans as disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the prospectus (the "**Prospectus**") of the Company dated 23 September 2016, the Group has no specific plan for major investment or acquisition for major capital assets or other businesses. However, the Group will continue to identify new opportunities for business development.

Use of Proceeds from the Global Offering

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

FINANCIAL REVIEW (continued)

Use of Proceeds from the Global Offering (continued)

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

Intended use of proceeds	Percentage of intended use of proceeds (%)	Intended use of proceeds from the global offering (In JPY millions)	Percentage of used amount as at 31 March 2023 (%)	Percentage of unused balance as at 31 March 2023 (%)	Percentage of amount used during the year ended 31 March 2023 (%)	Expected timeframe for utilizing the remaining unused net proceeds[2]
Potential strategic acquisitions	29.4	4,939	–	29.4	–	–[3]
Sales and marketing activities in North America and Europe	15.1	2,536	15.1	–	–	N/A
Sales and marketing activities in home markets of Japan, Korea and China (including Hong Kong and Macau)	15.1	2,536	15.1	–	–	N/A
Capital expenditures	13.0	2,184	13.0	–	–	N/A
Repayment of interest-bearing bank borrowings	17.3	2,906	17.1	0.2[4]	–	N/A[4]
Providing funding for working capital and other general corporate purposes	10.1	1,697	10.1	–	–	N/A
Total	100.0	16,798	70.4	29.6	–	

Notes:

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

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

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

(4) As at the date of this annual report, the Group has repaid the interest-bearing bank borrowings intended to be repaid through the proceeds from the global offering in full. The difference between the intended use of proceeds from the global offering and the actual repayment was due to the changes in foreign exchange rates. For the remaining unused net proceeds, the Group plans to use for general corporate purpose. As at the date of this annual report, the Group has not used the remaining 0.2% of the unused balance and will evaluate suitable usage based on its business needs.

FINANCIAL REVIEW (continued)

Use of Proceeds from the Global Offering (continued)

As at 31 March 2023, the unused balance of the proceeds from the global offering of approximately JPY4,942.2 million are currently deposited with creditworthy banks with no recent history of default.

Events after the Reporting Period

Final Dividend

The Board recommends the payment of a final dividend of JPY1.5 per share, amounting to approximately a total of JPY908.5 million for the year ended 31 March 2023 (the "**2022/2023 Final Dividend**"), representing approximately 27.9% of the Group's distributable profits for the year ended 31 March 2023. The 2022/2023 Final Dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (the "**AGM**").

Exchange Rate Conversion

Unless otherwise specified, amounts denominated in USD have been translated, for the purpose of illustration only, into JPY at the exchange rate of USD1.00:JPY134.83. No representation is made that any amount in USD and JPY could have been or could be converted at the above rates or at any other rates or at all.

Biographies of Directors and Senior Management

Directors

Executive Directors

Mr. Liu Jianguo (劉建國), aged 54, was appointed as the Chairman of the Board, President and executive director of the Company (the "**Director**") on 14 June 2016. He is the chairman of the nomination committee (the "**Nomination Committee**") of the Company. He is also the chairman and representative director of Honma Golf Co., Ltd. ("**Honma Japan**") and a director of Honma Holdings Group Limited ("**Honma Holdings**") and certain subsidiaries of the Company. He is responsible for formulating the overall development strategies and business plans of our Group and overseeing the management and strategic development of our Group. Mr. Liu acquired our Group in 2010 and he has served as chairman of Honma Japan since June 2010. Mr. Liu has over 32 years of experience in business management. He has been the chairman of Shanghai POVOS Enterprise (Group) Co., Ltd. (上海奔騰企業(集團)有限公司), which is engaged in the development, manufacturing and marketing of household appliance products, since January 2002 and has been chairman of Zhejiang POVOS Appliance Co., Ltd. (浙江奔騰電器股份有限公司) since September 2000. From May 1991 to August 2000, Mr. Liu was the general manager of Zhejiang Changjiang Electronic Industry Co., Ltd. (浙江長江電子工業有限公司), where he was responsible for general management and daily operations of the company. Mr. Liu obtained an executive master of business administration degree from Guanghua School of Management, Peking University (北京大學), PRC, in January 2007. Mr. Liu is the sole director of each of Kouunn Holdings Limited and Prize Ray Limited, controlling shareholders of the Company.

Mr. Ito Yasuki (伊藤康樹), aged 62, was appointed as an executive Director, Chief Marketing Officer and President of Japan Operations of the Company on 14 June 2016. He is mainly responsible for overseeing the marketing strategies and operations of our Group and overseeing our business in Japan. Mr. Ito has also served as president and representative director of Honma Japan since 21 December 2015, and as the director of the Marketing Division and the Third Overseas Sales Division since 1 February 2016. Mr. Ito joined our Group on 1 April 1985 and has served the Group for more than 38 years, during which he has gained extensive experience in the marketing of golf products. In February 1990, he joined as the senior staff of Ogikubo Office (荻窪營業所), and in April 1997, he became the manager of the Second Section of the First Department of the Sales Division. After that, he served in various positions in the Group, including as the deputy director of the Fifth Department of the Sales Division from May 2002 to March 2006, as the director of various sales and planning departments from April 2007 to April 2011, as the operating director of the Marketing Division from May 2011 to March 2014, and as the managing operating director of the Marketing Division from April 2014 to December 2015. Mr. Ito obtained a bachelor's degree in business from Seikei University, Japan, in March 1985.

Mr. Murai Yuji (邨井勇二), aged 63, was appointed as an executive Director and Chief Sales Officer of the Company on 14 June 2016. He is mainly responsible for overseeing the sales strategies and operations of our Group. Since 1 February 2016, Mr. Murai has also been the managing operating director of the Domestic Sales Division, as well as the managing operating director and head of the First Overseas Sales Division. Mr. Murai joined our Group in April 1983 and has served the Group for more than 40 years, during which he has gained extensive experience in the sales operations of golf products. Mr. Murai served as the deputy manager of various sales departments from April 1992 to March 1997. He was deputy director of the First Department of the Sales Division as well as deputy director of the Construction Department from April 1997 to March 2001, and deputy director and director of the Overseas Sales Department of the Sales Division from April 2001 to March 2007. From April 2007 to March 2009, Mr. Murai served as operating director of the Overseas Sales Division. Thereafter, he served as the operating director of the Domestic Sales Division from April 2009 to April 2011, as the operating director of the Sales Division from May 2011 to March 2012, and back to the position of operating director of the Domestic Sales Division from April 2012 to March 2014. Mr. Murai then served as the managing operating director of the Domestic Sales Division from April 2014 to January 2016. Mr. Murai obtained a bachelor's degree in political economics from Nihon University, Japan, in March 1983.

Directors (continued)

Executive Directors (continued)

Mr. Zuo Jun (左軍), aged 50, was appointed as an executive Director, Chief Administrative Officer and President of China Operations of the Company on 14 June 2016. He is also a member of the remuneration committee (the "**Remuneration Committee**") of the Company. He is primarily responsible for overseeing the administrative management of our Group and overseeing our business in the PRC. Mr Zuo has been a director of Honma Holdings since 1 November 2016. From June 2015 to June 2021, he served as a director of Honma Japan. Mr. Zuo has nearly 27 years of experience in business management and operations. Prior to joining our Group in February 2015, Mr. Zuo was a vice president of POVOS Electrical Appliance (Shanghai) Co., Ltd. (奔騰電器(上海)有限公司), a comprehensive high-tech enterprise which centres on development, manufacture and distribution of household electrical appliance, from March 2009 to December 2014. He was deputy general manager at TCL Household Appliance (Nanhai) Company (TCL小家電(南海)有限公司) from June 2006 to September 2008. From September 2004 to June 2006, he served as general manager of Shunde Ecom Intelligent Household Appliance Co., Ltd. (順德一家智能電器有限公司), a company engaged in intelligent household appliances manufacturing. He worked at Shunde Gree Household Appliance Company (順德格力小家電有限公司) as deputy general manager from June 2002 to June 2004. Mr. Zuo graduated from Central South University (中南大學, formerly known as Central South University of Technology (中南工業大學)), PRC, with a master's degree in thermal engineering in March 1996.

Non-executive Directors

Mr. Yang Xiaoping (楊小平), aged 59, was appointed as a non-executive Director of the Company on 28 May 2018 and is responsible for providing strategic advice on the business development of the Group. Mr. Yang has been the senior vice chairman of Charoen Pokphand Group Company Limited, a substantial shareholder of the Company, since January 2017, an executive director and the vice chairman of C.P. Lotus Corporation (卜蜂蓮花有限公司), a company previously listed on the Stock Exchange (Stock Code: 121) and with its listing withdrawn on 28 October 2019, since April 2000 and January 2012, respectively, and he is also the vice chairman and chief executive officer of the Chia Tai Group (China Area) (正大集團(中國區)). Mr. Yang has been the chief executive officer of CT Bright Holdings Limited (正大光明控股有限公司) since May 2003. He has also been a non-executive director of Ping An Insurance (Group) Company of China, Ltd. (中國平安保險(集團)股份有限公司), a company listed on the Stock Exchange (Stock Code: 2318), since June 2013 and CITIC Limited (中國中信股份有限公司), a company listed on the Stock Exchange (Stock Code: 267), since August 2015. Mr. Yang has been an independent director of Jingdong Digits Technology Holding Co., Ltd (京東數字科技控股股份有限公司) since June 2020. Mr. Yang has been the vice chairman of the board of directors of China Minsheng Investment (Group) Corp., Ltd (中國民生投資股份有限公司) ("**China Minsheng Investment**") since June 2020. He has been a non-executive director and the vice chairman of the board of directors of True Corporation Public Company Limited, a company listed on the Stock Exchange of Thailand (Symbol: TRUE), since July 2021.

Mr. Yang previously acted as the manager of the China Division of Nichiyo Co., Ltd. from 1989 to 1993 and the chief representative of the Beijing Office of Nichiyo Co., Ltd. from 1993 to 2001. Mr. Yang acted as a non-executive director of Tianjin Binhai Teda Logistics (Group) Corporation Limited (天津濱海泰達物流集團股份有限公司), a company listed on the Stock Exchange (Stock Code: 8348), from December 2012 to June 2020. He was also the co-chairman of the board of directors and the chairman of the related party transaction committee and the audit committee of the board of directors of China Minsheng Investment from April 2014 to June 2020 and from February 2019 to July 2020, respectively. Mr. Yang was also a non-executive director of Chery Holding Group Co., Ltd (奇瑞控股集團有限公司) from December 2019 to December 2021. Mr. Yang was a member of The Twelfth National Committee of the Chinese People's Political Consultative Conference and the associate dean of the Institute of Global Development of Tsinghua University (清華大學全球共同發展研究院). He is the vice president of the China Institute for Rural Studies of Tsinghua University (清華大學中國農村研究院), the deputy director of the management committee of the Institute of Global Development of Tsinghua University (清華大學全球共同發展研究院) and the president of Beijing Association of Enterprises with Foreign Investment (北京外商投資企業協會). Mr. Yang holds a bachelor's degree from Jiangxi Institute of Technology (江西省工學院) and graduated from Tsinghua University (清華大學) and he also has experience studying in Japan.

Directors (continued)

Non-executive Directors (continued)

Mr. Ho Ping-hsien, Robert (何平僊), aged 74, was appointed as a non-executive Director of the Company on 20 November 2018. He is responsible for providing strategic advice on the business development of the Group. Mr. Ho has been the chief financial officer international of Charoen Pokphand Group Company Limited, the ultimate parent company of a substantial shareholder of the Company, since January 2000, and executive director of CT Bright Holdings Limited, CT Bright Group Company Limited and CPG Overseas Company Limited since May 2003, September 2009 and January 2015, respectively. On 5 September 2018, Mr. Ho was appointed as a director of M.J. International Co., Ltd., a company listed on the Taiwan Stock Exchange Corporation (Stock Code: 8466). Mr. Ho previously acted as an executive director of C.P. Pokphand Co. Ltd., a company previously listed on the Stock Exchange (Stock Code: 43) and with its listing withdrawn on 18 January 2022, from September 2005 to April 2012. He has also been an executive director of C.P. Lotus Corporation, a company previously listed on the Stock Exchange (Stock Code: 121) and with its listing withdrawn on 28 October 2019, from April 2000 to April 2012. Mr. Ho served as chief of funding, senior officer and deputy chief financial officer of Formosa Plastics Group from September 1974 to September 1987 and served as the chief financial officer of Formosa Plastics Corp., U.S.A. from September 1987 to December 1999. Mr. Ho holds a bachelor of law degree from the Business Administrative Section, Business Administration Department of National Taiwan University.

Independent Non-executive Directors

Mr. Lu Pochin Christopher (盧伯卿), aged 64, was appointed as an independent non-executive Director of the Company on 18 September 2016 and he is also the chairman of the audit committee (the "**Audit Committee**") and a member of the Nomination Committee of the Company. Mr. Lu worked at Deloitte Touche Tohmatsu for approximately 34 years from 1981, where he served in various positions, including chief executive officer of Deloitte Huayong Certified Public Accountants, managing partner of Eastern China Region, co-chairman of China Service Group, and the managing partner of the client and market strategy department. Since March 2015, Mr. Lu has served as an executive director of FIT Hon Teng Limited (incorporated in the Cayman Islands under the name of Foxconn Interconnect Technology Limited), a company engaged in the manufacture, sales and service of information technology products which became listed on the Stock Exchange on 13 July 2017 (Stock Code: 6088), and he has also been its global chief operating officer and chief financial officer. From August 2015 to February 2022, Mr. Lu served as an independent director of Greenland Holdings Corporation Limited (綠地控股集團股份有限公司), a real property development company which is listed on the Shanghai Stock Exchange (Stock Code: 600606). He served as an independent non-executive director of Pantronics Holdings Limited (桐成控股有限公司) (currently known as New Huo Technology Holdings Limited (新火科技控股有限公司)), a manufacturer in the electronic manufacturing services industry which is listed on the Stock Exchange (Stock Code: 1611), from October 2016 to October 2018. Since August 2020, Mr. Lu has served as an independent non-executive director and chairman of the audit committee of Weibo Corporation (微博股份有限公司), a leading social media in China which is dual-listed on NASDAQ (Stock Code: WB) and the Stock Exchange (Stock Code: 9898).

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

Directors (continued)

Independent Non-executive Directors (continued)

Mr. Wang Jianguo (汪建國), aged 62, was appointed as an independent non-executive Director of the Company on 18 September 2016 and he is also the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Wang has been the chairman of Five Star Holdings Group Co., Ltd. (五星控股集團有限公司) since February 2009. Since June 2012, Mr. Wang has been concurrently the chairman of Kidswant Children Products Co., Ltd. (孩子王兒童用品股份有限公司), a company engaged in the sales and service of maternal and children products, which was listed on the National Equities Exchange and Quotations (Stock Code: 839843) from 9 December 2016 to 23 April 2018 and was listed on the Shenzhen Stock Exchange (Stock Code: 301078) on 14 October 2021. Since November 2015, Mr. Wang has been the chairman and a non-executive director of Huitongda Network Co., Ltd., a company listed on the Stock Exchange (Stock Code: 9878) on 18 February 2022. Since 19 November 2019, Mr. Wang has served as an independent non-executive director of Simcere Pharmaceutical Group Limited, a company listed on the Stock Exchange (Stock Code: 2096) on 27 October 2020.

From July 1981 to April 1993, Mr. Wang worked at Department of Commerce of Jiangsu Province (江蘇商業廳), and from April 1993 to June 2002, Mr. Wang served as general manager of Jiangsu Wujinjiaodian Corporation (江蘇省五金交電化工總公司), a state-owned company mainly engaged in the sales of home appliances, where he was primarily responsible for its overall management. 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.

Mr. Wang graduated from the Australian National University, Australia, in July 2004 with an executive master's degree in business administration. He also obtained a Ph.D. in Business Administration in Global Finance from Arizona State University, U.S.A. in May 2018. He was the vice chairman of Jiangsu General Chamber of Commerce from December 2014 to July 2022. 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. Xu Hui (徐輝), aged 49, was appointed as an independent non-executive Director of the Company on 18 September 2016 and he is also a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Xu has been the chief executive officer and executive director of Qingdao AInnovation Technology Group Co., Ltd. (青島創新奇智科技集團股份有限公司), a company listed on the Stock Exchange (Stock Code: 2121) on 27 January 2022, since February 2018 and April 2018, respectively. Mr. Xu served as vice president of Wanda Internet Technology Group (萬達網絡科技集團) from November 2016 to February 2018. He served as the vice president of Greater China, general manager of EPG (企業與合作夥伴事業部), general manager of CSS (客戶服務與支持集團) of Greater China and supervisor of cloud computing support of Asia Pacific at Microsoft Corporation from March 2013 to November 2016. From November 2009 to March 2013, he served as vice president of Greater China and the general manager of East and Central China in SAP Beijing Software System Co., Ltd, a multinational software company. Mr. Xu had also served as general manager of insurance and securities industry and deputy general manager of banking industry in China of Financial Services Sector, general manager of service product line and alliance in Greater China of Global Technology Service Department and general manager of geographic expansion in China at IBM China Company Limited, from November 1996 to November 2009, successively.

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.

Senior Management

Ms. Bian Weiwen (邊蔚文), aged 53, joined our Group on 1 November 2015 and was appointed as the Chief Financial Officer of our Group on 14 June 2016. She was also appointed as Chief Operating Officer on 27 May 2019. She is responsible for overseeing the overall financial management of our Group. Ms. Bian has over 28 years of experience in the finance industry. Prior to joining our Group, Ms. Bian served in various positions at Royal Philips Electronics Co., Ltd., which is listed on the New York Stock Exchange (stock code: PHG) and Euronext N.V. (Stock Code: PHIA), and was the head of Finance of Business Group Domestic Appliance from April 2006 to September 2015. From January 2000 to March 2006, Ms. Bian was senior manager of the Project & Trade Finance Unit of the Corporate Finance Department at ThyssenKrupp AG, a diversified industrial group which is listed on Frankfurt Stock Exchange (Stock Code: DE 000 750 0001), where her responsibilities included the arrangement and execution of project financing for major projects in various areas of the group. Ms. Bian served as associate director of the Structured Finance and Advisory Department of UBS Warburg Deutschland from September 1997 to September 1999. From April 1994 to September 1997, she was an associate at Credit Suisse First Boston, working in its China and Germany offices. Ms. Bian graduated from Fudan University (復旦大學), PRC, with a bachelor's degree in international finance in July 1992. She was presented with the Magnolia Silver Award by the Shanghai Municipal People's Government in September 2011.

Directors' Report

The Board is pleased to present its report, together with the audited consolidated financial statements of the Group, for the year ended 31 March 2023.

Principal Activities

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

Business Review

In the year ended 31 March 2023, the Group continued to implement its growth strategies, including, among others, (i) marketing golf clubs that target high growth consumer segments; (ii) continued scaling up non-club product categories; (iii) deepening cooperation with sports megastores in home and new markets; (iv) continued implementing the Group's U.S. business development plan; and (v) enhancing influence of HONMA brand appealing to younger golfers. The Group's products are sold in approximately 50 countries worldwide, primarily in Asia and also across North America, Europe and other regions.

Performance of the Group's Business

Full year revenue increased by 1.8% from the year ended 31 March 2022 to JPY29,495.0 million (equivalent to USD218.8 million). Three years after the outbreak of COVID-19, overall golf industry has continued to experience positive uptake in both participation and purchase interest. That being said, the unexpected COVID-19 outbreak in China and measures implemented subsequently have stalled the Group's sales growth plans. As a result, the Group's revenue growth moderated during the year ended 31 March 2023. In particular, revenue from Japan, Korea, China and North America rose by 15.6%, 3.8%, 2.0% and 3.2%, respectively.

Business Review (continued)

Financial Highlights

In the year ended 31 March 2023,

- The Group's revenue increased by 1.8% from the year ended 31 March 2022 to JPY29,495.0 million (equivalent to USD218.8 million). Three years after the outbreak of COVID-19, overall golf industry has continued to experience positive uptake in both participation and purchase interest. That being said, the unexpected COVID-19 outbreak in China and measures implemented subsequently have stalled the Group's sales growth plans. As a result, the Group's revenue growth moderated during the year ended 31 March 2023. See "Management Discussion and Analysis – Financial Review – Revenue" in this annual report.

    - *By geography.* During the year ended 31 March 2023, the Group's main markets recorded different sales momentum versus same period last year. Revenue from Japan and Korea rose by 15.6% and 3.8%, respectively, on the back of a strong rebound of consumer demand, continued marketing activities to drive HONMA brand and product awareness, and successful activation of various HONMA products. China, on the other hand, showed a lower than expected growth of 2.0% as the market experienced widespread disruptions due to the unexpected COVID-19 outbreak in both the first quarter and third quarter of the year. Europe recorded a sales decline of 68.2%, reflecting the Group's decision to change its distribution model to an indirect one.

    - *By product.* During the same period, revenue from golf clubs showed a modest growth of 3.2%, as products across different product families continued to generate positive sales momentums. Revenue from apparels went up by 1.5% from the year ended 31 March 2022, in spite of the negative impact the Group withstood in China. Sales from golf balls edged lower by 1.1%, mainly due to the continued raw material supply challenges.

    - *By channel*. The performance of self-operated stores continued to be strong, posting a steady increase of 40.2% from the year ended 31 March 2022, mainly due to a robust retail sales recovery in Japan. At the same time, revenue from third-party retailers and wholesalers decreased by 11.1% for the same period, primarily due to (i) sales decrease in Europe where the Group conducts sales all through third-party retailers and wholesalers, and (ii) channel shifting of the Group's apparel business in China to self-operated stores.

- Gross profit margin decreased by 3.3 percentage points for the year ended 31 March 2023 and reached 50.8% as compared to 54.1% for the year ended 31 March 2022, due to increased raw material prices, downward currency pressure and tightened inventory provision policies.

- Full year profit before tax decreased by 45.9% to reach JPY4,092.9 million (equivalent to USD30.4 million), down from JPY7,560.3 million for the year ended 31 March 2022.

- Net operating cash flow remained positive and stood at JPY3,675.9 million (equivalent to USD27.3 million) for the year ended 31 March 2023.

Business Review (continued)

Outlook for 2023/2024

For the year ahead, HONMA will continue executing its long-term growth strategy to build a world-leading golf lifestyle company leveraging its brand legacy, expanding distribution network and innovative technologies and traditional Japanese craftsmanship.

We intend to continue pursuing the following:

a) To further increase and regain HONMA's market share in Asia home markets by maintaining its leading position in the super-premium segment while making solid inroads into the fast-growing premium-performance segment;

b) To pivot growth in North America and Europe by focusing on a smaller but premier group of accounts that are most capable to represent HONMA's tradition and pursue in the super-premium and premium-performance consumer segments;

c) To continue driving golf balls, apparel and accessories business across Asia markets to capture the growing opportunities in the non-club categories of these regions;

d) To continue leveraging HONMA's unique legacy in R&D capabilities to develop products that cater for latest market trends;

e) To further improve and transform HONMA brand value into customer loyalty.

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

Business Review (continued)

Key Relationships

Relationship with Suppliers

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

Relationship with Customers

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

Relationship with Employees

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

Business Review (continued)

Environmental Policies and Performance

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

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

Further details of our environmental policies and performance are set out in Environmental, Social and Government Report.

Licences, Regulatory Approvals and Compliance with Laws and Regulations

During the year ended 31 March 2023, there were no material breaches or violations of relevant laws and regulations in Japan, China, Korea, and where the Group has business entities and operation, and the Group obtained all material licences and permits necessary for its business in the jurisdictions in which the Group operates. Details of our compliance with relevant laws and regulations are set out in Environmental, Social and Governance Report.

Principal Risks and Uncertainties

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

Principal Risks and Uncertainties	Description	Key Mitigations
Risks related to any possible deterioration in the brand image of the HONMA brand of the Company	We are dependent on our HONMA brand for all our revenue and we expect to continue relying heavily on the HONMA brand. Product defects, counterfeit products and ineffective promotional activities are all potential threats to the strength of our brand.	• We keep decent R&D investments to ensure innovative technologies and high quality in our products; • We take legal actions against counterfeit products in different markets.
Uncertainty as to maintenance of high growth rate of the business	Our ability to maintain a high growth rate in the future depends on the implementation of our growth strategies. There can be no assurance that our strategies will continue to be successful. If we are not able to implement our growth strategies effectively or adjust them as market conditions evolve, we will not be able to sustain our growth.	• We maintain the leadership in club market segment 2 and keep the engine growing in segment 5 and 6; • We strengthened the efforts on non-club business, i.e. golf balls, bags, gloves, apparels and other golf-related accessories, etc..

Principal Risks and Uncertainties (continued)

Principal Risks and Uncertainties	Description	Key Mitigations
Uncertainty as to the maintenance or expansion of the sales and distribution network	Our products are currently sold in approximately 50 countries worldwide, primarily in Asia and also across North America, Europe and other regions. We sell our products through a combination of self-operated stores and distribution channels. If we are unable to maintain or grow our sales and distribution network, we could experience a decline in sales and market share.	• We fine-tuned the channels in home markets by shutdown of non-profitable self-operated stores and expanded our distributors/dealers base; • We have installed dedicated business development teams across major markets which, through continuous dialogues with commercial property owners and trade partners, lead and drive for the expansion and optimization of HONMA's retail footprint; • We are also working with an extensive network of retail and wholesale partners to stock, display, promote and sell HONMA products. The number of POS we had with these partners far exceeded the number of stores that we operate by ourselves and this in turn supplements, completes and anchors HONMA's sales and distribution network globally.
Uncertainty as to expansion into new consumer segments and product categories	We devote significant resources to developing and marketing golf clubs that appeal to new target consumer segments. However, there can be no assurance that our efforts to expand into new consumer segments will continue to be successful. If our golf clubs fail to attract our target consumers, our business, results of operations and financial condition would be materially and adversely affected.	• We keep a healthy pace on technology innovations in new consumer segments of golf clubs; • We update our products every two years using up-to-date technology and high quality materials in order to deliver tangible performance improvement and value propositions to our existing and new consumers; • We actively use digital and social media platforms to redefine the brand as a dynamic, modern and global brand and to drive brand and product awareness.

Principal Risks and Uncertainties (continued)

Principal Risks and Uncertainties	Description	Key Mitigations
Uncertainty as to the international expansion, especially in North America and Europe	As we expand into new geographic markets, we will face competition from competitors who are well established in these markets. In addition, in many of these markets, the retail market conditions, consumer behavior, operating environments and tax and regulatory requirements may differ significantly from those in our home markets of Japan, Korea and China (including Hong Kong and Macau). Moreover, our international expansion may not be successful for a number of other reasons, such as changes in consumer demand and product trends, economic fluctuations, political and social turbulences, changes in legal regulations or other conditions and difficulties. If we are not successful in expanding into new geographic markets, our business, results of operations and financial condition would be materially and adversely affected.	• We have re-organized the management team in the U.S. to fit the current growth strategy; • The new products BERES AIZU and TW757 have taken into account more technology requirements from international markets; • In Europe, we have closed 615 POSs and decreased the total POSs to 35 by 31 March 2023. During the same period, in North America, we opened eight new POSs, leading to a modest POS network of 345 locations.
Risks inherent in our effort to expand grow non-club sales	We set the strategy to grow the non-club business, i.e. golf balls, bags, gloves, apparels and other golf-related accessories, etc.. However, there can be no assurance that our strategy on growing non-club business will continue to be successful. If our non-club products fail to attract our target consumers, our business, results of operations and financial condition would be materially and adversely affected.	• On top of the strategic partnership with Itochu Corporation ("**Itochu**") to develop its apparel & accessories, we have also set up professional team in key markets, i.e. Japan, Korea and China; • We have good partnership with Foremost to develop the most advanced golf balls, the market of which has shown decent growth in the past years.
Uncertainty as to the development of COVID-19 epidemic	The recent occurrence of the COVID-19 epidemic has increased uncertainties to the global economy in the coming years. If the development of the COVID-19 epidemic persists or intensifies, the global economy, including the economy in our home markets, may be materially and adversely affected. In such event, health safety risks during the occurrence of the COVID-19 epidemic may also lead to labour shortage, closure or interruption of our point-of-sales, and/or delay the work progress as a result. These adverse impacts, if materialise and persist for a substantial period, may significantly and adversely affect our business operation and financial performance.	• For markets that have lifted the lockdown, we have already seen increased participation in golf; • Intensified efforts to go digital: In the year ended 31 March 2023, the Company took several steps to improve its global brand positioning and communication, including revamping its global website and social media platform, which helped HONMA generate month-on-month growth in organic traffic, conversion and other digital engagement matrices.

Financial Statements

The results of the Group for the year ended 31 March 2023 and the state of the Group's financial position as at that date are set out in the financial statements on pages 136 to 143 of this annual report.

Final Dividend

The Board recommends the payment of the 2022/2023 Final Dividend of JPY1.5 per share, amounting to approximately a total of JPY908.5 million for the year ended 31 March 2023, representing approximately 27.9% of the Group's distributable profits for the year ended 31 March 2023. Together with the interim dividend of JPY1.5 per share paid on 28 December 2022, total dividends for the year ended 31 March 2023 will amount to JPY3.0 per share and the total dividend payout will amount to JPY1,817.0 million, representing approximately 55.8% of the Group's distributable profits for the year ended 31 March 2023. The 2022/2023 Final Dividend is subject to the approval of the Company's shareholders at the forthcoming AGM. The 2022/2023 Final Dividend will be declared in Japanese Yen and paid in Hong Kong dollars, the exchange rate of which will be calculated based on the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its middle rate of exchange as at the record date for determining such dividend entitlement.

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

The Company will evaluate its Dividend Policy and distributions made from time to time. Further details of the Dividend Policy are set out in the section headed "Corporate Governance Report – Dividend Policy" in this annual report.

Distributable Reserves

As at 31 March 2023, the Company's distributable reserves calculated under the Companies Act (As Revised) of the Cayman Islands comprise the share premium and retained profits totaling approximately JPY10,006 million (JPY11,524 million as at 31 March 2022).

Reserves

Changes to the reserves of the Group during the year ended 31 March 2023 are set out in the consolidated statement of changes in equity in this annual report.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 March 2023 are set out in note 15 to the consolidated financial statements in this annual report.

Share Capital

Details of movements in the share capital of the Company during the year ended 31 March 2023 are set out in note 32 to the consolidated financial statements in this annual report.

Bank Borrowings and Other Loans

Details of bank borrowings and other loans of the Group as at 31 March 2023 are set out in note 28 to the consolidated financial statements in this annual report.

Charge on Assets

The Group pledged deposits as collateral for the bank to issue letter of guarantee for HONMA Europe Value Added Tax declaration. The pledged deposits of the Group increased by 8.89% from JPY4.75 million as at 31 March 2022 to JPY5.17 million as at 31 March 2023, mainly due to change in exchange rate. The letter of guarantee was cancelled in early June 2023. There is no charge on the Group's assets as at the date of this annual report.

Donation

The Group donated products with value of JPY1.96 million during the year ended 31 March 2023.

Financial Summary

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

Purchase, Sale or Redemption of Listed Securities of the Company

During the year ended 31 March 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

Restricted Share Unit Scheme and Post-IPO Share Option Scheme

Restricted Share Unit Scheme

On 20 October 2015, the Restricted Share Unit Scheme (the "**RSU Scheme**") was approved and adopted by the then shareholders of the Company. The purpose of the RSU Scheme is to incentivize directors, senior management and employees of the Company or any of its subsidiaries (the "**RSU Eligible Persons**") for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. The Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion. The RSU Scheme will be valid and effective for a period of ten (10) years from the date of the first grant of the RSUs, being 20 October 2015. As at 31 March 2023, the remaining life of the RSU Scheme is approximately two years and seven months. The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of shares of the Company (the "**Shares**") held or to be held by the trustee for the RSU Scheme for the purpose of the RSU Scheme from time to time. There is no maximum entitlement for each RSU Eligible Person under the rules of the RSU Scheme. Further details of the principal terms of the RSU Scheme are set out in the Prospectus.

The Company has appointed The Core Trust Company Limited (the "**RSU Trustee**") as the trustee to assist in the administration of the RSU Scheme. All the Shares underlying the RSUs granted and to be granted under the RSU Scheme will be transferred, allotted or issued to the RSU Trustee and/or Taisai Holdings Ltd. (the "**RSU Nominee**"), a company indirectly wholly-owned by the RSU Trustee. At 1 April 2022 and 31 March 2023, the number of RSUs available for grant under the RSU Scheme was 3,034,856 and 3,357,370, respectively. As at the date of this annual report, RSUs in respect of 11,313,208 underlying Shares were granted under the RSU Scheme for the benefit of RSU Eligible Persons pursuant to the RSU Scheme, and RSUs in respect of 6,241,342 underlying Shares, representing approximately 1.0% of the total issued Shares of the Company as at the date of this annual report, have not been exercised, lapsed or cancelled and remain to be held by the RSU Nominee.

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

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

Restricted Share Unit Scheme and Post-IPO Share Option Scheme (continued)

Restricted Share Unit Scheme (continued)

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

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

Details of the RSUs granted under the RSU Scheme and outstanding as at 31 March 2023 and details of the vesting period and the movements in RSUs during the year ended 31 March 2023 are set out below:

Name of grantee of RSU	Position(s) held with the Group	Number of Shares represented by RSUs at 1 April 2022	*date of grant*	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Number of Shares represented by RSUs at 31 March 2023
Directors of the Company								
Liu Jianguo	Chairman of the Board, President and Executive Director	285,675	03-Nov-2015	–	–	–	–	285,675
Ito Yasuki	Executive Director, Chief Marketing Officer and President of Japan Operations	133,341	20-Oct-2015	–	–	–	–	133,341
		95,355	31-May-2016	–	–	–	–	95,355
Murai Yuji	Executive Director and Chief Sales Officer	144,768	20-Oct-2015	–	–	–	–	144,768
		38,220	31-May-2016	–	–	–	–	38,220
Sub-total		697,359		–	–	–	–	697,359

Restricted Share Unit Scheme and Post-IPO Share Option Scheme (continued)

Restricted Share Unit Scheme (continued)

Name of grantee of RSU	Position(s) held with the Group	Number of Shares represented by RSUs at 1 April 2022	*date of grant*	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Number of Shares represented by RSUs at 31 March 2023
Employees in aggregate								
Senior management of the Company, and directors and other executive managers of the subsidiaries of the Company (excluding those who are also Directors of the Company)								
One senior management of the Company, and two other executive managers of the subsidiaries of the Company		90,776	20-Oct-2015	–	–	–	90,776	–
		381,030	03-Nov-2015	–	–	–	–	381,030
		113,880	31-May-2016	–	–	–	19,110	94,770
Other employees of the Group								
72 other employees of the Group		1,291,758	20-Oct-2015	–	–	–	169,923	1,121,835
		457,275	03-Nov-2015	–	–	–	–	457,275
		38,220	31-May-2016	–	–	–	–	38,220
		136,188	06-Oct-2017	–	–	–	42,705	93,483
Sub-total		2,509,127		–	–	–	322,514	2,186,613
Total		3,206,486		–	–	–	322,514	2,883,972

Restricted Share Unit Scheme and Post-IPO Share Option Scheme (continued)

Restricted Share Unit Scheme (continued)

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

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

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

(iii) as to 30% on 19 October 2025.

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

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

(ii) as to 50% on 19 October 2025.

Restricted Share Unit Scheme and Post-IPO Share Option Scheme (continued)

Post-IPO Share Option Scheme

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

Subject to the terms of the Post-IPO Share Option Scheme, the Board shall be entitled at any time within the period of ten (10) years after the adoption date, being 18 September 2016 to 17 September 2026, to grant options to any Eligible Persons as the Board in its absolute discretion selects. As at 31 March 2023, the remaining life of the Post-IPO Share Option Scheme is approximately three years and six months. No offer shall be made and no option shall be granted to any participant in the Post-IPO Share Option Scheme (the "**Participant**") in circumstances prohibited by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") at a time when the Participant would or might be prohibited from dealing in the Shares by the Listing Rules or by any applicable rules, regulations or law. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period; and (ii) the deadline for the Company to publish its interim or annual results announcement under the Listing Rules; and ending on the date of actual publication of such results announcement.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and all other share option schemes existing at such time of the Company shall not in aggregate exceed 60,905,000 Shares (representing 10% of the total number of Shares in issue as at the Listing Date, the "**Scheme Mandate Limit**"), which represents approximately 10.06% of the total number of Shares in issue as at the date of the annual report. The Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval but in any event, the total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes of the Company under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of approval of the renewal of the Scheme Mandate Limit.

At 1 April 2022 and 31 March 2023, the number of options available for grant under the Post-IPO Share Option Scheme was 60,905,000 and 60,905,000, respectively.

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

Restricted Share Unit Scheme and Post-IPO Share Option Scheme (continued)

Post-IPO Share Option Scheme (continued)

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

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

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

- the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of the option, which must be a business day;
- the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and
- the nominal value of a Share on the date of grant.

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

During the period from 18 September 2016 to 31 March 2023, no option had been granted or agreed to be granted by the Company pursuant to the Post-IPO Share Option Scheme.

Directors

The Directors of the Company during the year ended 31 March 2023 and up to the date of this annual report were:

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

In accordance with the articles of association of the Company, Mr. Ito Yasuki, Mr. Murai Yuji and Mr. Wang Jianguo will retire by rotation at the forthcoming AGM. Save and except for Mr. Murai Yuji, the remaining retiring Directors, being eligible, will offer themselves for re-election at the forthcoming AGM. As Mr. Murai Yuji has reached his retirement age and wishes to devote more time to his personal affairs, he will not stand for re-election and will therefore retire at the conclusion of the forthcoming AGM.

The biographical details of the Directors as at the date of this annual report are set out in the section headed "Biographies of the Directors and Senior Management" in this annual report. Save as disclosed therein, there is no change in the Directors' biographical details which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Directors' Service Contracts and Letters of Appointment

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

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

Confirmation of Independence of Independent Non-executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors (being Mr. Lu Pochin Christopher, Mr. Wang Jianguo and Mr. Xu Hui), and the Company considers such Directors to be independent for the year ended 31 March 2023.

Directors' and Controlling Shareholders' Interests in Transactions, Arrangements or Contracts of Significance

Save as the related party transactions as disclosed in note 36 to the consolidated financial statements and the connected transactions as disclosed in the section headed "Connected Transactions" in this annual report, there were no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director and/or any of its connected entity had a material interest, whether directly or indirectly, and there were no transactions, arrangements or contracts of significance between the Company or any of its subsidiaries and the Company's controlling shareholders or any of its subsidiaries, subsisted at the end of, or at any time during the year ended 31 March 2023.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 March 2023, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules or as the Company is aware were as follows:

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures (continued)

Interests in the Company

Name of Director/Chief Executive	Capacity/Nature of interest	Number of Shares or underlying Shares interested(1)	Approximate percentage of interest(6)
Mr. Liu Jianguo(2)	Founder and the sole beneficiary of a trust/Interest of controlled corporation	233,560,525 (L)	
	Beneficial owner	952,250 (L)	
		234,512,775 (L)	38.72%
Mr. Ito Yasuki(3)	Beneficial owner	337,552 (L)	0.06%
Mr. Murai Yuji(4)	Beneficial owner	366,456 (L)	0.06%
Mr. Zuo Jun(5)	Beneficial owner	254,020 (L)	0.04%

Notes:

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

(2) Vistra Trust (Hong Kong) Limited ("**Vistra Trust**") is the trustee of the trust established by Mr. Liu Jianguo who is also the sole beneficiary of the trust. Vistra Trust holds the entire issued share capital of Dazzling Coast Limited ("**Dazzling**"), which in turn holds the entire share capital of Prize Ray Limited ("**Prize Ray**"), which holds the entire share capital of Kouunn Holdings Limited, which beneficially owned 233,560,525 Shares. As Mr. Liu Jianguo is the founder and the sole beneficiary of the trust as well as the sole director of Kouunn Holdings Limited, by virtue of the SFO, Mr. Liu is deemed to be interested in the Shares held by Kouunn Holdings Limited. Mr. Liu also directly held 666,575 Shares and was interested in 285,675 restricted share units ("**RSUs**") granted to him under the RSU Scheme entitling him to receive 285,675 Shares upon vesting.

(3) Mr. Ito Yasuki directly held 108,856 Shares and was interested in 228,696 RSUs granted to him under the RSU Scheme entitling him to receive 228,696 Shares upon vesting.

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

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

(6) The calculation is based on the total number of 605,642,500 Shares in issue as at 31 March 2023.

Interests in Associated Corporation of the Company

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

Save as disclosed above, as at 31 March 2023, none of the Directors or the chief executive of the Company had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 March 2023, the following persons (other than the Directors and the chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or as the Company is aware:

Name	Nature of interest	Number of Shares or underlying Shares Interested[1]	Approximate percentage of interest[8]
Kouunn Holdings Limited[2][4][6]	Beneficial owner	233,560,525(L)	38.56%
Dazzling Coast Limited[4]	Interest of controlled corporation	233,560,525(L)	38.56%
Prize Ray Limited[4]	Interest of controlled corporation	233,560,525(L)	38.56%
Vistra Trust (Hong Kong) Limited[4]	Trustee	233,560,525(L)	38.56%
Ms. Huang Wenhuan (黃文歡)[3]	Interest of spouse	234,512,775(L)	38.72%
Fosun Industrial Holdings Limited (復星產業控股有限公司)[5]	Beneficial owner	35,629,425(L)	5.88%
Fosun International Limited[5]	Interest of controlled corporation	35,629,425(L)	5.88%
Fosun Holdings Limited[5]	Interest of controlled corporation	35,629,425(L)	5.88%
Fosun International Holdings Ltd.[5]	Interest of controlled corporation	35,629,425(L)	5.88%
Mr. Guo Guangchang (郭廣昌)[5]	Interest of controlled corporation	35,629,425(L)	5.88%
Gold Genius Development Limited[2][6]	Person having a security interest in Shares	47,000,000(L)	7.76%
Splendid Steed Investments Limited[6]	Interest of controlled corporation	47,000,000(L)	7.76%
Mr. Ma Jianrong[6]	Interest of controlled corporation	47,000,000(L)	7.76%
Charoen Pokphand Group Company Limited[7]	Interest of controlled corporation	181,296,500(L)	29.93%
ITOCHU Corporation	Beneficial owner	38,284,000(L)	6.32%

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares (continued)

Notes:

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

(2) 47,000,000 Shares held by Kouunn Holdings Limited were pledged in favour of Gold Genius Development Limited.

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

(4) Vistra Trust is the trustee of the trust established by Mr. Liu Jianguo who is also the sole beneficiary of the trust. Vistra Trust holds the entire issued share capital of Dazzling, which in turn holds the entire share capital of Prize Ray, which holds the entire share capital of Kouunn Holdings Limited, which beneficially owned 233,560,525 Shares. By virtue of the SFO, Mr. Liu, Vistra Trust, Dazzling and Prize Ray are deemed to be interested in the same parcel of Shares held by Kouunn Holdings Limited.

(5) Fosun Industrial Holdings Limited (復星產業控股有限公司) was a wholly-owned subsidiary of Fosun International Limited ("**FIL**"). FIL was 73.53% held by Fosun Holdings Limited ("**FHL**"). Fosun International Holdings Ltd. ("**FIHL**") was the beneficial owner of all issued shares in FHL and was in turn owned as to 85.29% by Mr. Guo Guangchang (郭廣昌). By virtue of the SFO, FIL, FHL, FIHL and Mr. Guo Guangchang (郭廣昌) were deemed to be interested in the same parcel of Shares held by Fosun Industrial Holdings Limited (復星產業控股有限公司).

(6) Mr. Ma Jianrong holds the entire issued share capital of Splendid Steed Investments Limited, which in turn holds the entire share capital of Gold Genius Development Limited, which had a security interest in 47,000,000 Shares pledged by Kouunn Holdings Limited in its favour. By virtue of the SFO, Mr. Ma Jianrong and Splendid Steed Investments Limited are deemed to be interested in the same parcel of Shares in which Gold Genius Development Limited had a security interest.

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

(8) The calculation is based on the total number of 605,642,500 Shares in issue as at 31 March 2023.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 March 2023.

Major Customers and Suppliers

The Group has a large and diverse customer base. During the year ended 31 March 2023, sales to the Group's five largest customers accounted for approximately 30.7% of the Group's total sales for the same period (of which sales to the Group's single largest customer accounted for approximately 19.0% of the Group's total sales for the same period).

The Group depends on suppliers to supply raw materials or manufacture certain of the products. In the year ended 31 March 2023, purchases from the Group's five largest suppliers accounted for approximately 63.7% of the Group's total purchases from all suppliers for the year (of which purchases from the Group's single largest supplier accounted for approximately 26.0% of the Group's total purchases for the year).

All of the Group's five largest customers and suppliers are independent third parties. None of the Directors, their close associates or the shareholders which to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company, had any interest in any of the five largest customers or suppliers during the year ended 31 March 2023.

Pre-emptive Rights

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

Emolument Policy

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

Employee Benefits

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

Pursuant to code provision E.1.5 of the CG Code (as defined below), the annual remuneration of executive Directors and the senior management, by band for the year ended 31 March 2023 is set out below:

Remuneration band (in JPY)	Number of individuals
-10,000,000	1
10,000,001-15,000,000	2
15,000,001-20,000,000	0
20,000,001-25,000,000	0
25,000,001-	2

Public Float

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

Rights to Acquire the Company's Securities and Equity-linked Agreements

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

Directors' Interests in Competing Business

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

Permitted Indemnity Provision

Every Director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. Subject to the Companies Act (As Revised) of the Cayman Islands, if any Director or other person shall become personally liable for the payment of any sum primarily due from the Company, the Board may execute or cause to be executed any mortgage, charge, or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the Director or person so becoming liable as aforesaid from any loss in respect of such liability. Such provisions were in force throughout the year ended 31 March 2023 and are currently in force. The Company has arranged for appropriate insurance cover for Directors' liabilities in respect of legal actions that may be brought against the Directors.

Use of Proceeds from the Global Offering

On 6 October 2016, the Company's Shares were listed on the Stock Exchange. A total of 133,991,000 Shares with nominal value of US$0.0000025 each were issued at HK$10.00 per Share for a total of HK$1,339,910,000 under the global offering of the Company. The net proceeds raised by the Company from the above mentioned global offering, after deducting the underwriting fees and commissions and expenses paid by the Company in connection with the global offering, amounted to approximately JPY16,798.3 million. Details of the Group's use of proceeds as at 31 March 2023 are set out in the section headed "Management Discussion and Analysis – Financial Review – Use of Proceeds from the Global Offering" in this annual report.

Connected Transactions

Mr. Liu Jianguo, an executive Director and a controlling shareholder of the Company, is a connected person of the Company under the Listing Rules. Shanghai POVOS Enterprise (Group) Co., Ltd. (上海奔騰企業(集團)有限公司) ("**Shanghai POVOS**") is wholly owned by Mr. Liu and is therefore an associate of Mr. Liu and hence a connected person of the Company under the Listing Rules. A property lease agreement and a subsequent renewal agreement, which is also a related party transaction disclosed in note 36 to the audited consolidated financial statements in this annual report in accordance with International Accounting Standards 24 "Related Party Disclosure", was entered into between Shanghai POVOS, as the lessor, and World Power International Trading (Shanghai) Company Limited (世力國際貿易(上海)有限公司) ("**World Power**"), being a member of the Group, as the lessee, on 31 December 2013 and 6 June 2016, respectively, which constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. On 31 December 2019, World Power and Shanghai POVOS entered into a renewal agreement regarding the aforementioned lease for a term of one year commencing on 1 January 2020. The renewal agreement was automatically renewed for a term of one year commencing on each of 1 January 2021, 1 January 2022 and 1 January 2023, and is to be automatically renewed if neither party terminates the agreement at the expiry of the renewal lease term. As the highest relevant "percentage ratio" (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules is expected to be less than 5% and the total consideration is expected to be less than HK$3,000,000, in each case on an annual basis, the transaction is exempt from the annual review, annual reporting, announcement, circular (including independent financial advice) and independent shareholders' approval requirements pursuant to Rule 14A.76(1) of the Listing Rules.

Subsequent Events

Particulars of important events affecting the Group that have occurred since the year ended 31 March 2023 are stated in note 41 to the consolidated financial statements in this annual report.

Audit Committee

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's risk management, internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 March 2023.

Auditor

The financial statements for the year ended 31 March 2023 have been audited by Ernst & Young who shall retire at the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution will be proposed at the forthcoming AGM to re-appoint Ernst & Young as the auditor of the Company.

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

On behalf of the Board
LIU Jianguo
Chairman

21 June 2023

Corporate Governance Report

The board of directors (the "**Board**") of the Company is pleased to report to the shareholders of the Company on corporate governance of the Company for the year ended 31 March 2023 (the "**Corporate Governance Report**").

Corporate Governance Culture

The Company is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, the Company believes that its shareholders wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure (i) satisfactory and sustainable returns to shareholders; (ii) that the interests of those who deal with the Company are safeguarded; (iii) that overall business risk is understood and managed appropriately; (iv) delivery of high-quality products and services to the satisfaction of customers; and (v) that high standards of ethics are maintained.

Corporate Governance Practices

The Board is committed to achieving good corporate governance standards.

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

The Company has adopted the principles and code provisions as set out in the Corporate Governance Code ("**CG Code**") contained in Part 2 of the Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as the basis for the Company's corporate governance practices.

In the opinion of the directors of the Company (the "**Directors**"), throughout the year ended 31 March 2023 (the "**Year**"), the Company has complied with all code provisions as set out in the CG Code, save for the deviations from code provisions C.2.1 and C.5.1 of the CG Code which are explained in the relevant paragraphs of this Corporate Governance Report.

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

Directors' Securities Transactions

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

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

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

Board of Directors

The Company is headed by an effective Board which assumes responsibility for its leadership and control and be collectively responsible for promoting the Company's success by directing and supervising the Company's affairs. Directors make decisions objectively in the best interests of the Company and its shareholders.

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. The Board regularly reviews the contribution required from a Director to perform his responsibilities to the Company, and assesses whether a Director is spending sufficient time in performing his responsibilities that are commensurate with his roles and the Board responsibilities. The Board includes a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

Board Composition

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

The composition of the Board is as follows:

Executive Directors

Mr. Liu Jianguo (劉建國) *(Chairman and President)*
Mr. Ito Yasuki (伊藤康樹)
Mr. Murai Yuji (邨井勇二)
Mr. Zuo Jun (左軍)

Non-executive Directors

Mr. Yang Xiaoping (楊小平)
Mr. Ho Ping-hsien Robert (何平僊)

Independent Non-executive Directors

Mr. Lu Pochin Christopher (盧伯卿)
Mr. Wang Jianguo (汪建國)
Mr. Xu Hui (徐輝)

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

The biographical information of the Directors is set out in the section headed "Biographies of Directors and Senior Management" on pages 36 to 39 of this annual report.

None of the members of the Board has any relationship (including financial, business, family or other material/relevant relationship) with one another.

Board Meetings

Code provision C.5.1 of the CG Code stipulates that regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

During the Year, the Board held two regular meetings to approve the annual results for the year ended 31 March 2022 and the interim results for the six months ended 30 September 2022. The Company has not held quarterly board meeting as the Company does not announce its results quarterly.

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

Chairman and Chief Executive

Code provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

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

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

Independent Non-executive Directors

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

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

Board Independence Evaluation

The Company has established mechanisms to ensure independent views and input are available to the Board (the "**Board Independence Evaluation Mechanisms**"), which set out the processes and procedures to ensure a strong independent element on the Board that allows the Board to effectively exercise independent judgment to better safeguard shareholders' interests. The objectives of the Board Independence Evaluation Mechanisms are to improve Board effectiveness, maximise strengths and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance.

A summary of the Board Independence Evaluation Mechanisms is set out below:

- The Board ensures the appointment of at least three independent non-executive Directors and at least one-third of its members being independent non-executive Directors (or such higher threshold as may be required by the Listing Rules from time to time), with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Further, independent non-executive Directors will be appointed to Board committees as required under the Listing Rules and as far as practicable to ensure independent views are available to the Board.

- The Nomination Committee strictly adheres to the nomination policy of the Company (the "**Nomination Policy**") with regard to the nomination and appointment of independent non-executive Directors, and is mandated to assess annually the independence of independent non-executive Directors to ensure that they can continually exercise independent judgement.

- Directors (including independent non-executive Directors) are entitled to seek further information from the management on the matters to be discussed at Board meetings and, where necessary, independent advice from external professional advisers at the Company's expense.

- A Director (including independent non-executive Director) or any of his/her close associates who has or deemed to have a material interest in a contract or arrangement shall not vote or be counted in the quorum on any Board resolution approving the same.

During the Year, all Directors has completed the independence evaluation in the form of a questionnaire individually, and the Board independence evaluation report was presented to the Board and the evaluation results were satisfactory.

The implementation and effectiveness of the Board Independence Evaluation Mechanisms are reviewed on an annual basis. During the Year, the Board reviewed the implementation and effectiveness of the Board Independence Evaluation Mechanisms and the results were satisfactory.

Appointment and Re-election of Directors

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

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

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

Responsibilities of Directors

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

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

During the Year, the following Directors read materials on relevant topics and/or attended training session(s) arranged by professional institution(s)/professional firm(s):

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

Note:

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

B: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

Board Committees

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

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

Audit Committee

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

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

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

During the Year, the Audit Committee held two meetings to review, among other things, (i) the annual results and reports in respect of the year ended 31 March 2022 and the interim results and reports in respect of the six months ended 30 September 2022; (ii) the continuing connected transaction; (iii) the effectiveness of the risk management and internal control systems and internal audit function; (iv) the arrangements for employees to raise concerns about possible improprieties in financial reporting, internal control or other matters; and (v) the appointment of external auditor and their relevant scope of works.

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

Remuneration Committee

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

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

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, as well as making recommendations to the Board on the remuneration of all Directors and senior management; assessing performance of executive Directors and approving the terms of executive Directors' service contracts; reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and ensuring that no Director or any of his associates is involved in deciding his own remuneration. The Company has adopted the model described in code provision E.1.2(c)(ii) of the CG Code.

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

In November 2022, the Board has amended the terms of reference for the Remuneration Committee to incorporate the changes brought by the amendments to the CG Code in relation to matters relating to share schemes under Chapter 17 of the Listing Rules.

The Company's remuneration policy is to ensure that the remuneration offered to employees (including senior management) and the Directors is based on their skills, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages of each executive Director is also determined with reference to salaries paid by comparable companies, time commitment and responsibilities of the Director, the remuneration policy of the Company and performance of the Group. The remuneration for the executive Directors comprises basic salary. The remuneration policy for non-executive Directors and independent non-executive Directors is to ensure that non-executive Directors and independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs, including their participation in Board committees. The remuneration for the non-executive Directors and independent non-executive Directors mainly comprises director's fee which is determined with reference to salaries paid by comparable companies, time commitment and responsibilities of the Director, the remuneration policy of the Company and performance of the Group. Individual Directors and senior management have not been involved in deciding their own remuneration.

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

Nomination Committee

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

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

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

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

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

During the Year, the Nomination Committee met once to review the structure, size and composition of the Board and the effectiveness of the Board Diversity Policy, to assess the independence of the independent non-executive Directors, to consider the qualifications of the retiring Directors standing for election at the 2022 annual general meeting and make recommendation to the Board on the term in the new service contracts entered into with four executive Directors and the new letters of appointment entered into with three independent non-executive Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

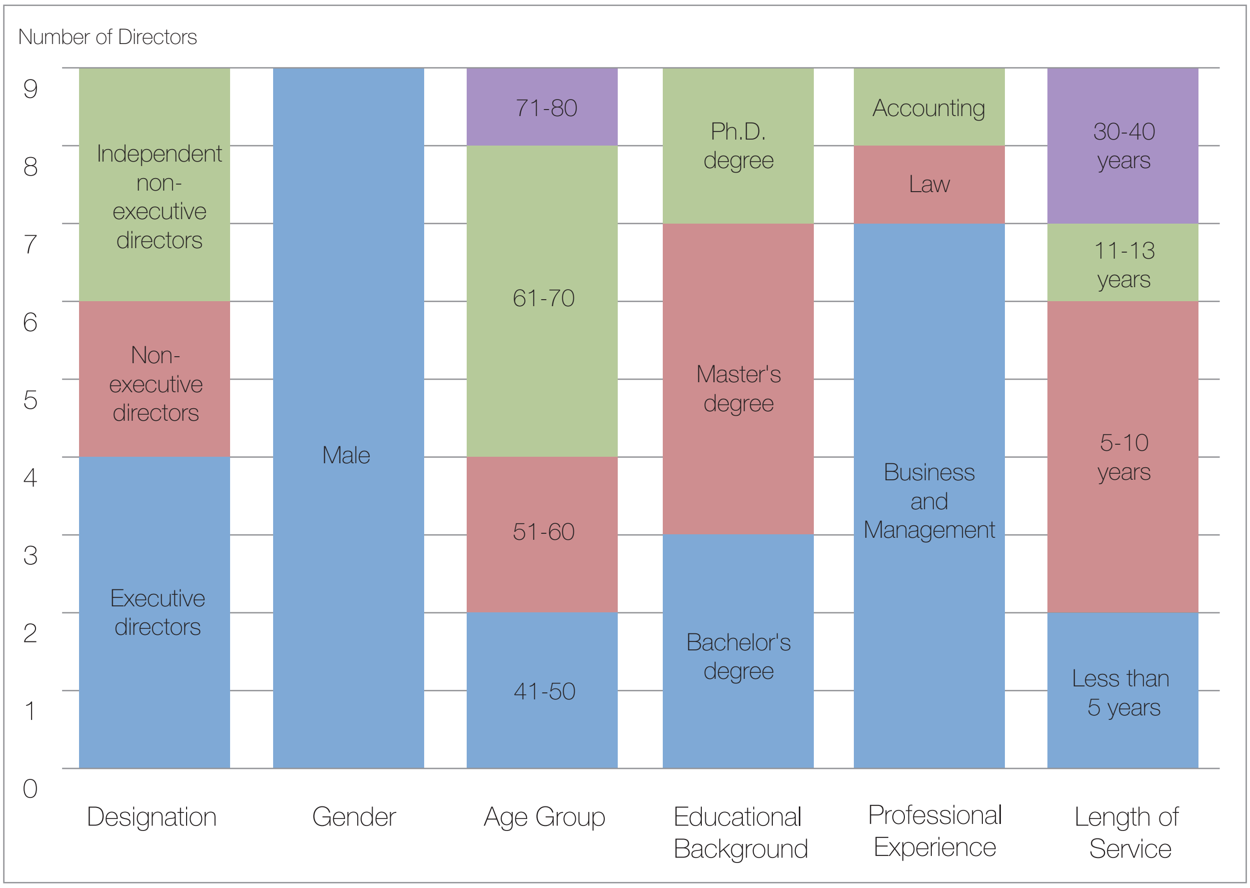
Board Diversity Policy

The Company has adopted the Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board. The Board continuously seeks to enhance its effectiveness and to maintain the highest standards of corporate governance and recognises diversity at Board level as an essential element in maintaining competitive advantage and sustainable development.

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

The achievement of the above objectives will be measurable on an objective review by the Company's shareholders of the overall composition of the Board, the diversity of background and experience of the Directors and the effectiveness of the Board in promoting shareholders' interests. The Board will also review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. At present, the Nomination Committee considered that the Board is sufficiently diverse. The Board strives to ensure that it has the appropriate balance of skills, experience and diversity of perspectives appropriate to the requirements of the Group's business, and to ensure that the Directors devote sufficient time and make contributions to the Company that are commensurate with their role and board responsibilities.

The following chart shows the diversity profile of the Board as at 31 March 2023:



Gender Diversity

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management, as at the date of this annual report:

	Female	Male
Board	0%	100%
Senior Management	100%	0%
Other employees	44%	56%
Overall workforce	44%	56%

Further details on gender ratio in the workforce of the Group are set out in the Environmental, Social and Governance Report.

The Company has also taken, and will continue to take, steps to promote diversity at all levels of its workforce. Opportunities for employment, training and career development are equally opened to all eligible employees without discrimination. Appropriate emphasis on maintaining gender diversity has been placed in the review of board composition, board diversity and succession plan to ensure a pipeline of potential successors in achieving and maintaining gender diversity at the Board and the senior management level. The Board is committed to improving greater gender diversity in the Board, senior management and other employees of the Group and wishes to achieve at least 10% (1) of female Directors, 10% (1) of female senior management and 10% (74) of female employees by the end of 2024.

As at the date of this annual report, the Nomination Committee is in progress of identifying suitable female candidate(s) for appointment to the Board on merit against objective criteria.

Nomination Policy

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

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

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

- Characters including integrity, honesty and fairness
- Backgrounds and qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business operation and corporate strategy
- Commitment to understanding the Company and its industry, willingness to devote adequate time to discharge duties as a Board member and abilities to assist the Board in fulfilling its responsibilities
- Requirement for the Board to have a sufficient number of independent non-executive Directors in accordance with the Listing Rules and assessment of the independence of the candidate

- The Board Diversity Policy and any measurable objectives adopted by the Nomination Committee for achieving diversity of the Board. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a Director

- Such other factors relating to the Company's business model and specific needs from time to time, and the contribution that the selected candidate will bring to the Board

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

(a) Appointment of New Director

- The Nomination Committee will, taking into account the current composition and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus search effort on suitable candidates;

- The Nomination Committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertisements, recommendations from an independent agency firm and proposals from shareholders of the Company with due consideration given to the criteria;

- The Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as conducting interviews, background checks, presentations and third-party reference checks;

- Upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;

- The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment and the proposed remuneration package; and

- The Board will have the final authority on determining the selection of nominees and all appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be).

(b) Re-election of Director at General Meeting

- The Nomination Committee will evaluate and recommend retiring Director(s) to the Board for re-appointment by giving due consideration to the following:

  (i) the overall contribution and service to the Company of the retiring Director(s), including attendance of Board meetings (and where applicable, general meetings) and level of participation and performance on the Board; and

  (ii) whether the retiring Director(s) continue(s) to satisfy the criteria as set out under the Nomination Policy.

- The Nomination Committee and/or the Board shall then make recommendation to shareholders of the Company in respect of the proposed re-election of Director(s) at the general meeting.

During the Year, there was no change in the composition of the Board.

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

Corporate Governance Functions

The Board is also responsible for performing the functions set out in code provision A.2.1 of the CG Code. These include: to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; to review and monitor the training and continuous professional development of Directors and senior management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and to review the Company's compliance with the CG Code as set out in Appendix 14 to the Listing Rules and disclosure in the Corporate Governance Report.

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

Attendance Records of Directors and Committee Members

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

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

Risk Management and Internal Controls

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

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

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

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

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

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

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

The Company has in place the Whistleblowing Policy for employees of the Group and those who deal with the Group to raise concerns, in confidence and anonymity, with the Audit Committee about possible improprieties in any matters related to the Company.

The Company has also in place the Anti-corruption Policy to safeguard against corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Group to report any suspected corruption and bribery. Employees can also make anonymous reports to the internal audit department and the legal department, which is responsible for investigating the reported incidents and taking appropriate measures. The Company continues to carry out anti-corruption and anti-bribery activities to cultivate a culture of integrity, and actively organizes anti-corruption training and inspections to ensure the effectiveness of anti-corruption and anti-bribery.

During the Year, the Company held one anti-corruption trainings and briefings to all employees, and no non-compliance case in relation to bribery and corruption was identified.

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

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2023.

The Directors have prepared the financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board. Appropriate accounting policies have also been used and applied consistently except the adoption of revised standards, amendments to standards and interpretation.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 130 to 135 of this annual report.

Auditor's Remuneration

An analysis of the remuneration paid or payable to the external auditor of the Company, Messrs. Ernst & Young, in respect of audit services and non-audit services for the year ended 31 March 2023 is set out below:

Service Category	Fees Paid/Payable
Audit Services	JPY122,967,000
Non-audit Services	
– Consultation Service	JPY24,034,000
– Taxation Service	JPY5,910,000
– Agreed-Upon Procedures Service	JPY788,000
	JPY153,699,000

Company Secretary

Ms. Sham Ying Man is the company secretary of the Company. The primary contact person at the Company is Ms. Bian Weiwen, the chief financial officer of the Company. Ms. Sham Ying Man is a manager of Corporate Services of Tricor Services Limited, a global professional service provider specialising in integrated business, corporate and investor services. The company secretary attended sufficient professional training as required under the Listing Rules for the year ended 31 March 2023 to update her skills and knowledge.

Shareholders' Rights

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

Right to Call an Extraordinary General Meeting

Pursuant to article 12.3 of the articles of association of the Company, general meetings may be convened on the written requisition of any two or more members holding, as at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. Shareholders should follow the requirements and procedures as set out in the articles of association of the Company for convening a general meeting.

Putting Forward Proposals at General Meetings

There are no provisions in the articles of association of the Company or the Companies Law of the Cayman Islands for shareholders to put forward new proposals at general meetings. Shareholders who wish to put forward a proposal may request the Company to convene a general meeting in accordance with the procedures set out in the paragraph headed "Right to call an Extraordinary General Meeting" above. A shareholder who wishes to propose a person for election as a director of the Company should lodge a written notice of his intention to propose such person for election and also a notice in writing signed by the person to be proposed of his willingness to be elected as a director of the Company at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong, for the attention of the company secretary of the Company. For details, please refer to the "Procedures for Shareholders to Propose a Person for Election as Director" of the Company which is posted on the Company's website.

Putting Forward Enquiries to the Board

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

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

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

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

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

Communication with Shareholders and Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and the investment community. Shareholders may make any enquiries with respect to the Company by following the steps set out in the paragraph headed "Putting Forward Enquiries to the Board" above.

At the annual general meeting, Directors (including non-executive Directors), in particular, the chairmen of the Board committees or their delegates, appropriate senior executives and external auditor are available to meet shareholders, to solicit and understand their views and to answer their enquiries.

Shareholders' Communication Policy

The Company has in place the Shareholders' Communication Policy. The policy aims at streamlining policies and procedures for provision of appropriate and timely information about the Company to the shareholders, as well as ensuring that shareholders' views and concerns are appropriately addressed. According to the Shareholders' Communication Policy, information of the Company is communicated to its shareholders mainly through annual reports, interim reports, annual general meetings and other general meetings that may be convened, as well as other publications and corporate communications on the websites of HKEX and the Company.

The Company has established a number of channels for maintaining an on-going dialogue with its shareholders as follows:

(a) Shareholders' Enquiries

Shareholders may make any enquiries with respect to the Company by following the steps set out in the paragraph headed "Putting Forward Enquiries to the Board" above.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

(b) Corporate Communications

Corporate Communications have the meaning ascribed thereto in the Listing Rules, including but not limited to (i) the directors' report, the annual accounts together with a copy of the auditor's report, (ii) the interim report, (iii) notice of general meeting, (iv) a listing document, (v) a circular, and (vi) a form of proxy.

Corporate Communications should be made available to the shareholders in a timely manner. They should be in plain language and in both English and Chinese versions.

Shareholders are encouraged to provide, amongst other things, their contact details (in particular, their email addresses) to the Hong Kong share registrar of the Company in order to facilitate timely and effective communications.

(c) Corporate Website

A dedicated "Investor Relations" section is available on the Company's website, which provides the shareholders with corporate information, such as Corporate Communications and financial highlights of the Group. Also, it provides information on corporate governance of the Group, as well as the compositions and functions of the Board and the Board committees.

The Company publishes its results announcement on the websites of HKEX and the Company after the results have been approved by the Board. The results announcement contains the performance and results of the Group, details on the recommended dividend payment (if any) and closure of the register of members and any other information required to be disclosed under the Listing Rules from time to time.

Information released by the Company for publication on the website of HKEX is also posted on the website of the Company promptly. Such information includes but is not limited to annual reports, interim reports and quarterly reports (if any), announcements, circulars, notices of general meetings and any other information required to be published under the Listing Rules from time to time.

Press releases and newsletters issued by the Company from time to time are also available on the website of the Company.

Information on the website of the Company is updated on a regular basis.

(d) General Meetings

General meetings provide an opportunity for constructive communication between the Company and its shareholders.

Appropriate arrangements for the general meetings shall be put in place to encourage shareholders' participation.

Notices of annual general meeting, related circulars and forms of proxy will be distributed to the shareholders at least 21 days (or any other period required under the Listing Rules or the articles of association of the Company from time to time) prior to the respective annual general meeting. The circulars will set out details of the proposed resolutions and other relevant information. The forms of proxy shall also be provided to the shareholders for appointing proxies to attend and vote at the annual general meeting on their behalves.

Directors (including non-executive Directors), in particular, the chairman of the Board committees or their delegates, appropriate senior executives and external auditor shall attend the annual general meeting to answer questions from shareholders.

Proceedings of the Company's general meetings will be reviewed from time to time to ensure that they are in compliance with the requirements under the articles of association of the Company, the Listing Rules and the applicable laws of the Cayman Islands, and follow good corporate governance practices. Separate resolution on each substantially separate issue will be proposed for voting at the general meeting. The chairman of the general meeting will propose to vote the resolutions (except resolutions which relate purely to procedural or administrative matters) by poll in accordance with the articles of association of the Company. Scrutineer will be appointed for the vote-taking at the general meeting. The voting results will be published on the websites of HKEX and the Company subsequent to the conclusion of the general meeting.

(e) Investment Market Communications

To facilitate communication between the Company, shareholders and the investment community, results briefings, conferences, meetings and non-deal roadshows are conducted with shareholders, potential investors and analysts from time to time.

Directors and employees of the Company who have contacts or dialogues with investors, analysts, media or other interested third parties are required to comply with the disclosure obligations and requirements under the Listing Rules and applicable laws and regulations.

The Board reviews the implementation and effectiveness of the Shareholders' Communication Policy on an annual basis to ensure that it reflects current best practices in communications with the shareholders and the investment community. The most recent review was conducted in June 2023, and the results were satisfactory. Channels for shareholders and stakeholders to communicate their views on various matters affecting the Company and steps to solicit and understand their views are also considered to be sufficient.

Constitutional Documents

During the Year, the Company had not made any changes to its memorandum and articles of association. An up-to-date version of the Company's memorandum and articles of association is available on the websites of HKEX and the Company.

Dividend Policy

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

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

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

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

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

Environmental, Social and Governance Report

Reporting Standard, Period and Scope

This environmental, social and governance report ("**ESG Report**") has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (Appendix 27 to the Main Board Listing Rules) ("**ESG Reporting Guide**") of The Stock Exchange of Hong Kong Limited ("**HKEX**"). This ESG Report describes the progress of environmental, social and governance ("**ESG**") efforts made by Honma Golf Limited ("**Honma**" or the "**Company**") and its subsidiaries (collectively "**we**", "**us**" **ours**", or the "**Group**") for the period from 1 April 2022 to 31 March 2023 (the "**Reporting Period**"), which also serves the purpose of informing stakeholders of the Group's ESG policies, initiatives and performance beyond its financial results.

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

Honma employs a total of 745 (2022: 732) employees worldwide, while this ESG Report focuses on covering In-scope Locations where the Group's major business processes were based with a total of 672 (2022: 631) employees.

The Company adheres to the four fundamental reporting principles set out in the ESG Reporting Guide in the preparation of the ESG report. These reporting principles and the way the Company applies these in the ESG report is set out below:

Reporting Principles	How it is applied to this report
Materiality	The ESG Report covers the key environmental and social issues concerned by different stakeholders. These material environmental and social issues were identified through consideration by the Board, Audit Committee, discussion between the Board and management and engagement with different stakeholders. The identification process of substantive issues and the matrix of substantive issues along internal and external dimensions are disclosed in this ESG report, further details of which are set out in the "Stakeholder Engagement and Materiality Assessment" section.
Quantitative	Information on the standards, methodologies, assumptions and/or calculation used, and source of key emission and conversion factors used for both quantitative environmental and social KPIs are disclosed in this ESG Report. Details of these information are set out in the notes section following relevant KPIs.

Reporting Standard, Period and Scope (continued)

Reporting Principles	How it is applied to this report
Balance	The ESG report provides an unbiased picture of Honma's performance during the Reporting Period. Information is disclosed in an objective manner, avoid selections, omissions, or presentation formats that may inappropriately influence the judgment made by readers.
Consistency	For the purpose of enhancing and maintaining the comparability of ESG performances over time, consistent reporting and calculation methodology are applied by Honma as far as practicable to allow for meaningful comparison. Any changes that could affect a meaningful comparison of the KPIs will be disclosed accordingly.

This ESG Report has been prepared in both Chinese and English, and in case of any discrepancy or inconsistency between the two versions, the English version shall prevail.

About the Company

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

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

Board Confirmation

The Board and the management have reviewed and endorsed the ESG material assessment and this ESG Report on 21 June 2023.

The Group's ESG philosophy and governance structure

The Board recognizes the importance of ESG in meeting the changing expectations of stakeholders while enhancing the value and performance of the Company. Hence the Board, working together with the management, has committed to environmental protection by taking on the overall responsibility of assessing and identifying risks associated with ESG matters of the Company, and also engaging in a mission to promote the environmental and socially sustainable culture among all our employees to maintain long-term growth of the Company.

The Group's regulatory framework and functions on ESG matters are as follows:

Regulatory functions	Regulatory content
Board of Directors	• Take overall responsibility for assessing the key ESG risks faced by the Group (such as supplier management, understand the sustainable needs of society, etc., and other major ESG issues related to the Group). • Take overall responsibility for assessing and determining the nature and extent of risks, including ESG risks, that the Group is willing to accept in achieving its strategic objectives, and establish and maintain appropriate and effective risk management and internal control systems.

The Group's ESG philosophy and governance structure (continued)

Regulatory functions	Regulatory content
Audit Committee	• Assist the Board to lead the management in overseeing the design, implementation and monitoring the risk management and internal control systems.
External Professional Consultant	• Conduct annual independent reviews of risk management and internal control systems. • Ensure that the procedures used to identify, assess and manage material risks properly and identify the key features of risk management and internal control systems.
Head of each business department	• Ongoing assessment and identification of risks that may potentially affect the Group's business and various aspects, including ESG risks in the course of operations and lack of internal controls. • Report any identified risks to the management.

The Board identifies the Company's ESG risks through industry comparisons, appoints a professional external team to evaluate the Group's analysis, and monitors the latest regulatory requirements which include global economic risk, outflow of talent risk and customer information security, etc.

For the identified ESG risks, the Company mainly evaluates the materiality of the risks to the Company from these aspects which include (i) the likelihood of occurrence: using the occurrence of past operations to estimate the frequency of future occurrence and (ii) the degree of impact: such as financial aspect, compensation, fines, new revenue stream or new markets that may be brought by the ESG matter.

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

Stakeholder Engagement and Materiality Assessment

Stakeholder Engagement

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

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

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

Stakeholder Engagement and Materiality Assessment (continued)

Stakeholder Engagement (continued)

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

Stakeholder Engagement and Materiality Assessment (continued)

Stakeholder Engagement (continued)

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

Stakeholder Engagement and Materiality Assessment (continued)

Stakeholder Engagement (continued)

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

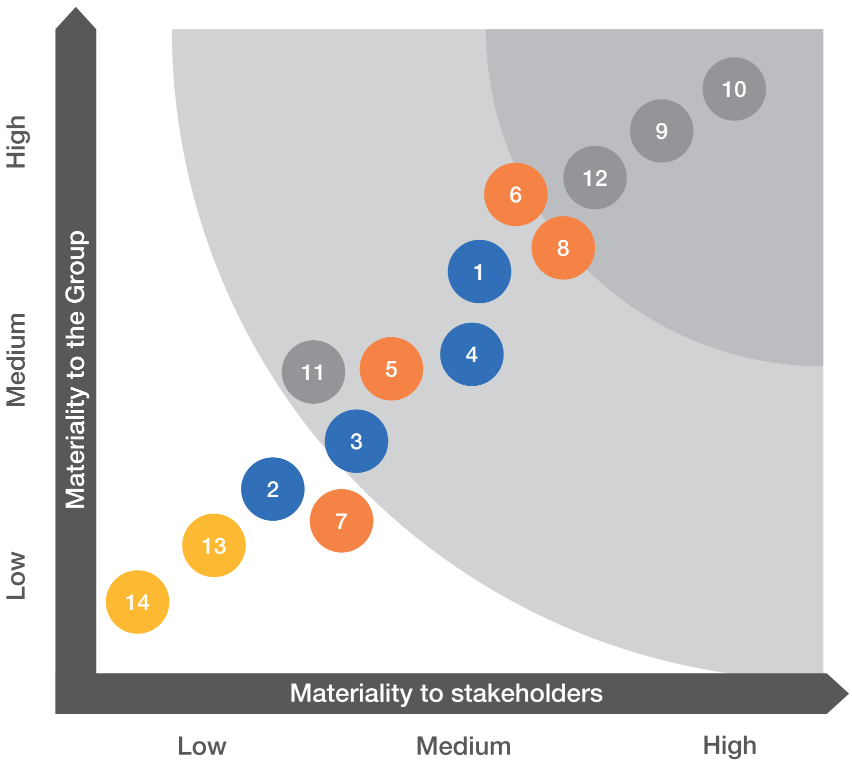
Stakeholder Engagement and Materiality Assessment (continued)

Materiality Assessment

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

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

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



Stakeholder Engagement and Materiality Assessment (continued)

Materiality Assessment (continued)

Environment

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

Employee

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

Business

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

Community

13. Community development
14. Charitable donations and community service

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

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

Our Environment

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

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

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

These relevant environmental laws and regulations in Japan include:

➢ Water Pollution Control Act of Japan (水質污濁防止法);

➢ Air Pollution Control Act of Japan (大氣污染防止法);

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

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

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

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

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

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

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

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

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

During the Reporting Period, the Group did not receive report or complaint of any significant breaches of environmental laws and regulations in any jurisdictions (2022: Nil).

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

Aspect A1: Emissions and Wastes

Air emissions

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

(Units: Kilograms)		For the year ended 31 March			
		2023		2022	
Types of air emissions	Air emission source(s)	Emissions amount	Intensities (Note 1)	Emissions amount	Intensities (Note 1)
Nitrogen Oxides (NOx)	Burning of fuel in the manufacturing processes and the use of motor vehicles	**266**	**0.00026**	339	0.00026
Sulphur Oxides (SOx)		**2,888**	**0.00286**	3,302	0.00256
Particulate Matter (PM)		**4**	**<0.00001**	7	0.00001

Note 1: Intensity is measured by the amount of emissions divide by the total number of estimated production units during the Reporting Period, which were 1,289,000 and 1,011,066 for the year ended 31 March 2022 and 2023 respectively.

Aspect A1: Emissions and Wastes (continued)

Green House Gas ("GHG") emissions

The amounts of different types of GHG emissions in CO_2 equivalent emissions ("**CO_2e**") emitted from In-scope Locations during the Reporting Period were as follows:

(Units: Tonnes of CO_2e)			For the year ended 31 March			
			2023		2022	
GHG emissions		GHG emission source(s)	Emissions amount	Intensities (Note 1)	Emissions amount	Intensities (Note 1)
Scope 1						
Direct emissions	➢	Burning of fuel in the manufacturing processes and the use of motor vehicles	**675**	**0.00067**	815	0.00063
Scope 2						
Indirect emissions	➢	Purchased electricity	**2,056**	**0.00203**	2,484	0.00193
Total			**2,731**	**0.00270**	3,299	0.00256

Note 1: Intensity is measured by the amount of emissions divide by the total number of estimated production units during the Reporting Period, which were 1,289,000 and 1,011,066 for the year ended 31 March 2022 and 2023 respectively.

Aspect A1: Emissions and Wastes (continued)

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

During the Reporting Period, approximately 675 tonnes (2022: 815 tonnes) of direct GHG emissions (Scope 1) were emitted which were contributed mainly from burning of fuel in boilers and the use of motor vehicles for transportation used within the Manufacturing Centre. During the Reporting Period, the consumption of fuel for heating decreased due to warmer winter temperatures. In terms of gasoline, the increased business trips of Sakata Campus workers led to an increase in the use of cars. And the addition of a new car in the Manufacturing Centre, which both resulted in an increase in greenhouse gas emissions from gasoline. The larger decline in diesel emissions was because diesel was mainly used for snow removal vehicles, and the low winter snowfall in the Reporting Period resulted in a corresponding decrease in the use of snow removal vehicles. Overall, direct greenhouse gas emissions fell 17% from last year.

The use of purchased electricity was the major contributor of indirect GHG emission (Scope 2) during the Reporting Period. Purchased electricity is used at the Manufacturing Centre for the manufacturing processes and general use such as lighting and heating and also at various Stores across Japan and Mainland China. Indirect greenhouse gas emissions were reduced by approximately 17% as a result of the Group's vigorous introduction and implementation of power saving initiatives during the year, reflecting the effectiveness of our strictly enforced controls.

With regard to emission reduction in air emissions, taking 2022 as base year, assuming there is no material change in business model, the emission target is to maintain the intensity of 0.00026 kg per estimated production unit, 0.00256 kg per estimated production unit and 0.00001 kg per estimated production unit for NOx, SOx and PM respectively. As for the emission reduction in GHG emissions, taking 2022 as base year, assuming there is no material change in business model, the emission target is to maintain the overall intensity of 0.00228 tonnes of CO_2e per estimated production unit. In order to achieve this target, the Company puts great emphasis on energy and resource conservation, details are explained in a later section titled "Environmental protection measures".

Wastes

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

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

Aspect A1: Emissions and Wastes (continued)

Wastes (continued)

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

(Units: Tonnes)		For the year ended 31 March			
		2023		2022	
Types of wastes	Hazardous/ Non-hazardous	Amount generated	Intensities (Note 1)	Amount generated	Intensities (Note 1)
Chemical waste	Hazardous	**2.5**	**<0.00001**	3	<0.00001
Paper	Non-hazardous	**136**	**0.00013**	40	0.00003
Carbon fibre	Non-hazardous	**10**	**0.00001**	2	<0.00001
Polyethylene	Non-hazardous	**11**	**0.00001**	1	<0.00001
Waste plastics, wood, metal waste, waste coating, etc.	Non-hazardous	**316**	**0.00031**	167	0.00013

Note 1: Intensity is measured by the amount generated divide by the total number of estimated production units during the Reporting Period, which were 1,289,000 and 1,011,066 for the year ended 31 March 2022 and 2023 respectively.

In terms of hazardous waste, as a result of the waste reduction measures implemented by the Group, the production of chemical waste decreased by 0.5 tonnes compared to last year. In terms of non-hazardous waste, the Group processed a large number of expired documents stored in the company during the reporting period, leading the production of waste paper sheets increased significantly compared with last year. At the same time, the production of other non-hazardous waste increased by different margins compared to last year as some of the company's business offices were closed and large gauge racks were scrapped.

As the non-hazardous wastes increasing in this year is related to contingencies, and both the hazardous and non-hazardous wastes are currently under managed and in the interest of cost-effectiveness, there is no plan to set a goal to reduce both the hazardous and non-hazardous wastes.

Aspect A2: Use of Resources

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

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

		For the year ended 31 March			
		2023		2022	
Energy	Units	Amount consumed	Intensities (Note 1)	Amount consumed	Intensities (Note 1)
Purchase of energy (indirect)					
Electricity	MWh	**4,276**	**<0.00001**	4,743	0.00368
Non-renewable fuel (direct)					
Petroleum Gas	MWh	**1,714**	**0.00169**	2,196	0.00170
Fuel oil	MWh	**8**	**0.00001**	8	<0.00001
Total non-renewable fuel (direct)	MWh	**1,742**	**0.00172**	2,204	0.00170

		For the year ended 31 March			
		2023		2022	
Resources	Units	Amount consumed	Intensities (Note 1)	Amount consumed	Intensities (Note 1)
Water	Tonnes	**59,012**	**0.05837**	58,083	0.04506
Printing paper	Tonnes	**5**	**<0.00001**	4	<0.00001

Note 1: Intensity is measured by the amount consumed divide by the total number of estimated production units during the Reporting Period, which were 1,289,000 and 1,011,066 for the year ended 31 March 2022 and 2023 respectively.

Aspect A2: Use of Resources (continued)

As the winter of 2022 was warmer than the previous year, consumption of heating fuels (liquefied petroleum gas, oil and kerosene) was lower than the same period last year. In addition, the total consumption of non-renewable fuel decreased due to the reduction of operation time compared to last year.

In terms of electricity consumption, the usage in Japan stores was 9% lower than last year as the group implemented power saving measures and achieved some results. In China, there is a 15% reduction in electricity consumption, mainly due to the large number of stores closed in April and May 2022 causing by the COVID-19 pandemic.

In terms of water use, water resource density increased by 2% compared to last year, due to an increase in the number of office workers compared to the previous year, combined with higher water consumption due to the 2022 summer heat.

With regard to energy reduction, taking 2022 as base year, assuming there is no material change in business model, the reduction target is to maintain the intensity of 0.00338 MWh per estimated production unit for the purchase of energy, while for non-renewable fuel, is to maintain the intensity of 0.00170 MWh per estimated production unit. As for water resources, the reduction target is to maintain the intensity of 0.04506 tonnes per estimated production unit.

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

Aspect A3: Environment and Natural Resources

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

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

Aspect A3: Environment and Natural Resources (continued)

Environmental protection measures

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

Manufacturing process management

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

➢ Regular checking of emissions from the manufacturing boilers;

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

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

Waste management

➢ Hazardous wastes such as cyanide and chrome are collected from sewage by qualified service providers for recycling and treatment;

➢ Scraps (such as metal, coating, carbon fibre, etc.) generated in the manufacturing process are regularly monitored and reduced wherever possible for the purpose of cost and waste reduction;

➢ Dispose non-hazardous waste – PP bond is recycled this year, which was incineration in previous year;

➢ Put in two new wash liquid recycling devices, which can recycle 80%-90% waste organic solvent; and

➢ The Waste Recycling Committee has continued to explore different ways to recycle and reduce waste in the manufacturing processes.

Aspect A3: Environment and Natural Resources (continued)

Environmental protection measures (continued)

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

Office equipment and supplies

➢ Using energy saving machines and fixtures, e.g. energy saving air-conditioner and LED, conduct regular check to ensure safety as well as operating efficiency;

➢ Prioritizing the use of water-saving and energy-efficient production machinery and office equipment, i.e., water-efficient sanitary-ware in toilets, electrical appliances which are certified to be energy-efficient or environmental-friendly;

➢ Circulating various energy-saving guidelines to staff (for example, turning off computers, lights and office equipment after work and during holiday; closing windows when the air conditioning is in use);

➢ Promoting awareness amongst employees to turn off lighting in work areas during their lunch breaks to save energy; and

➢ Centralizing the orders for office supplies from various departments to reduce delivery distance, thus reduce indirect emissions from transportation.

Water

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

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

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

Aspect A3: Environment and Natural Resources (continued)

Environmental protection measures (continued)

Electricity

➢ Tokyo's roppongi mori building electricity is used by 100% of renewable energy power generation, to implement sustainable development strategy;

➢ Stores are switching to LED lamps and lanterns;

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

➢ Manufacturing Centre replaced 7 air conditioners with energy-saving air conditioners; and

➢ Regular cleaning air-conditioning dedusting network to improve the effect of cooling and reduce the rate of failure and maintenance. At the same time, this move can reduce electricity consumption and electricity costs.

Paper

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

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

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

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

Vehicles

➢ Keep air pressure before using vehicles and note no brakes rush accelerator. Maintain workshop distance, don't step on the gas continuously when parking is not idle, etc. During the vehicle used, workers should raise environmental awareness and cut fuel as much as possible. It is required that vehicles in the Manufacturing Centre must ensure that the engine does not idle when parked;

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

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

Aspect A4: Climate Change

The Company acknowledges that climate change poses different kinds of risks as well as opportunities to the Company's operations. According to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), climate risks are classified into transitional risks (the adaptation challenges that companies may face in terms of policies, laws, technologies and markets) and physical risks (the impact that extreme weather events may have on companies).

For physical risks, examples include bad weather such as extreme cold or heat, heavy rain, storm, typhoon, and other extreme weather events that can disrupt operations by damaging power grid, communication infrastructures, obstructing and injuring our staff on the way to work or during their work, and also disastrous events incidental to these weather such as the fire hazard from overheated equipment in severe heat waves caused by global warming. All these events may bring severe negative impact to the Company's operations. Transformation risks, which means the risks faced by the Group, include the introduction of policies related to energy conservation and emission reduction, stricter emission reporting obligations and compliance requirements, etc.

In response, the Company will identify these risks and prioritise those which have severe impact to take precaution measures first. The Company will also identify, if any, opportunities where changing of the business processes may be possible, for instance, staff switch to use online video conference methods to communicate in order that these severe impact to operations may be mitigated or avoided.

Our Employee

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

Aspect B1: Employment

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

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

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

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

Aspect B1: Employment (continued)

- ➢ The Labour Contract Law of Japan (勞動合同法);
- ➢ The Minimum Wage Law of Japan (最低工資法);
- ➢ The Labour Law of the People's Republic of China (中華人民共和國勞動法); and
- ➢ The Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法).

There was no significant non-compliance with laws and regulations by the Group relating to employment during the Reporting Period (2022: Nil).

Fairness and Anti-discrimination

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

Recruitment and Promotion

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

Welfare

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

In accordance with laws and regulations including the Labour Law of the PRC and the Social Insurance Law of the PRC, the Group pays social insurance contributions for all employees in China. Other welfare offered to employees are in forms of communication subsidy, traffic subsidy, meal subsidy, accommodation subsidy and travel allowance, etc.

Aspect B1: Employment (continued)

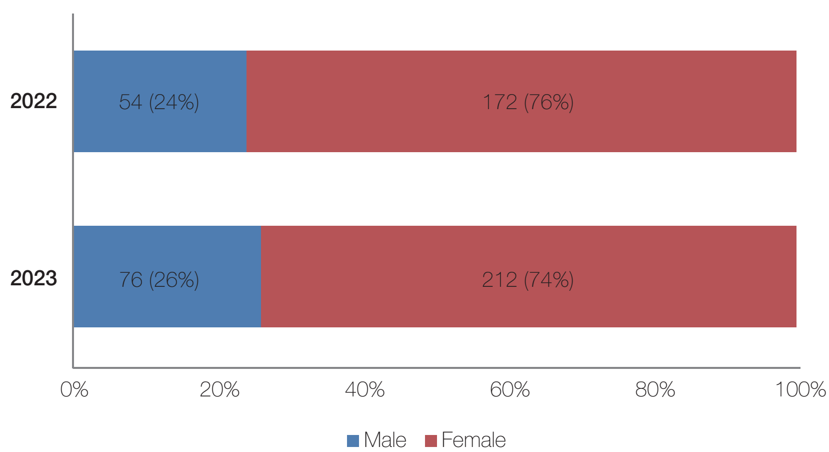
Welfare (continued)

According to The labour Insurance Law of Japan (勞動保險法), The Employment Insurance Law of Japan (僱傭保險法), The Health Insurance Law of Japan (健康保險法), The Nursing Insurance Law of Japan (介護保險法), The Pension Insurance Law of Japan (厚生年金保險法), and The Child and Child Care Support Law of Japan (兒童·育兒支援法), the group pays the labour insurance premium (勞動保險費), employment insurance (僱傭保險費), health insurance premium (健康保險費), Care Insurance premium (介護保險費), Welfare annuity (厚生年金保險費) and Children's childcare department funds (兒童育兒處出金). To further motivate its staff, rewards in terms of promotions, bonuses or other fringe benefits are provided based on employee's individual performance and contribution to the Group.

Current workforce

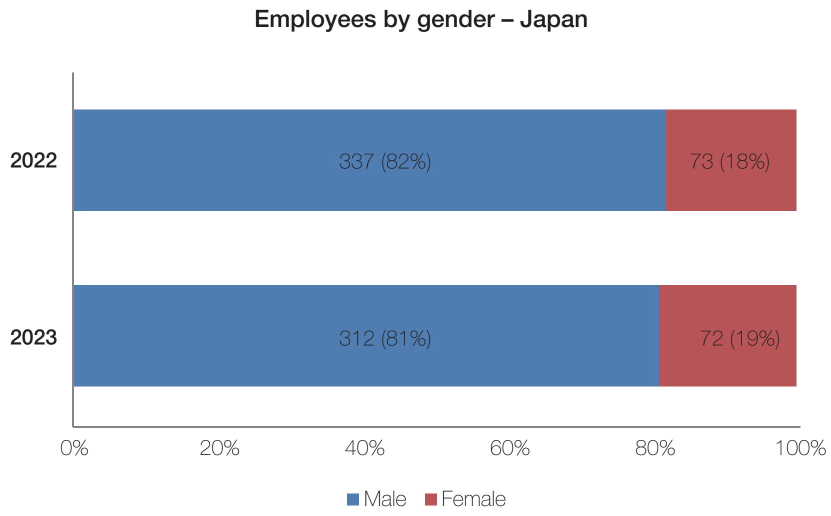
As at 31 March 2023, there were a total of 672 (2022: 636) employees at In-scope Locations, of those 288 (2022: 226) were employed in Mainland China and 384 (2022: 410) were employed in Japan. All staff at In-scope Locations are full-time basic except 4 who are part-time. The gender ratios of the employees in these two geographic locations are depicted below:

Employees by gender – Mainland China



Aspect B1: Employment (continued)

Current workforce (continued)

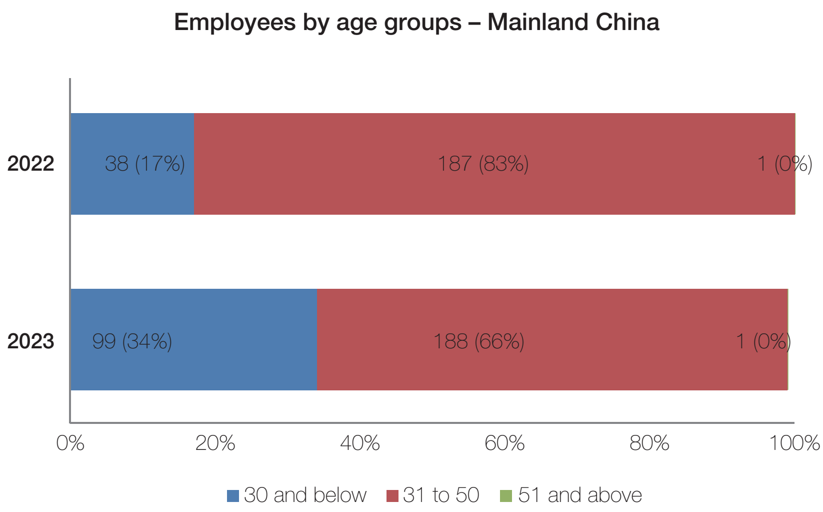


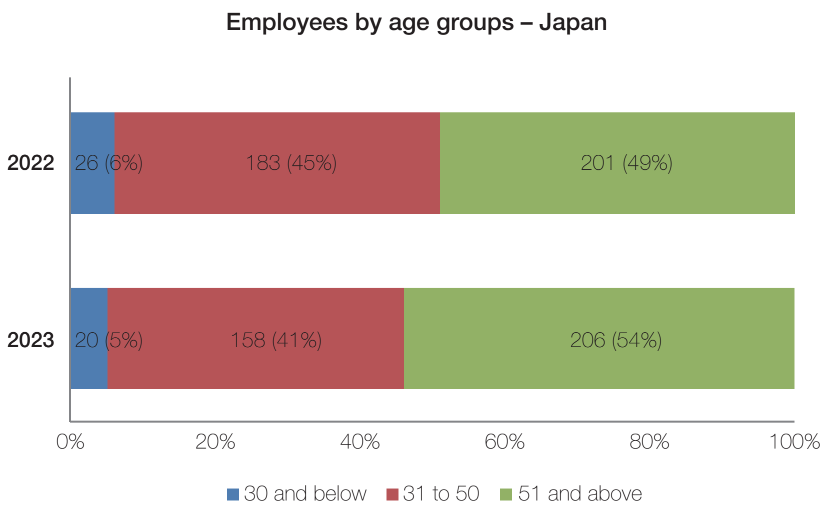
In Japan where the Manufacturing Centre is based, the male-to-female ratio of the workforce was approximately 4.3:1 (2022: 4.6:1). The work involved in the manufacturing processes is by its nature of labour-intensive and thus has traditionally been preferred by male employees. Nonetheless as evident by the Group's strategy in the sales of ladies golf sets, golf apparels and sponsoring professional ladies golfers, golf is a sport which appeals equally to both genders. In contrast, jobs were mostly filled by female employees in the Mainland China at the end of the Reporting Period, the male-to-female ratio of employees in the Mainland China was 1:3 (2022: 1:3), which has no significant change compared to the same period of last year.

Aspect B1: Employment (continued)

Current workforce (continued)

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





In terms of the ratios of employees by age groups, the ratio of employees aged 30 and below in mainland China increased from last year, while the ratio between 31 and 50 decreased; In Japan, the ratio of those aged 31 to 50 fell from last year, while the ratio of those aged 51 and over rose.

Aspect B1: Employment (continued)

Employees' turnover

During the Reporting Period, a total of 193 (2022: 73) employees left the Group in Mainland China and Japan. Of those employees who left, 152 (2022: 21) were employed in Mainland China and 41 (2022: 52) were employed in Japan and resulting in an overall turnover rate (Note 1) of 29% (2022: 11%).

The reason for the high staff turnover rate this year is that the company has adjusted the main clothing stores and changed the store manager and clerks to improve the service level of employees. At the same time, the natural flow of some employees after the epidemic also has a certain impact. We will continue improving our employee retention strategies, listen to employee's needs and react accordingly so as to make our employees stay and grow with us in the long run.

The employee turnover number and rate (Note 2) categorized by gender and age groups in Mainland China and Japan are depicted below:

Employees' turnover by gender and age groups – Mainland China

	For the year ended 31 March	
	2023	2022
By gender		
Male	**44 (68%)**	4 (7%)
Female	**108 (56%)**	17 (10%)
By age groups		
Below 30	**64 (93%)**	6 (14%)
30 to 50	**88 (47%)**	14 (8%)
Over 50	**0**	1 (40%)

Aspect B1: Employment (continued)

Employees' turnover (continued)

Employees' turnover by gender and age groups – Japan

	For the year ended 31 March	
	2023	2022
By gender		
Male	**9 (3%)**	43 (13%)
Female	**32 (44%)**	9 (13%)
By age groups		
Below 30	**2 (9%)**	11 (44%)
30 to 50	**29 (17%)**	28 (15%)
Over 50	**10 (5%)**	13 (7%)

Note 1: Overall turnover rate is calculated by dividing the turnover number of employees by the average number of employees at beginning and the end of the year.

Note 2: The employee turnover rate is calculated by dividing the number of turnover employees in that category by the average number of employees at beginning and the end of the year in that category.

Aspect B2: Health and Safety

The Group has established Health and Safety policy and arranged regular professional third party checking on manufacturing equipment, working environment and firefighting equipment to provide and maintain a safe and healthy working environment to mitigate any occupational or health risks in our employees. In addition to complying with laws and regulations related to the employment of labour as previously mentioned, the Company is also committed to the compliance of laws and regulations related to occupational health and safety including:

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

During the reporting period, there were 3 employees of Manufacturing Centre injured during working hours because of the failure to comply fully with the equipment operating rules, and 3 employees lost 3 working days totally due to the above accidents. In order to avoid the same unexpected occurrence, we have strengthened the training of education in this area and organized regular inspections.

For the Reporting Period, there was no significant work-related injuries except the above-mentioned records (2022: Nil). There were no work-related deaths in the nearly three years including the reporting period. The Group has no major violations of health and safety related laws and regulations. In case there is major injuries occurred during work, the Group is fully-complied with the laws and regulations to report to the local government and access whether it constitutes as work-related injuries.

The Group highly values the health and safety of its employees. It has set up an employee safety committee that is responsible for implementing the Group's internal employee safety policy, providing relevant training and education, and conducting regular inspections, and has established a system for creating records and dealing with accidents. In case there are situations where potential dangers may occur and non-compliance with safety rules are being pointed out during regular inspections, the employee safety committee is also responsible for providing guidance and assistance for improvement. The Group also has dedicated staff in Japan to have meeting every month to discuss the safety and hygiene issues and organize safety training at the Manufacturing Centre to ensure a health and safety working environment. For departments which did not experience health and safety issues throughout the year, award was given to recognize their efforts in promoting health and safety efficiently.

Aspect B2: Health and Safety (continued)

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

Safety at Manufacturing Centre

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

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

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

Aspect B2: Health and Safety (continued)

Safety at Offices and Stores

Employees at Offices and Stores are at relatively lower risk of health and safety concerns since they neither involve in labour-intensive work nor situate in a hostile working environment. Nonetheless, the Group recognises that they are also at risk of health and safety at work. Hence the Group endeavours to provide a safe working environment, protects the health well-being of these employees and provides training on safety of employees regularly during the Reporting Period.

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

Covid-19 measures

The outbreak of COVID-19 pandemic is a global health crisis that affects many individuals, including our staff and their friends and families. In response to COVID-19, the Group has taken precautionary measures including provision of masks, disinfectant, Covid-19 test and vaccination to staff, daily temperature measure for staff and visitors, staff daily health monitoring form, posting notice memo around office, adjustment of dining time to avoid gathering of staff at the same time, adoption of work-from-home arrangement and strict implementation of government policies including 14 days quarantine for the staff return from high risk areas and have Covid-19 negative result twice before returning to office.

Aspect B3: Development and Training

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

To ensure maintenance of the iconic status of our brand and our craftsmanship heritage, the Group provides diversified training to our employees, including induction training, job qualification training, professional knowledge and business skills training, integrated management training and advanced training, etc. Training sessions covering topics such as industry knowledge of golf, maintenance of products, new products introduction and negotiation skills with customers were delivered to employees located in the offices and Stores. To further enhance the skill and quality of services for employees at Stores, the Group had recruited a professional trainer, developed and implemented a comprehensive training system for the employees, which covers the entire procedures for customers to have an excellent shopping experience at the Stores and understanding of different products. Meanwhile, trainings on manufacturing techniques and safety were delivered to those employees located in the manufacturing centre.

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

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

Aspect B3: Development and Training (continued)

During the Reporting Period, our employees at In-scope locations had completed a total of approximately 5,350 (2022: 6,194) training hours, the average number of training hours (Note 1) for each employee is about 7.96 (2022: 9.74) hours. Due to the severe pandemic situation in Shanghai in April and May 2022, our original training plan was greatly affected, and the total training hours of the Group were reduced by about 14% than the previous year. In the future, we will continue to provide more training on new apparel product offering, standardizing apparel stores operation and training on golf clubs in order to provide more quality services to customers. Summary of training at In-scope Locations is present as below:

	For the year ended 31 March							
	2023				2022			
	Number of employees*	Percentage of employees	Total training hours	Average training hours (Note 2)	Number of employees*	Percentage of employees	Total training hours	Average training hours (Note 2)
By gender								
Male	388	58%	3,401	8.77	127	20.0%	2,587	20.37
Female	284	42%	1,949	6.86	509	80.0%	3,607	7.09
Total	672	100%	5,350	7.96	636	100.0%	6,194	9.74
By hierarchy								
Senior Management	24	3.6%	35	1.47	19	3.0%	72	3.79
Middle Management	178	26.5%	865	4.86	139	21.9%	1,264	9.09
General employee	470	69.9%	4,450	9.47	478	75.1%	4,858	10.16
Total	672	100%	5,350	7.96	636	100.0%	6,194	9.74

* As at 31 March

Note 1: This average training hours is calculated by dividing the total training hours by the average number of employees at the end of the year.

Note 2: This average training hours is calculated by dividing the total training hours in that category by the average number of employees at the end of the year in that category.

Aspect B4: Labour Standards

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

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

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

Aspect B4: Labour Standards (continued)

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

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

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

If any child and forced labour case is found, the Group will report to the legal department and take legal actions against the responsible staff. During the Reporting Period, the Group did not have any material non-compliance case in relation to labour standards laws and regulations or any incidents of child labour or forced labour in any form (2022: Nil).

Our Business

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

Aspect B5: Supply Chain Management

Golf Club

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

As at the end of Reporting Period, the Group has 692 (2022: 685) supplier partners who were authorised to provide goods/services to the Group. Supplier partners are from various countries worldwide including 654 from Japan, 15 from Taiwan, 11 from Mainland China, 5 from Hong Kong, 2 from South Korea, 2 from Thailand, 1 from the United States, 1 from Scotland and 1 from Denmark.

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

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

1. General corporate information such as their background, history and their reputation in the industry;
2. Sustainability practices;
3. Research and development;
4. Quality control and product safety;
5. Punctuality in meeting deadlines;
6. Suppliers chain management; and
7. Employee and environment safety.

Aspect B5: Supply Chain Management (continued)

Golf Club (continued)

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

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

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

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

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

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

Apparels

In addition to the golf club, the Group has sales of apparel products. The supply chain management for the apparel section is also critical to its sustainable development and thus it is detailed in the following paragraph.

Aspect B5: Supply Chain Management (continued)

Apparels (continued)

Suppliers for the apparel section offer three main types of products, including garments, fabrics and accessories. There are a total of 60 (2022: 75) suppliers including 51 from Mainland China, 4 from South Korea, 2 from Italy, 2 from Japan and 1 from Taiwan as at the end of the Reporting Period.

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

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

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

Aspect B6: Product Responsibility

Product Quality Management

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

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

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

- The gold club has been registered for the SG Mark Certification. Products bearing the SG Mark have met SG Standards that have been formulated based on the expertise and opinions of consumers, manufacturers, distributors, testing & inspection institutes, and government offices to ensure safety compliance;

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

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

Aspect B6: Product Responsibility (continued)

After-sales management of products

The Group has established policies and standard procedures for handling complaints from different channels (e.g. telephone, email, WeChat, etc.) in different countries with Stores. Customer complaints are properly recorded and handled by the Group's customer service team which will investigate into the relevant reasons for all complaints and follow up with providing solutions. According to the Group's policies, retail customers are allowed to return defective products and the products have warranty, the Group has set up detail guidelines in dealing with exchange and return of products. If the Group discovered that they should be responsible for any product defect (for example, where a product is found not meeting national or enterprise standards with quality problems or where defects in design or manufacturing of a product would likely cause or have caused damages to the users), the Group will recall such defective product and replace it with a brand new product or repair the product free of charge. The Group will formulate preventive measures afterwards and share the relevant information widely within the Group to avoid the occurrence of similar issues in future. The Group also fine-tunes the golf club according to feedbacks from customers to ensure greater customer satisfaction with our products.

During the Reporting Period, the Group did not receive any material complaints from consumers, nor recalled any products due to safety and health issues (2022: Nil), which is an indication of the success of the strict implementation of the quality control policies of the Group.

Protection of Intellectual Property

The Group takes appropriate actions to protect intellectual property rights. The Group has a number of patents, trademarks and other intellectual property relating to the manufacturing and sales of golf clubs and other golf related products. In 2022, the group has 1 Japanese registration and has been applied for 1 Japanese trademark application and 1 overseas patent application. The Group protects intellectual property by complying with the use of patents, trademarks and other intellectual property laws through the signing of confidentiality agreements between employees and third-parties.

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

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

During the Reporting Period, the Group had no material litigation or claims on intellectual property, nor is being sued for infringement of intellectual property (2022: Nil).

Aspect B6: Product Responsibility (continued)

Consumer Information Protection

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

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

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

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

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

During the Reporting Period, the Group had no material non-compliance of laws and regulations related to customer personal data privacy (2022: Nil).

Aspect B7: Anti-corruption

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

The Group has zero tolerance for corruption, bribery and other illegal activities, and it is written into the employee handbook. At the same time, anti-corruption training is also included in the orientation training for new employees. Through the training, the Group reiterates its zero-tolerance attitude towards such illegal activities and strengthens employees' anti-corruption awareness.

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

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

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

- Criminal Code of Japan (刑法典);
- Corporate Rehabilitation Law of Japan (公司更生法); and
- Anti-Money Laundering Law of the PRC (中華人民共和國反洗錢法).

During the Reporting Period, the Group had no significant non-compliance related to corruption. And there is no concluded legal cases regarding corrupt practices brought against the company or employees. (2022: Nil).

Our Community

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

Aspect B8: Community Investment

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

- In April 2022, the Group donated clothing and other materials to the anti-epidemic staff in Songjiang District, amounted to RMB3.20 million.

- From May to June 2022, the Group provided food, grain and oil gift packages for some employees and their family members (elderly people, etc.) living alone to ensure their basic living needs. A total of 150 copies were distributed, totalling RMB133,200.

- The Group responded to Earth Hour by turning off all unnecessary lights to reduce its impact on the environment.

In the future, we will continue to build good relations with the community.

Independent Auditor's Report

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Independent auditor's report

To the shareholders of Honma Golf Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Honma Golf Limited (the "Company") and its subsidiaries (the "Group") set out on pages 136 to 228, which comprise the consolidated statement of financial position as at 31 March 2023, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Key audit matters (continued)

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

Key audit matter	How our audit addressed the key audit matter
Employee defined benefit plan	
The Group operates a funded defined benefit plan for all of its qualified employees in Japan and Taiwan. Under the plan, the employees are entitled to retirement benefits on attainment of a retirement age of 60. As at 31 March 2023, the balance of the net defined benefit plan liabilities was JPY349 million. The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. Management engages an external actuary to determine the present value of the defined benefit obligations. This matter was significant to our audit because the carrying amount of the net defined benefit plan liabilities was material to the financial statements and the valuation process was complex and involved significant judgements. The Group’s disclosures about the employee defined benefit plan are included in notes 2.4, 3 and 31 to the financial statements, which explain the accounting policy, major judgements and estimates management made in the assessment and the movements in the net defined benefit plan liabilities.	Among our audit procedures, we considered the objectivity, independence and expertise of the external actuary. We involved our internal actuarial specialists to assist us in evaluating the actuarial methodology and the actuarial result, reviewing the expense determination and actuarial gain/loss, and assessing the underlying assumptions, which included comparing assumed mortality rates to national and industry averages, comparing the assumed discount rate to the redemption yield of Japanese AA corporate bonds based on the expected term of the benefit obligations as at the valuation date, and assessing the assumption for salary increases and the withdrawal rate against the Group’s historical trend and expected future outlook. We also checked the census data used against the underlying data held by the Group and scheme administrators, and assessed the adequacy of the disclosures of the valuation of defined pension obligations in the financial statements.

Key audit matters (continued)

Inventory provision

The total inventories and related inventory provision as at 31 March 2023 amounted to JPY15,425 million and JPY3,128 million, respectively. The Group considers inventory provision by assessing the inventories' net realisable values. The determination as to whether the inventories are impaired requires a high level of management judgement and estimates, whereby the Group considers specific factors including the ageing of the inventories, the subsequent or estimated selling prices, and the forecasted market demand. This matter was significant to our audit because the carrying amount of inventories was material to the financial statements and the significant management judgement and estimates were used in assessing the net realisable values of inventories.

The accounting policies, significant accounting judgements and estimates and disclosures about inventories and inventory provision are included in notes 2.4, 3 and 22 to the financial statements.

Our audit procedures included reviewing the methodologies and parameters for the calculation of the net realisable values of inventories, and assessing the consistency of the provisioning policy applied and the rationale for the recording of inventory write-down. We also tested the underlying data used by management to identify and quantify obsolete and slow-moving inventories, including testing the ageing calculation, comparing management's estimation against historical usage and, recalculating the provision for samples of inventories. Furthermore, we reviewed subsequent sales or usage of inventories after the end of the reporting period. We also focused on the adequacy of the disclosures in the financial statements regarding the inventory provision.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Shun Lung Wai.

Ernst & Young
Certified Public Accountants
Hong Kong
21 June 2023

Consolidated Statement of Profit or Loss

Year Ended 31 March 2023

	Notes	2023 JPY'000	2022 JPY'000
		Year ended 31 March	
REVENUE	5	**29,494,999**	28,971,099
Cost of sales		**(14,506,744)**	(13,285,472)
Gross profit		**14,988,255**	15,685,627
Other income and gains	5	**515,365**	2,192,521
Selling and distribution expenses		**(9,607,191)**	(9,316,156)
Administrative expenses		**(1,381,057)**	(1,339,943)
(Provision for)/reversal of impairment losses on financial assets		**(31,923)**	482,906
Other expenses, net	6	**(279,053)**	(89,021)
Finance costs	7	**(124,990)**	(66,414)
Finance income	8	**13,463**	10,771
PROFIT BEFORE TAX	9	**4,092,869**	7,560,291
Income tax expense	12	**(837,264)**	(1,369,103)
PROFIT FOR THE YEAR		**3,255,605**	6,191,188
Attributable to:			
Owners of the parent		**3,255,488**	6,191,197
Non-controlling interests		**117**	(9)
		3,255,605	6,191,188
Earnings per share attributable to ordinary equity holders of the parent (expressed in JPY per share)	14		
Basic and diluted			
– For profit for the year		**5.38**	10.22

Consolidated Statement of Comprehensive Income

Year Ended 31 March 2023

	Notes	Year ended 31 March 2023 JPY'000	2022 JPY'000
PROFIT FOR THE YEAR		**3,255,605**	6,191,188
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(473,625)**	(304,649)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(473,625)**	(304,649)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Defined benefit plan:			
Remeasurement gains	31	**40,536**	126,414
Income tax effect	21	**(12,631)**	(41,329)
		27,905	85,085
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**2,798**	(61)
Income tax effect	21	**(897)**	24
		1,901	(37)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**29,806**	85,048
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(443,819)**	(219,601)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,811,786**	5,971,587
Attributable to:			
Owners of the parent		**2,811,669**	5,971,596
Non-controlling interests		**117**	(9)
		2,811,786	5,971,587

Consolidated Statement of Financial Position

At 31 March 2023

		At 31 March	
		2023	2022
	Notes	**JPY'000**	JPY'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,749,959**	2,007,915
Right-of-use assets	16	**1,812,846**	1,599,034
Freehold land	17	**1,940,789**	1,940,789
Intangible assets	18	**128,376**	119,608
Finance lease receivables	19	**245,878**	308,503
Other non-current assets	20	**925,474**	863,366
Deferred tax assets	21	**1,405,220**	1,293,502
Total non-current assets		**8,208,542**	8,132,717
CURRENT ASSETS			
Inventories	22	**12,297,331**	11,494,836
Trade and bills receivables	23	**3,513,495**	5,248,073
Prepayments, deposits and other receivables	24	**2,133,498**	1,951,412
Due from a related party	36(a)	**32,446**	58,934
Finance lease receivables	19	**92,102**	82,199
Pledged deposits	25	**5,169**	4,747
Cash and cash equivalents	25	**14,084,777**	14,454,554
Total current assets		**32,158,818**	33,294,755
CURRENT LIABILITIES			
Trade and bills payables	26	**1,302,164**	2,395,067
Other payables and accruals	27	**2,735,039**	2,457,039
Interest-bearing bank borrowings	28	**6,690,000**	7,100,000
Lease liabilities	29	**1,110,858**	817,134
Income tax payable		**296,466**	762,294
Total current liabilities		**12,134,527**	13,531,534
NET CURRENT ASSETS		**20,024,291**	19,763,221
TOTAL ASSETS LESS CURRENT LIABILITIES		**28,232,833**	27,895,938

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Consolidated Statement of Financial Position

At 31 March 2023

	Notes	At 31 March 2023 JPY'000	2022 JPY'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	**600,000**	600,000
Lease liabilities	29	**1,042,379**	1,146,783
Net employee defined benefit liabilities	31	**349,300**	465,019
Deferred tax liabilities	21	**112,123**	223,220
Other non-current liabilities	30	**98,103**	108,314
Total non-current liabilities		**2,201,905**	2,543,336
NET ASSETS		**26,030,928**	25,352,602
EQUITY			
Equity attributable to owners of the parent			
Share capital	32	**153**	153
Reserves	33	**26,076,301**	25,398,092
		26,076,454	25,398,245
Non-controlling interests		**(45,526)**	(45,643)
Total equity		**26,030,928**	25,352,602

Liu Jianguo
Director

Zuo Jun
Director

Consolidated Statement of Changes in Equity

Year Ended 31 March 2023

		Attributable to owners of the parent										
	Note	Share capital JPY'000 Note 32	Treasury shares JPY'000 Note 32	Surplus reserve JPY'000 Note 33(i)*	Exchange translation reserve JPY'000 Note 33(iii)*	Equity-settled share-based payment reserve JPY'000 *	Fair value reserve JPY'000 Note 33(ii)*	Share premium JPY'000 *	Retained profits JPY'000 *	Total JPY'000	Non – controlling interests JPY'000	Total equity JPY'000
At 1 April 2022		153	–	1,060,017	(191,528)	466,546	2,441	16,584,008	7,476,608	25,398,245	(45,643)	25,352,602
Profit for the year		–	–	–	–	–	–	–	3,255,488	3,255,488	117	3,255,605
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		–	–	–	(473,625)	–	–	–	–	(473,625)	–	(473,625)
Remeasurement gains on defined benefit plan		–	–	–	–	–	–	–	27,905	27,905	–	27,905
Gain on equity instruments at fair value through other comprehensive income, net of tax		–	–	–	–	–	1,901	–	–	1,901	–	1,901
Total comprehensive income for the year		–	–	–	(473,625)	–	1,901	–	3,283,393	2,811,669	117	2,811,786
Dividends declared	13	–	–	–	–	–	–	–	(2,133,460)	(2,133,460)	–	(2,133,460)
At 31 March 2023		153	–	1,060,017	(665,153)	466,546	4,342	16,584,008	8,626,541	26,076,454	(45,526)	26,030,928

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Consolidated Statement of Changes in Equity

Year Ended 31 March 2023

		Attributable to owners of the parent										
		Share capital	Treasury shares	Surplus reserve	Exchange translation reserve	Equity-settled share-based payment reserve	Fair value reserve	Share premium	Retained profits	Total	Non – controlling interests	Total equity
		JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000
	Note	Note 32	Note 32	Note 33(i)*	Note 33(iii)*	*	Note 33(ii)*	*	*			
At 1 April 2021		153	–	1,038,848	113,121	466,546	2,478	16,584,008	3,161,616	21,366,770	(45,634)	21,321,136
Profit/(loss) for the year		–	–	–	–	–	–	–	6,191,197	6,191,197	(9)	6,191,188
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		–	–	–	(304,649)	–	–	–	–	(304,649)	–	(304,649)
Remeasurement gains on defined benefit plan		–	–	–	–	–	–	–	85,085	85,085	–	85,085
Loss on equity instruments at fair value through other comprehensive income, net of tax		–	–	–	–	–	(37)	–	–	(37)	–	(37)
Total comprehensive income for the year		–	–	–	(304,649)	–	(37)	–	6,276,282	5,971,596	(9)	5,971,587
Dividends declared	13	–	–	–	–	–	–	–	(1,940,121)	(1,940,121)	–	(1,940,121)
Transferred from retained profits		–	–	21,169	–	–	–	–	(21,169)	–	–	–
At 31 March 2022		153	–	1,060,017	(191,528)	466,546	2,441	16,584,008	7,476,608	25,398,245	(45,643)	25,352,602

* These reserve accounts comprise the consolidated reserves of JPY26,076,301,000 (2022: JPY25,398,092,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year Ended 31 March 2023

	Notes	Year ended 31 March 2023 JPY'000	2022 JPY'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,092,869**	7,560,291
Adjustments for:			
Provision for impairment of property, plant and equipment	15	**81,548**	–
Write-down of inventories to net realisable value	9	**1,592,288**	501,754
Provision for/(reversal of) impairment of trade receivables	23	**31,923**	(482,906)
Net losses on disposal of property, plant and equipment and intangible assets	9	**144,035**	40,263
Net gain on disposal of right-of-use assets	9	**(620)**	(26,940)
Covid-19-related rent concessions from lessors	29	**(18,527)**	(43,596)
Depreciation of property, plant and equipment	15	**628,515**	598,154
Depreciation of right-of-use assets	16	**1,051,441**	975,011
Amortisation of intangible assets	18	**76,032**	104,233
Defined benefit plan expenses	31	**65,760**	66,046
Foreign exchange gains		**(641,627)**	(1,611,600)
Finance costs	7	**124,990**	66,414
Finance income	8	**(13,463)**	(10,771)
		7,215,164	7,736,353
Increase in inventories		**(2,394,783)**	(2,173,251)
Decrease in trade and bills receivables		**1,702,655**	793,086
Decrease/(increase) in prepayments, deposits and other receivables		**59,054**	(530,552)
Decrease/(increase) in an amount due from a related party		**26,488**	(58,934)
(Increase)/decrease in pledged deposits		**(422)**	30,720
Increase in other non-current assets		**(59,310)**	(20,965)
(Decrease)/increase in trade and bills payables		**(1,092,903)**	595,925
Increase in other payables and accruals		**265,330**	774,333
(Decrease)/increase in other non-current liabilities		**(10,211)**	12,577
Payment of the defined benefit obligations		**(140,084)**	(102,638)
Contributions in plan assets		**(859)**	(2,588)
Cash generated from operating activities		**5,570,119**	7,054,066
Interest received		**13,463**	10,771
Interest paid		**(124,990)**	(66,414)
Income tax paid		**(1,782,726)**	(1,081,968)
Net cash flows generated from operating activities		**3,675,866**	5,916,455

continued/...

Consolidated Statement of Cash Flows

Year Ended 31 March 2023

		Year ended 31 March	
		2023	2022
	Note	JPY'000	JPY'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		(663,545)	(272,383)
Proceeds from disposal of items of property, plant and equipment and intangible assets		271	38,322
Decrease in finance lease receivables		92,517	76,980
Net cash flows used in investing activities		(570,757)	(157,081)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings		79,260,000	34,420,000
Repayment of bank borrowings		(79,670,000)	(34,745,570)
Principal portion of lease payments		(1,100,976)	(1,070,738)
Dividends paid		(2,133,460)	(1,940,121)
Net cash flows used in financing activities		(3,644,436)	(3,336,429)
Net (decrease)/increase in cash and cash equivalents		(539,327)	2,422,945
Cash and cash equivalents at the beginning of year		14,454,554	10,771,897
Effect of foreign exchange rate changes, net		169,550	1,259,712
Cash and cash equivalents at the end of year		14,084,777	14,454,554
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the consolidated statement of financial position	25	14,084,777	14,454,554

1. CORPORATE AND GROUP INFORMATION

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

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

Information about subsidiaries

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

Name	Place and date of incorporation/ registration	Nominal value of issued ordinary shares/registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Seiyou Holdings Limited	British Virgin Islands ("BVI") 25 October 2013	US$1,000	100%	–	Investment holding
Honma Holdings Group Limited	Hong Kong 18 November 2013	US$10	–	100%	Investment holding and trading
World Power International Trading (Shanghai) Co., Ltd.*	People's Republic of China ("PRC") 27 December 2013	RMB10,000,000	–	100%	Trading
Hong Kong Honma Golf Company Limited	Hong Kong 2 April 1996	HKD28,782,200	–	100%	Trading
Honma Golf Co., Ltd. ("Honma Japan")	Japan 18 February 1959	JPY500,000,000	–	100%	Manufacture and sale of golf related products
Honma Golf Stock Company Limited	Taiwan 10 June 1996	NTD68,000,000	–	100%	Trading
Honma Golf (Thailand) Company Limited ("Honma Thailand")**	Thailand 28 May 1997	THB2,000,000	–	48.99%	Trading
Honma Golf US Ltd.	United States 28 November 2016	US$100	–	100%	Trading
Honma Golf Europe GmbH	Switzerland 9 February 2017	CHF20,000	–	100%	Trading

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Notes:

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

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

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2023. 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).

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

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

(b) rights arising from other contractual arrangements; and

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

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The nature and the impact of the revised IFRSs that are applicable to the Group are described below:

(a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 April 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by IAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 April 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 April 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to IFRS Standards 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendment that is applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 April 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[2]
IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 17	*Insurance Contracts*[1, 5]
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*[6]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")[2, 4]
Amendments to IAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after 1 January 2024

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024

5 As a consequence of the amendments to IFRS 17 issued in October 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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);

  (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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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 improvements	Shorter of the lease terms and 16.7% to 50%
Motor vehicles	14% to 50%
Equipment, furniture and fittings	5% to 50%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

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

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

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

Licences	10 years
Software	3 to 10 years
Telephone use right	Infinite life

Research and development costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Group as a lessee

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

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Shops	2 to 7 years
Office properties	2 to 6 years
Motor vehicles	2 to 5 years

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessor

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

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

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance income on the net investment in the lease is recognised in the statement of profit or loss so as to provide a constant periodic rate of return over the lease terms.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

General approach

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

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

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Sale of golf related products

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

Some contracts for the sale of golf related products provide customers with rights of return. The rights of return give rise to variable consideration.

Rights of return

For contracts which provide a customer with a right to return the goods, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(b) Rendering of services

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

Revenue from other sources

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

Other income

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract liabilities

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

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payments

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

Other employee benefits

Pension schemes

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

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

Defined benefit plan

Subsidiaries of the Group incorporated in Japan and Taiwan operate defined benefit pension plans which require contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit 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 the amount included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Defined benefit plan (continued)

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

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

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

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

Borrowing costs

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

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

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

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

For the purpose of the consolidated statement 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 JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimation uncertainty

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

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use 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. An 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 23 to the financial statements, respectively.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The key assumptions and inputs used in estimating future taxable profits include forecasted revenue and operating profit ratio. The carrying value of deferred tax assets was JPY1,405,220,000 as at 31 March 2023 (31 March 2022: JPY1,293,502,000). Further details are disclosed in note 21 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimation uncertainty (continued)

Defined benefit plan

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

The mortality rate is based on publicly available mortality tables for the specific countries. The salary increase rate is based on expected future inflation rates for the respective countries. The turnover rate is based on historical analysis of the withdrawal rate. The carrying value of net employee defined benefit liabilities was JPY349,300,000 as at 31 March 2023 (31 March 2022: JPY465,019,000). Further details are disclosed in note 31 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimation uncertainty (continued)

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in market conditions. Management reassesses these estimates at each reporting date after considering specific factors such as the ageing of the inventories, the subsequent or estimated selling price and forecasted market demand. The total inventories and the related inventory provision were JPY15,425,296,000 and JPY3,127,965,000 as at 31 March 2023 (31 March 2022: JPY13,030,513,000 and JPY1,535,677,000). Further details are disclosed in note 22 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

Geographic information

(a) Revenue from external customers

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Japan	**9,821,561**	8,497,160
Korea	**7,088,661**	6,831,638
China (including Hong Kong and Macau)	**7,795,341**	7,644,271
North America	**1,024,159**	992,169
Europe	**442,595**	1,393,489
Other regions	**3,322,682**	3,612,372
	29,494,999	28,971,099

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographic information (continued)

(b) Non-current assets

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Japan	**4,415,451**	4,754,665
Other Asia Pacific Area	**1,105,387**	644,157
North America	**108,660**	231,860
Europe	**2,472**	36,664
	5,631,970	5,667,346

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

Information about major customers

Revenue of approximately JPY5,547,264,000 (2022: JPY4,775,477,000) was derived from one major customer for the year ended 31 March 2023.

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	
	2023	2022
	JPY'000	JPY'000
Revenue from contracts with customers		
Sale of goods	**29,403,716**	28,890,172
Rendering of services	**91,283**	80,927
	29,494,999	28,971,099

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Other income and gains		
Foreign exchange gains, net	**450,095**	2,066,650
Government grants	**2,890**	25,968
Gain on disposal of right-of-use assets, net	**620**	26,940
Others	**61,760**	72,963
	515,365	2,192,521

5. REVENUE, OTHER INCOME AND GAINS (continued)

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Types of goods or services		
Sale of golf related products	**29,403,716**	28,890,172
Rendering of services relating to golf related products	**91,283**	80,927
Total revenue from contracts with customers	**29,494,999**	28,971,099
Timing of revenue recognition		
Goods transferred at a point in time	**29,403,716**	28,890,172
Services transferred over time	**91,283**	80,927
Total revenue from contracts with customers	**29,494,999**	28,971,099

The disaggregation of the Group's revenue based on the geographical region for the year ended 31 March 2023 is included in note 4.

6. OTHER EXPENSES, NET

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Net losses on disposal of property, plant and equipment and intangible assets	**144,035**	40,263
Provision for impairment of property, plant and equipment	**81,548**	–
Others	**53,470**	48,758
	279,053	89,021

7. FINANCE COSTS

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

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Interest on bank borrowings	**94,752**	42,347
Interest on lease liabilities	**30,238**	24,067
	124,990	66,414

8. FINANCE INCOME

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Interest income	**12,951**	10,292
Others	**512**	479
	13,463	10,771

9. PROFIT BEFORE TAX

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

		Year ended 31 March	
		2023	2022
	Notes	**JPY'000**	JPY'000
Cost of inventories sold		**14,450,080**	13,228,218
Cost of services provided		**56,664**	57,254
Depreciation of property, plant and equipment	15	**628,515**	598,154
Depreciation of right-of-use assets	16	**1,051,441**	975,011
Amortisation of intangible assets	18	**76,032**	104,233
Research and development costs		**199,698**	186,763
Provision for impairment of property, plant and equipment	15	**81,548**	–
Provision for/(reversal of) impairment of trade receivables	23	**31,923**	(482,906)
Lease payments not included in the measurement of lease liabilities	35(b)	**221,901**	219,137
Auditors' remuneration		**122,967**	107,689
Employee benefit expense (including directors' and chief executive's remuneration (note 10)):			
Wages and salaries		**3,646,614**	3,741,927
Pension and social security costs		**339,424**	348,990
Defined benefit plan expenses	31	**65,760**	66,046
Employee benefits		**419,442**	387,536
Other benefits		**252,410**	236,346
		4,723,650	4,780,845
Foreign exchange gains, net	5	**(450,095)**	(2,066,650)
Write-down of inventories to net realisable value		**1,592,288**	501,754
Net losses on disposal of items of property, plant and equipment and intangible assets	6	**144,035**	40,263
Net gain on disposal of right-of-use assets	5	**(620)**	(26,940)

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Fees	**31,710**	24,581
Other emoluments:		
Salaries, allowances and benefits in kind	**63,562**	57,563
Pension scheme contributions	**7,249**	6,781
	70,811	64,344
	102,521	88,925

(a) Independent non-executive directors

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

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Mr. Lu Pochin Christopher	**10,582**	8,181
Mr. Xu Hui	**6,332**	4,928
Mr. Wang Jianguo	**6,332**	4,928
	23,246	18,037

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors

	Fees JPY'000	Salaries, allowances and benefits in kind* JPY'000	Pension scheme contributions JPY'000	Total remuneration JPY'000
Year ended 31 March 2023				
Executive directors:				
Mr. Liu Jianguo	–	32,404	2,469	34,873
Mr. Yasuki Ito	–	10,948	1,398	12,346
Mr. Yuji Murai	–	10,369	1,363	11,732
Mr. Zuojun	–	9,841	2,019	11,860
	–	63,562	7,249	70,811
Non-executive directors:				
Mr. Yang Xiaoping	4,232	–	–	4,232
Mr. Ho Ping-hsien Robert	4,232	–	–	4,232
	8,464	–	–	8,464
	8,464	63,562	7,249	79,275

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors (continued)

	Fees JPY'000	Salaries, allowances and benefits in kind* JPY'000	Pension scheme contributions JPY'000	Total remuneration JPY'000
Year ended 31 March 2022				
Executive directors:				
Mr. Liu Jianguo	–	28,690	2,025	30,715
Mr. Yasuki Ito	–	11,986	1,461	13,447
Mr. Yuji Murai	–	11,182	1,391	12,573
Mr. Zuojun	–	5,705	1,904	7,609
	–	57,563	6,781	64,344
Non-executive directors:				
Mr. Yang Xiaoping	3,272	–	–	3,272
Mr. Ho Ping-hsien Robert	3,272	–	–	3,272
	6,544	–	–	6,544
	6,544	57,563	6,781	70,888

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

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

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one director (2022: one). Details of the director's remuneration are set out in note 10 above. Details of the total remuneration of the remaining four (2022: four) highest paid employees who are neither a director nor the chief executive of the Group are as follows:

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Salaries, allowances and benefits in kind	**138,412**	161,196
Performance related bonuses	**21,607**	6,630
Pension scheme contributions	**8,491**	8,212
	168,510	176,038

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

	Number of employees Year ended 31 March	
	2023	2022
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**2**	1
HK$3,500,001 to HK$4,000,000	**1**	2
	4	4

12. INCOME TAX

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

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

The subsidiaries of the Company incorporated in Hong Kong were subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year (2022: 16.5%).

Pursuant to the rules and regulations of Japan, the subsidiary incorporated in Japan is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the effective statutory tax rate for these taxes was 30.62% for the year (2022: 30.62%).

The subsidiary of the Company registered in the Mainland China is subject to PRC enterprise income tax on the taxable income as reported in its PRC statutory accounts adjusted in accordance with relevant PRC income tax laws based on a statutory rate of 25% (2022: 25%).

The subsidiaries incorporated in Taiwan and Thailand are subject to income tax at the rates of 20% and 20% on the assessable profits (2022: 20% and 20%), respectively.

The Company's subsidiary incorporated and operating in the United States was subject to federal corporation income tax at a rate of 21% during the year (2022: 21%), as well as state tax at a rate of approximately 8.84% (2022: 8.84%).

The Company's subsidiary incorporated and operating in Switzerland was subject to federal corporation income tax at a rate of 8.5% during the year (2022: 8.5%), as well as cantonal and communal taxes at rates ranging from 2% to 5% (2022: 2% to 5%).

12. INCOME TAX (continued)

Tax in the statement of profit or loss represents:

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Current income tax – Hong Kong	**1,074,002**	1,148,362
Current income tax – PRC	**1,756**	311,502
Deferred tax (note 21)	**(238,494)**	(90,761)
	837,264	1,369,103

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

	Year ended 31 March			
	2023		2022	
	JPY'000	**%**	JPY'000	%
Profit before tax	**4,092,869**		7,560,291	
Tax at the statutory tax rate (30.62% for the year ended 31 March 2023, and 30.62% for the year ended 31 March 2022)	**1,253,236**	**30.62**	2,314,961	30.62
Different tax rates or tax bases for entities outside Japan	**(854,137)**	**(20.87)**	(1,049,725)	(13.89)
Expense not deductible	**1,749**	**0.04**	17,301	0.23
Income not subject to tax	**(107,032)**	**(2.62)**	(241,351)	(3.19)
Effect of withholding tax on the distributable profits of the Group's subsidiaries in the PRC and Japan	**(106,071)**	**(2.59)**	159,217	2.11
Impact of unrecognised tax losses and temporary differences	**649,519**	**15.87**	168,700	2.23
Tax charge at the Group's effective rate	**837,264**	**20.45**	1,369,103	18.11

13. DIVIDENDS

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Proposed final – JPY1.50 per ordinary share (2022: JPY2.00)	**908,464**	1,211,285
Interim declared – JPY1.50 (2022: JPY1.50) per ordinary share	**908,464**	908,500

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The 2022 final dividend and 2023 interim dividend were paid on 10 October 2022 and 28 December 2022, respectively.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 March 2023 and 2022 in respect of a dilution as the Group had no potentially ordinary dilutive shares in issue during the years ended 31 March 2023 and 2022.

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

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**3,255,488**	6,191,197

	Number of shares	
	2023	2022
	('000)	('000)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**605,643**	605,643

15. PROPERTY, PLANT AND EQUIPMENT

	Building JPY'000	Machinery JPY'000	Leasehold improvements JPY'000	Motor vehicles JPY'000	Equipment, furniture and fittings JPY'000	Construction in progress JPY'000	Total JPY'000
31 March 2023							
Cost:							
At 1 April 2022	6,624,234	2,198,485	2,361,046	48,293	1,789,919	396	13,022,373
Additions	14,774	20,837	386,435	–	148,258	20,642	590,946
Transfer from construction in progress	8,226	2,454	–	–	5,826	(16,506)	–
Disposals	(186,556)	(246,437)	(360,116)	(1,562)	(62,423)	–	(857,094)
Exchange realignment	–	1,669	60,214	–	4,594	–	66,477
At 31 March 2023	6,460,678	1,977,008	2,447,579	46,731	1,886,174	4,532	12,822,702
Accumulated depreciation:							
At 1 April 2022	5,848,576	1,849,280	1,366,122	44,629	1,499,850	–	10,608,457
Depreciation provided during the year	79,662	89,787	352,659	1,314	105,093	–	628,515
Disposals	(184,041)	(244,147)	(216,771)	(667)	(55,507)	–	(701,133)
Exchange realignment	–	1,615	55,542	–	3,853	–	61,010
At 31 March 2023	5,744,197	1,696,535	1,557,552	45,276	1,553,289	–	10,596,849
Accumulated impairment:							
At 1 April 2022	93,339	1,697	241,189	131	69,645	–	406,001
Impairment provided during the year	–	–	76,830	–	4,718	–	81,548
Disposals	–	–	(9,023)	(131)	(2,501)	–	(11,655)
At 31 March 2023	93,339	1,697	308,996	–	71,862	–	475,894
Net book value:							
At 31 March 2023	623,142	278,776	581,031	1,455	261,023	4,532	1,749,959

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Building JPY'000	Machinery JPY'000	Leasehold improvements JPY'000	Motor vehicles JPY'000	Equipment, furniture and fittings JPY'000	Construction in progress JPY'000	Total JPY'000
31 March 2022							
Cost:							
At 1 April 2021	6,601,512	2,223,430	2,205,180	48,107	1,702,646	3,648	12,784,523
Additions	22,722	16,477	168,562	856	64,247	16,922	289,786
Transfer from construction in progress	–	–	–	–	20,174	(20,174)	–
Disposals	–	(43,935)	(124,837)	(670)	(8,190)	–	(177,632)
Exchange realignment	–	2,513	112,141	–	11,042	–	125,696
At 31 March 2022	6,624,234	2,198,485	2,361,046	48,293	1,789,919	396	13,022,373
Accumulated depreciation:							
At 1 April 2021	5,761,304	1,790,365	1,034,908	43,063	1,398,616	–	10,028,256
Depreciation provided during the year	87,272	100,752	307,085	2,170	100,875	–	598,154
Disposals	–	(43,764)	(45,572)	(604)	(7,129)	–	(97,069)
Exchange realignment	–	1,927	69,701	–	7,488	–	79,116
At 31 March 2022	5,848,576	1,849,280	1,366,122	44,629	1,499,850	–	10,608,457
Accumulated impairment:							
At 1 April 2021	93,339	1,868	242,351	198	70,223	–	407,979
Disposals	–	(171)	(1,162)	(67)	(578)	–	(1,978)
At 31 March 2022	93,339	1,697	241,189	131	69,645	–	406,001
Net book value:							
At 31 March 2022	682,319	347,508	753,735	3,533	220,424	396	2,007,915

An impairment of JPY81,548,000 (2022: Nil) has been provided for self-operated stores during the year ended 31 March 2023 with recoverable amount of nil. The recoverable amounts of these 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.

16. RIGHT-OF-USE ASSETS

	Shops	Office properties	Motor vehicles	Total
	JPY'000	JPY'000	JPY'000	JPY'000
Carrying amount at 1 April 2022	**1,269,378**	**288,413**	**41,243**	**1,599,034**
Addition	**1,261,847**	**–**	**33,487**	**1,295,334**
Depreciation during the year	**(900,178)**	**(147,571)**	**(3,692)**	**(1,051,441)**
Revision of a lease term arising from a change in the non-cancellable period of a lease	**(2,928)**	**–**	**(39,804)**	**(42,732)**
Exchange realignment	**4,915**	**4,128**	**3,608**	**12,651**
Carrying amount at 31 March 2023	**1,633,034**	**144,970**	**34,842**	**1,812,846**

	Shops	Office properties	Motor vehicles	Total
	JPY'000	JPY'000	JPY'000	JPY'000
Carrying amount at 1 April 2021	1,910,056	411,917	52,235	2,374,208
Addition	493,146	25,197	30,757	549,100
Depreciation during the year	(814,485)	(150,190)	(10,336)	(975,011)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(386,652)	–	(36,429)	(423,081)
Exchange realignment	67,313	1,489	5,016	73,818
Carrying amount at 31 March 2022	1,269,378	288,413	41,243	1,599,034

17. FREEHOLD LAND

The carrying amount of the Group's freehold land is analysed as follows:

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Cost:		
As at 1 April and 31 March	**1,940,789**	1,940,789
Impairment:		
As at 1 April and 31 March	**–**	–
Net book value:		
As at 31 March	**1,940,789**	1,940,789

The freehold land is owned by Honma Japan and is located in Japan.

18. INTANGIBLE ASSETS

31 March 2023

	Licenses JPY'000	Software JPY'000	Telephone use right JPY'000	Total JPY'000
Cost at 1 April 2022, net of accumulated amortisation and impairment	**1,816**	**111,822**	**5,970**	**119,608**
Additions	**–**	**85,269**	**–**	**85,269**
Amortisation provided during the year	**(478)**	**(75,554)**	**–**	**(76,032)**
Exchange realignment	**–**	**(469)**	**–**	**(469)**
At 31 March 2023	**1,338**	**121,068**	**5,970**	**128,376**
At 31 March 2023:				
Cost	**5,596**	**905,058**	**41,767**	**952,421**
Accumulated amortisation	**(4,258)**	**(783,990)**	**–**	**(788,248)**
Impairment	**–**	**–**	**(35,797)**	**(35,797)**
Net carrying amount	**1,338**	**121,068**	**5,970**	**128,376**

31 March 2022

	Licenses JPY'000	Software JPY'000	Telephone use right JPY'000	Total JPY'000
Cost at 1 April 2021, net of accumulated amortisation and impairment	2,294	199,548	5,970	207,812
Additions	–	14,793	–	14,793
Amortisation provided during the year	(478)	(103,755)	–	(104,233)
Exchange realignment	–	1,236	–	1,236
At 31 March 2022	1,816	111,822	5,970	119,608
At 31 March 2022:				
Cost	5,596	1,194,211	41,767	1,241,574
Accumulated amortisation	(3,780)	(1,082,389)	–	(1,086,169)
Impairment	–	–	(35,797)	(35,797)
Net carrying amount	1,816	111,822	5,970	119,608

19. FINANCE LEASE RECEIVABLES

The total future lease payments receivable under finance leases and their present values were as follows:

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Within one year	**92,451**	82,700
After one year but within two years	**94,532**	84,961
After two years but within three years	**71,983**	86,873
After three years but within four years	**71,841**	66,151
After four years but within five years	**12,332**	66,021
After five years	**–**	11,333
Total minimum finance lease receivables	**343,139**	398,039
Unearned finance income	**(5,159)**	(7,337)
Total net finance lease receivables	**337,980**	390,702
Portion classified as current assets	**(92,102)**	(82,199)
Non-current portion	**245,878**	308,503

19. FINANCE LEASE RECEIVABLES (continued)

	At 31 March 2023 JPY'000	At 31 March 2022 JPY'000
Within one year	**92,102**	82,199
After one year but within two years	**93,520**	84,102
After two years but within three years	**70,571**	85,394
After three years but within four years	**69,852**	64,390
After four years but within five years	**11,935**	63,728
After five years	**–**	10,889
Total present value of minimum finance lease receivables	**337,980**	390,702

The Group applies a simplified approach in calculating ECLs prescribed by IFRS 9, which permits the use of the lifetime expected losses for lease receivables. All of the finance lease receivables are not past due. To measure the expected credit losses, finance lease receivables have been grouped based on shared credit risk characteristics and the days past due. The determination of expected credit losses has also incorporated forward-looking information. All the finance lease receivables are classified as Stage 1 without any significant increase in credit risk tracked since initial recognition. The expected credit loss rates for finance lease receivables that were not yet past due are minimal.

20. OTHER NON-CURRENT ASSETS

	At 31 March 2023 JPY'000	At 31 March 2022 JPY'000
Equity instruments at fair value through other comprehensive income		
Unlisted equity investments, at fair value	**100**	100
Listed equity investments, at fair value	**16,444**	13,646
	16,544	13,746
Rental deposits	**685,153**	743,778
Long-term prepaid expenses	**223,777**	105,842
	925,474	863,366

21. DEFERRED TAX

Deferred tax assets

	Unrealised profit	Tax losses	Impairment of inventories	Accrued payroll	Defined benefit plan	Bad debt	Others	Total
	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000	JPY'000
At 31 March 2021 and 1 April 2021	221,912	580,918	29,580	25,865	192,264	5,737	25,086	1,081,362
Deferred tax charged to other comprehensive income during the year	–	–	–	–	(41,329)	–	–	(41,329)
Deferred tax credited/(charged) to profit or loss during the year	282,615	(236,282)	87,196	30,104	1,250	(2,997)	66,139	228,025
Exchange realignment	–	25,444	–	–	–	–	–	25,444
At 31 March 2022 and 1 April 2022	504,527	370,080	116,776	55,969	152,185	2,740	91,225	1,293,502
Deferred tax charged to other comprehensive income during the year	–	–	–	–	(12,631)	–	–	(12,631)
Deferred tax credited/(charged) to profit or loss during the year	54,777	(58,030)	93,836	(30,527)	(23,259)	26	89,677	126,500
Exchange realignment	–	–	–	–	–	–	(2,151)	(2,151)
At 31 March 2023	559,304	312,050	210,612	25,442	116,295	2,766	178,751	1,405,220

21. DEFERRED TAX (continued)

Deferred tax liabilities

	Change in fair value	Depreciation allowance in excess of related depreciation	Withholding tax	Total
	JPY'000	JPY'000	JPY'000	JPY'000
At 31 March 2021 and 1 April 2021	2,939	28,702	54,339	85,980
Deferred tax credited to other comprehensive income during the year	(24)	–	–	(24)
Deferred tax (credited)/charged to profit or loss during the year	–	(21,953)	159,217	137,264
At 31 March 2022 and 1 April 2022	2,915	6,749	213,556	223,220
Deferred tax charged to other comprehensive income during the year	897	–	–	897
Deferred tax credited to profit or loss during the year	–	(5,923)	(106,071)	(111,994)
At 31 March 2023	3,812	826	107,485	112,123

21. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

Deferred tax assets have not been recognised in respect of the following items:

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Tax losses	**6,813,898**	5,724,242
Deductible temporary differences	**3,746,177**	3,330,141
Total	**10,560,075**	9,054,383

The Group has tax losses of JPY5,536,826,000 (2022: JPY4,754,881,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses of JPY1,207,854,000 (2022: JPY919,718,000) that will expire in one to seven years for offsetting against future taxable profits. The Group also has tax losses of JPY69,218,000 (2022: JPY49,643,000) that will expire in one to ten years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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. Furthermore, pursuant to the tax law in Taiwan, a 20% withholding tax is levied on dividends declared to foreign investors from the enterprises established in Taiwan. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008 and by the subsidiaries established in Japan and Taiwan.

21. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

As at 31 March 2023 and 2022, there were no significant unrecognised deferred tax liabilities for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted due to the availability of double taxation relief.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

22. INVENTORIES

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Raw materials	**3,244,147**	2,930,047
Work in progress	**1,547,032**	1,548,424
Finished goods	**10,634,117**	8,552,042
	15,425,296	13,030,513
Less: provision	**(3,127,965)**	(1,535,677)
	12,297,331	11,494,836

23. TRADE AND BILLS RECEIVABLES

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Trade receivables	**3,620,586**	5,295,751
Bills receivable	**97,593**	184,156
	3,718,179	5,479,907
Less: provision	**(204,684)**	(231,834)
	3,513,495	5,248,073

The Group's trading terms with its customers are mainly on credit. The credit period ranges from 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Within 1 month	**2,751,126**	3,934,777
1 to 3 months	**291,022**	460,544
3 to 12 months	**349,646**	578,073
Over 1 year	**24,108**	90,523
	3,415,902	5,063,917

23. TRADE AND BILLS RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Opening balance	**231,834**	758,808
Addition	**38,215**	65,517
Reversal	**(6,292)**	(548,423)
Amount written off as uncollectable	**(59,073)**	(44,068)
Ending balance	**204,684**	231,834

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 March 2023

	Expected loss rates	Gross carrying amounts JPY'000	Impairment JPY'000
General item:			
Current and past due within 6 months	**1.97%**	**3,361,619**	**66,202**
Past due 6 to 12 months past due	**40.78%**	**203,458**	**82,973**
Past due over 1 year past due	**100.00%**	**55,509**	**55,509**
		3,620,586	**204,684**

23. TRADE AND BILLS RECEIVABLES (continued)

As at 31 March 2022

	Expected loss rates	Gross carrying amounts	Impairment
		JPY'000	JPY'000
General item:			
Current and past due within 6 months	1.89%	5,065,485	95,723
Past due 6 to 12 months past due	51.01%	192,190	98,035
Past due over 1 year past due	100.00%	38,076	38,076
		5,295,751	231,834

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Prepaid rental expenses	**48,324**	49,353
Prepaid expenses	**104,173**	115,108
Deductible input value added tax and prepaid corporate income tax	**806,941**	675,243
Advances to suppliers	**785,511**	821,540
Rental deposits	**113,808**	42,269
Other receivables	**4,539**	6,495
Right-of-return assets	**270,202**	241,404
	2,133,498	1,951,412

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 March 2023 and 2022, the loss allowance was assessed to be minimal.

The carrying amount of prepayments, deposits and other receivables approximates to their fair value due to their short term maturity.

25. CASH AND CASH EQUIVALENTS

	At 31 March 2023 JPY'000	2022 JPY'000
Cash and bank balances	**14,084,777**	14,454,554
Time deposits	**5,169**	4,747
	14,089,946	14,459,301
Less: pledged deposits for letters of guarantee	**(5,169)**	(4,747)
Cash and cash equivalents	**14,084,777**	14,454,554
Denominated in JPY	**2,626,691**	2,192,188
Denominated in USD	**558,720**	1,494,167
Denominated in HKD	**134,645**	273,963
Denominated in TWD	**47,033**	63,407
Denominated in RMB	**10,532,286**	9,551,663
Denominated in other currencies	**185,402**	879,166
	14,084,777	14,454,554

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

26. TRADE AND BILLS PAYABLES

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Trade payables	**1,302,164**	2,393,326
Bills payable	**–**	1,741
	1,302,164	2,395,067

The ageing analysis of trade and bills payables as at 31 March 2023 and 2022 is as follows:

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Within 3 months	**1,287,287**	2,324,078
Over 3 months	**14,877**	70,989
	1,302,164	2,395,067

The trade and bills payables are non-interest-bearing and normally settled on terms of two to four months.

27. OTHER PAYABLES AND ACCRUALS

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Payables for purchase of property, plant and equipment	**32,448**	26,113
Contract liabilities	**818,532**	617,801
Staff payroll and welfare payables	**362,753**	546,273
Other tax payables	**131,882**	117,821
Refund liabilities	**456,424**	348,874
Other payables and accruals	**933,000**	800,157
	2,735,039	2,457,039

Financial liabilities included in the above balances are non-interest-bearing and have no significant balance with ageing over one year.

During the year ended 31 March 2023, contract liabilities of JPY617,801,000 (31 March 2022: JPY341,506,000) at the beginning of the year were recognised as revenue. The increase in contract liabilities as at 31 March 2023 and 2022 was mainly due to the increase in sales rebate and short-term advances received from customers in relation to the sale of golf related products.

28. INTEREST-BEARING BANK BORROWINGS

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Current		
Bank loans – unsecured	**6,690,000**	7,100,000
Non-current		
Bank loans – unsecured	**600,000**	600,000
	7,290,000	7,700,000
Analysed into:		
Bank loans repayable:		
Within one year	**6,690,000**	7,100,000
In the second year	**21,180**	–
In the third to fifth years, inclusive	**275,340**	190,620
Beyond five years	**303,480**	409,380
	7,290,000	7,700,000

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

	At 31 March	
	2023	2022
Effective interest rates	**0.17%-3.08%**	0.33%-1.07%

At 31 March 2023 and 2022, there were no properties pledged to secure bank borrowings granted to the Group.

29. LEASE LIABILITIES

	At 31 March	
	2023	2022
	JPY'000	JPY'000
At beginning of year	**1,963,917**	2,500,411
Addition	**1,295,334**	549,100
Accretion of interest	**30,238**	24,067
Payment	**(1,131,214)**	(1,094,805)
Revision of a lease term arising from a change in the non-cancellable period of a lease	**(37,961)**	(71,796)
Covid-19-related rent concessions from lessors	**(18,527)**	(43,596)
Exchange realignment	**51,450**	100,536
At end of year	**2,153,237**	1,963,917

The Group has applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain shops and office properties during the year.

29. LEASE LIABILITIES (continued)

Maturity profile of lease liabilities as at 31 March 2023 and 2022 is as follows:

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Within one year	**1,119,853**	822,878
In the second year	**695,167**	654,276
In the third to five years, inclusive	**382,255**	494,676
After five years	**–**	14,172
Total undiscounted lease liabilities	**2,197,275**	1,986,002
Discount amount	**(44,038)**	(22,085)
Total present value of lease liabilities	**2,153,237**	1,963,917
Portion classified as current liabilities	**(1,110,858)**	(817,134)
Non-current portion	**1,042,379**	1,146,783
Analysed into:		
Lease liabilities:		
Within one year	**1,110,858**	817,134
In the second year	**675,228**	647,641
In the third to fifth years, inclusive	**367,151**	485,302
Beyond five years	**–**	13,840
	2,153,237	1,963,917

30. OTHER NON-CURRENT LIABILITIES

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Asset retirement obligations	**89,924**	78,581
Rental deposits received as lessor	**8,179**	29,733
	98,103	108,314

The movements in asset retirement obligations are as follows:

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Beginning balance	**78,581**	78,123
Addition	**13,343**	2,970
Utilised	**(2,000)**	(2,512)
Ending balance	**89,924**	78,581

The Group makes provision for rehabilitation costs expected to arise on the closure of shops. The provision is determined based on the assessments of the cost per square metre to rehabilitate the shops. The estimation is reviewed on an ongoing basis and revised where appropriate.

31. EMPLOYEE DEFINED BENEFIT PLAN

Net employee defined benefit liabilities:

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Retirement benefit plans	**349,300**	465,019

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

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

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

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

Honma Japan partly shifted its retirement benefit plans from defined benefit corporate pension plans to defined contribution pension plans in January 2017.

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

31. EMPLOYEE DEFINED BENEFIT PLAN (continued)

The total expenses recognised in the consolidated statement of profit or loss in respect of the plans are as follows:

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Current service cost	**64,190**	65,893
Interest cost	**1,570**	153
Net benefit expenses	**65,760**	66,046
Recognised in cost of sales	**22,819**	22,918
Recognised in selling and distribution costs	**29,074**	29,200
Recognised in administrative expenses	**13,867**	13,928
	65,760	66,046

31. EMPLOYEE DEFINED BENEFIT PLAN (continued)

The following tables summarise the components of net benefit expenses recognised in the statement of profit or loss and the funded status and amounts recognised in the statement of financial position for the plans:

Changes for the year ended 31 March 2023 in the defined benefit obligations and fair value of plan assets:

	1 April 2022 JPY'000	Current service cost JPY'000	Net interest JPY'000	Sub-total included in profit or loss JPY'000 (note 9)	Benefits paid JPY'000	Return on plan assets JPY'000	Actuarial changes arising from changes in financial assumptions JPY'000	Experience adjustments JPY'000	Sub-total included in other comprehensive income JPY'000	Contributions by employer JPY'000	31 March 2023 JPY'000
Defined benefit obligation	2,410,661	64,190	8,891	73,081	(217,698)	–	(30,143)	2,090	(28,053)	–	2,237,991
Fair value of plan assets	(1,945,642)	–	(7,321)	(7,321)	77,614	(12,483)	–	–	(12,483)	(859)	(1,888,691)
Benefit liability	465,019	64,190	1,570	65,760	(140,084)	(12,483)	(30,143)	2,090	(40,536)	(859)	349,300

Changes for the year ended 31 March 2022 in the defined benefit obligations and fair value of plan assets:

	1 April 2021 JPY'000	Current service cost JPY'000	Net interest JPY'000	Sub-total included in profit or loss JPY'000 (note 9)	Benefits paid JPY'000	Return on plan assets JPY'000	Actuarial changes arising from changes in financial assumptions JPY'000	Experience adjustments JPY'000	Sub-total included in other comprehensive income JPY'000	Contributions by employer JPY'000	31 March 2022 JPY'000
Defined benefit obligation	2,553,076	65,893	8,064	73,957	(171,028)	–	(45,228)	(116)	(45,344)	–	2,410,661
Fair value of plan assets	(1,922,463)	–	(7,911)	(7,911)	68,390	(81,070)	–	–	(81,070)	(2,588)	(1,945,642)
Benefit liability	630,613	65,893	153	66,046	(102,638)	(81,070)	(45,228)	(116)	(126,414)	(2,588)	465,019

31. EMPLOYEE DEFINED BENEFIT PLAN (continued)

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

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Stocks	**946,708**	1,001,638
Bonds	**735,584**	738,782
General account of life insurance companies	**146,920**	145,772
Others	**59,479**	59,450
Total	**1,888,691**	1,945,642

The principal actuarial assumptions used in determining the defined benefit obligations for the retirement benefit plans are shown below:

	At 31 March	
	2023	2022
Method of allocating projected retirement benefits	**Projected unit credit method**	Projected unit credit method
Discount rate	**0.58%**	0.37%
Salary increase rate (age-based, on average)	**3.90%**	3.90%
Turnover rate (age-based, on average)	**6.60%**	6.60%

31. EMPLOYEE DEFINED BENEFIT PLAN (continued)

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

		Increase/(decrease) in defined benefit obligations At 31 March	
		2023	2022
Assumption	*Change in assumption*	**JPY'000**	JPY'000
Discount rate	Increase by 0.5%	**(72,655)**	(82,793)
	Decrease by 0.5%	**72,655**	82,793

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

The average durations of the defined benefit plan obligations as at 31 March 2023 and 2022 were 4.8 years and 5.4 years, respectively.

The actuarial valuation showed that the market values of plan assets were JPY1,888,691,000 and JPY1,945,642,000 as at 31 March 2023 and 2022 and represented 84% and 81% of the defined benefit obligations, respectively, that had accrued to qualified employees. The deficiencies of JPY349,300,000 and JPY465,019,000 as at 31 March 2023 and 2022, respectively, are expected to be cleared over the remaining service period.

32. SHARE CAPITAL

	At 31 March	
	2023	2022
Issued capital in USD: (As of 31 March 2023: 20,000,000,000 authorised shares of USD0.0000025 each, 605,642,500 ordinary shares in issue; as of 31 March 2022: 20,000,000,000 authorised shares of USD0.0000025 each, 605,642,500 ordinary shares in issue)	**1,514**	1,514
Equivalent to JPY	**153,000**	153,000

33. RESERVES

(i) Surplus reserve

Pursuant to the related countries' regulations and the company's board meetings, the Group made appropriation to the reserve fund based on net profits.

(ii) Fair value reserve

The fair value reserve represents the valuation difference in the fair value of equity instruments measured at fair value through other comprehensive income.

(iii) Exchange translation reserve

The exchange translation reserve refers to the foreign currency translation differences that occurred when consolidating the financial statements of foreign subsidiaries prepared in foreign currencies.

34. CONTINGENT LIABILITIES

As at 31 March 2023 and 2022, the Group had no significant contingent liabilities.

35. OPERATING LEASE COMMITMENTS

As lessor

The Group leases retail shops, under operating lease arrangements, with a lease term of five to six years. The terms of the leases generally also require the tenants to provide for periodic rent adjustments according to the then prevailing market conditions. Rental income from retail shops for the year was JPY2,186,000 (2022: JPY2,223,000).

Operating lease commitments as at 31 March 2023

The undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Within one year	**2,186**	2,223
After one year but within two years	**2,186**	2,223
After two years but within three years	**2,186**	2,223
After three years but within four years	**2,186**	2,223
After four years but within five years	**–**	2,223
	8,744	11,115

35. OPERATING LEASE COMMITMENTS (continued)

As lessee

The Group leases certain of its office properties, shops and motor vehicles under operating lease arrangements. Lease terms of these lease contracts are disclosed in note 2.4 to the financial statements.

(a) Right-of-use assets and lease liabilities

Detailed information regarding right-of-use assets and lease liabilities is set out in notes 16 and 29, respectively, to the financial statements.

(b) The amounts recognised in profit or loss in relation to leases are as follows:

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Interest on lease liabilities	**30,238**	24,067
Depreciation charge of right-of-use assets	**1,051,441**	975,011
Expense relating to short-term leases	**221,901**	219,137
Covid-19-related rent concessions from lessors	**(18,527)**	(43,596)
Total amount recognised in profit or loss	**1,285,053**	1,174,619

(c) Total cash outflows for leases and non-cash additions to right-of-use assets and lease liabilities are disclosed in notes 40(c) and 40(a) to the financial statements.

36. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Group include:

Related party	Relationship
Shanghai POVOS Enterprise (Group) Co., Ltd.	Company controlled by the shareholder

(a) Transactions with a related party

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Rental expense charged by related party		
Shanghai POVOS Enterprise (Group) Co., Ltd.*	34,259	30,029

The rental expense charged by the related party was paid according to the prices and terms agreed between the party and the company.

* The related party transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

	At 31 March	
	2023	2022
	JPY'000	JPY'000
Due from a related party		
Shanghai POVOS Enterprise (Group) Co., Ltd.*	32,446	58,934

(b) Compensation of key management personnel of the Group:

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Short-term employee benefits	131,380	193,359
Pension scheme contributions	7,558	15,770
Total compensation paid to key management personnel	138,938	209,129

Further details of directors' emoluments are included in note 10 to the financial statements.

37. 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 2023

Financial assets

	Financial assets at amortised cost JPY'000	Debt instruments at fair value through other comprehensive income JPY'000	Equity instruments at fair value through other comprehensive income JPY'000	Total JPY'000
Trade and bills receivables	3,415,902	97,593	–	3,513,495
Pledged deposits	5,169	–	–	5,169
Cash and cash equivalents	14,084,777	–	–	14,084,777
Financial assets included in prepayments, deposits and other receivables	118,347	–	–	118,347
Finance lease receivables	337,980	–	–	337,980
Other non-current assets	685,153	–	16,544	701,697
Total	18,647,328	97,593	16,544	18,761,465

Financial liabilities

	Financial liabilities at amortised cost JPY'000
Trade and bills payables	1,302,164
Interest-bearing bank borrowings	7,290,000
Financial liabilities included in other payables and accruals	965,448
Financial liabilities included in other non-current liabilities	8,179
Total	9,565,791

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

31 March 2022

Financial assets

	Financial assets at amortised cost JPY'000	Debt instruments at fair value through other comprehensive income JPY'000	Equity instruments at fair value through other comprehensive income JPY'000	Total JPY'000
Trade and bills receivables	5,063,917	184,156	–	5,248,073
Pledged deposits	4,747	–	–	4,747
Cash and cash equivalents	14,454,554	–	–	14,454,554
Financial assets included in prepayments, deposits and other receivables	48,764	–	–	48,764
Finance lease receivables	390,702	–	–	390,702
Other non-current assets	743,778	–	13,746	757,524
Total	20,706,462	184,156	13,746	20,904,364

Financial liabilities

	Financial liabilities at amortised cost JPY'000
Trade and bills payables	2,395,067
Interest-bearing bank borrowings	7,700,000
Financial liabilities included in other payables and accruals	826,270
Financial liabilities included in other non-current liabilities	29,733
Total	10,951,070

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, deposits and other receivables, the current portion of finance lease receivables, rental deposits included in other non-current assets, trade and bills payables, interest-bearing bank borrowings, financial liabilities included in other payables and accruals and the current portion of lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The carrying amounts of the non-current portion of finance lease receivables and the non-current portion of lease liabilities of the Group approximate to their fair values because their carrying amounts are the present values and the internal rates of return are close to rates currently available for instruments with similar terms, credit risk and remaining maturities.

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

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

The fair values of unlisted equity investments require the directors to make estimates about the expected future cash flows from future proceeds when the investments are realised and the fair values have been estimated to be the principal plus estimated interest income. The directors believe that the estimated fair values which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of each reporting period.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

31 March 2023

	Level 1 JPY'000	Level 2 JPY'000	Level 3 JPY'000	Total JPY'000
Equity instruments at fair value through other comprehensive income	16,444	–	100	16,544
Bills receivable	–	97,593	–	97,593
	16,444	97,593	100	114,137

31 March 2022

	Level 1 JPY'000	Level 2 JPY'000	Level 3 JPY'000	Total JPY'000
Equity instruments at fair value through other comprehensive income	13,646	–	100	13,746
Bills receivable	–	184,156	–	184,156
	13,646	184,156	100	197,902

During the years ended 31 March 2023 and 2022, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, trade and bills payables, an amount due to a related party, and 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 arise directly from its operations. The main risks faced by the Group are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board of directors reviews and agrees policies for managing each of the risks which are summarised below:

Interest rate risk

The Group's exposure to risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts and using interest rate swaps contracts.

As at 31 March 2023, if interest rates had been 100 basis points higher/lower with all other variables held constant, profit before tax for the year would have been JPY72,900,000 lower/higher (2022: profit before tax would have been JPY77,000,000 lower/higher), mainly as a result of the higher/lower interest expense on floating rate bank borrowings.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 44.6% (2022: 53.2%) of the Group's sales for the year were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 91.6% (2022: 74.8%) of costs for the year were denominated in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign exchange rates, 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).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/(decrease) in rate of foreign currency %	Increase/(decrease) in profit before tax JPY'000
Year ended 31 March 2023		
If RMB strengthens against JPY	**5**	**522,390**
If RMB weakens against JPY	**(5)**	**(522,390)**
If JPY strengthens against USD	**5**	**(225,358)**
If JPY weakens against USD	**(5)**	**225,358**
Year ended 31 March 2022		
If RMB strengthens against JPY	5	418,071
If RMB weakens against JPY	(5)	(418,071)
If JPY strengthens against USD	5	(214,718)
If JPY weakens against USD	(5)	214,718

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables).

The Group trades only with recognised and creditworthy third parties and related parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The carrying amounts of cash and cash equivalents, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, finance lease receivables and rental deposits included in the other non-current assets in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

Further qualitative and quantitative information regarding trade receivables, which apply the simplified approach under IFRS 9, is disclosed in note 23 to the financial statements.

All the carrying amounts of financial assets at amortised cost, applying the general approach under IFRS 9, were classified in Stage 1 in terms of ECLs as at 31 March 2023 and 31 March 2022.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing loans and borrowings.

The maturity profile of the Group's financial liabilities as at 31 March 2023 and 2022, based on contractual undiscounted payments, is as follows:

31 March 2023

	On demand JPY'000	Less 1 year JPY'000	Over 1 year JPY'000	Total JPY'000
Trade and bills payables	–	1,302,164	–	1,302,164
Financial liabilities included in other payables and accruals	965,448	–	–	965,448
Interest-bearing bank borrowings	–	6,699,565	629,108	7,328,673
Lease liabilities	–	1,119,853	1,077,422	2,197,275
Other non-current liabilities	8,179	–	–	8,179
	973,627	9,121,582	1,706,530	11,801,739

31 March 2022

	On demand JPY'000	Less 1 year JPY'000	Over 1 year JPY'000	Total JPY'000
Trade and bills payables	–	2,395,067	–	2,395,067
Financial liabilities included in other payables and accruals	826,270	–	–	826,270
Interest-bearing bank borrowings	–	7,107,522	632,838	7,740,360
Lease liabilities	–	822,878	1,163,124	1,986,002
Other non-current liabilities	29,733	–	–	29,733
	856,003	10,325,467	1,795,962	12,977,432

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy debt to equity ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2023 and 2022.

The Group monitors capital, which is the total equity, using a debt-to-equity ratio, which is interest-bearing bank borrowings plus lease liabilities divided by total equity. The debt-to-equity ratios as at the end of the reporting periods were as follows:

	31 March 2023	31 March 2022
	JPY'000	JPY'000
Interest-bearing bank borrowings	7,290,000	7,700,000
Lease liabilities	2,153,237	1,963,917
Total debt	9,443,237	9,663,917
Total equity	26,030,928	25,352,602
Debt-to-equity ratio	36%	38%

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of JPY1,295,334,000 and JPY1,295,334,000, respectively, in respect of lease arrangements for office properties, shops and motor vehicles (31 March 2022: JPY549,100,000 and JPY549,100,000).

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities are as follows:

	Interest-bearing bank borrowings JPY'000	Dividend payable included in other payables JPY'000	Lease liabilities JPY'000
At 1 April 2021	8,025,570	–	2,500,411
Changes from financing cash flows	(325,570)	(1,940,121)	(1,070,738)
New leases	–	–	549,100
Interest expenses	–	–	24,067
Interest paid classified as operating cash flows	–	–	(24,067)
Revision of a lease term arising from a change in the non-cancellable period of a lease term	–	–	(71,796)
Covid-19-related rent concessions from lessors	–	–	(43,596)
Foreign exchange movements	–	–	100,536
Final dividend payable	–	1,940,121	–
At 31 March 2022 and 1 April 2022	7,700,000	–	1,963,917
Changes from financing cash flows	(410,000)	(2,133,460)	(1,100,976)
New leases	–	–	1,295,334
Interest expenses	–	–	30,238
Interest paid classified as operating cash flows	–	–	(30,238)
Revision of a lease term arising from a change in the non-cancellable period of a lease term	–	–	(37,961)
Covid-19-related rent concessions from lessors	–	–	(18,527)
Foreign exchange movements	–	–	51,450
Final dividend payable	–	2,133,460	–
At 31 March 2023	7,290,000	–	2,153,237

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	Year ended 31 March	
	2023	2022
	JPY'000	JPY'000
Within operating activities	**252,139**	243,204
Within financing activities	**1,100,976**	1,070,738
	1,353,115	1,313,942

41. EVENT AFTER THE REPORTING PERIOD

On 21 June 2023, the directors proposed a final dividend of JPY1.50 per ordinary share totalling approximately JPY908,463,750 for the year ended 31 March 2023, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (note 13).

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	At 31 March	
	2023	2022
	JPY'000	JPY'000
NON-CURRENT ASSET		
Investment in a subsidiary	**466,646**	466,646
CURRENT ASSETS		
Prepayments, deposits and other receivables	**5,252**	3,464
Due from subsidiaries	**9,463,204**	11,065,075
Cash and cash equivalents	**102,422**	143,824
Total current assets	**9,570,878**	11,212,363
CURRENT LIABILITIES		
Other payables and accruals	**31,720**	154,608
NET CURRENT ASSETS	**9,539,158**	11,057,755
TOTAL ASSETS LESS CURRENT LIABILITIES	**10,005,804**	11,524,401
NET ASSETS	**10,005,804**	11,524,401
EQUITY		
Share capital	**153**	153
Reserves (note)	**10,005,651**	11,524,248
Total equity	**10,005,804**	11,524,401

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Equity-settled share-based payment reserve	Accumulated losses	Share premium	Total
	JPY'000	JPY'000	JPY'000	JPY'000
Balance at 31 March 2021	466,546	(4,562,585)	16,584,008	12,487,969
Total comprehensive income for the year	–	976,400	–	976,400
Dividend declared	–	(1,940,121)	–	(1,940,121)
Balance at 31 March 2022	466,546	(5,526,306)	16,584,008	11,524,248
Total comprehensive income for the year	**–**	**614,862**	**–**	**614,862**
Dividend declared	**–**	**(2,133,459)**	**–**	**(2,133,459)**
Balance at 31 March 2023	**466,546**	**(7,044,903)**	**16,584,008**	**10,005,651**

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 June 2023.

HONMA GOLF LIMITED
本間高爾夫有限公司