

Sino Golf

HOLDINGS LIMITED
順龍 控股有限公司
(Incorporated in Bermuda with limited liability)



ANNUAL REPORT

2004

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Chu Chun Man, Augustine (*Chairman*)
Takanori Matsuura
Chu Yuk Man, Simon
Chang Hua Jung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Choy Tak Ho
Tse Ying Man (appointed on 17 September 2004)
Chiu Lai Kuen, Susanna
(appointed on 17 September 2004)

COMPANY SECRETARY

Choi Ying, Kammy

AUDITORS

Ernst & Young
15th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank
Bank SinoPac
DBS Bank (Hong Kong) Limited
UFJ Bank Limited
Nanyang Commercial Bank Limited
Sumitomo Mitsui Banking Corporation

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS

Room 1901-1913
19th Floor, Delta House
3 On Yiu Street
Shatin
New Territories
Hong Kong

Corporate Structure

**Sino Golf
Holdings Limited**

**Sino Golf (BVI)
Company Limited**
100%

**Sino U.S. Holding
Company, L.L.C.**
100%

**Sino Golf
Manufacturing
Company Limited**
100%

**Sino CTB
Company, L.L.C.**
(100%)

**Xiamen Sino
Talent Golf
Manufacturing
Co., Ltd.**
(100%)

**Sino Golf
Leisure Company
Limited**
(100%)

**Guangzhou Sino
Concept Golf
Manufacturing
Co., Ltd.**
(100%)

**Linyi Sinoeia
Golf
Co., Ltd.**
(100%)

**Sino Golf
Comercial Offshore
De Macau Limitada**
(100%)

**增城市順龍
高爾夫球
製品有限公司
(Zengcheng Sino Golf)**
(100%)

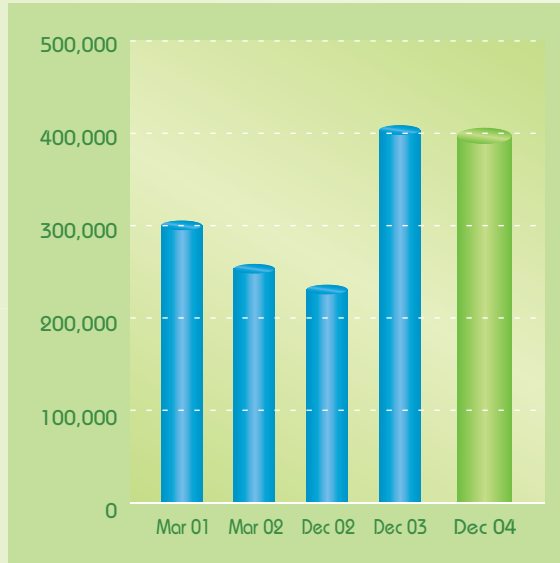
**CTB Golf
(HK) Limited**
(62.5%)

**順德市順興隆
高爾夫球
製品有限公司**
(62.5%)

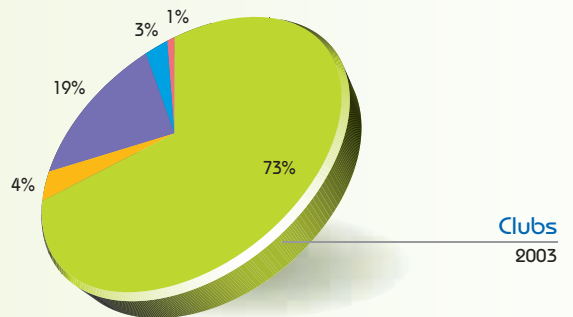
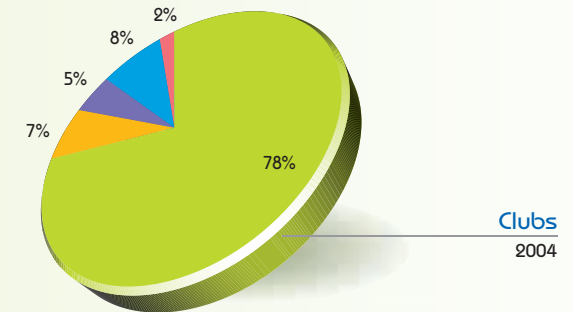
**東莞騏衡運動用品
製造有限公司**
(100%)

Financial Highlights

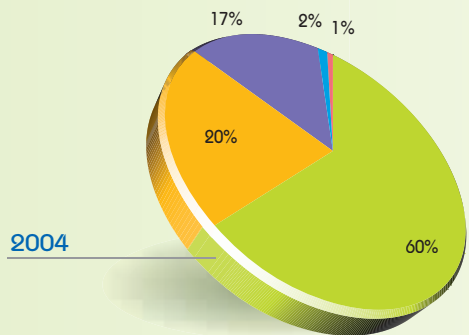
TURNOVER



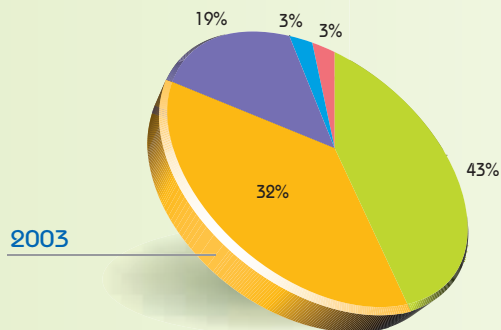
TURNOVER BY GEOGRAPHICAL AREA



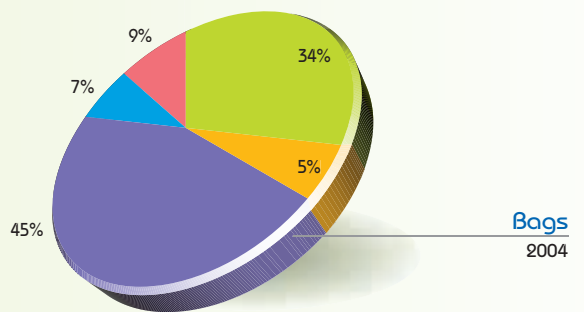
TURNOVER BY PRODUCT



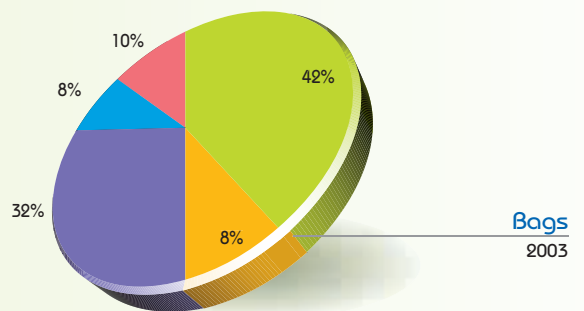
2004



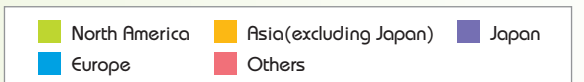
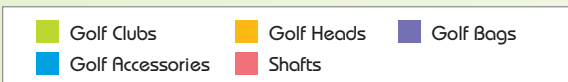
2003



Bags
2004



Bags
2003



Chairman's



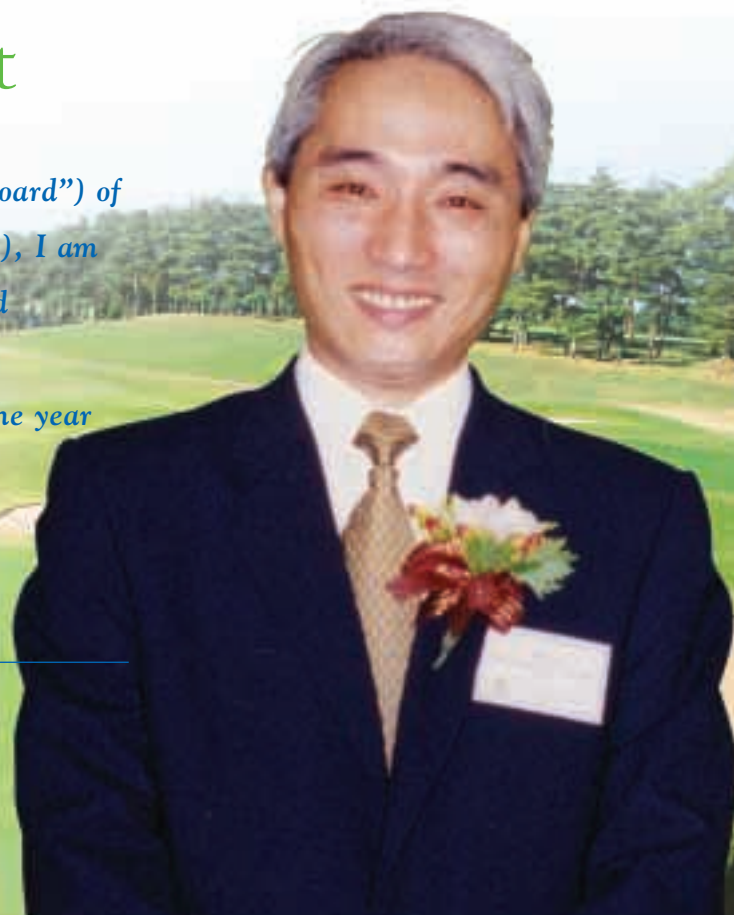
Statement



Chairman's Statement

On behalf of the Board of Directors (the "Board") of Sino Golf Holdings Limited (the "Company"), I am pleased to report to shareholders the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2004.

Chu Chun Man, Augustine
Chairman



RESULTS AND DIVIDENDS

Consolidated turnover and net profit attributable to shareholders for the year amounted to HK\$393,945,000 (2003: HK\$400,708,000) and HK\$28,092,000 (2003: HK\$43,324,000) respectively. Earnings per share was HK9.3 cents for the year.

The directors do not recommend any payment of final dividend for the year. Taking into account the interim dividend declared and paid, a total dividend of HK6.3 cents per share has been paid in respect of the year.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 5 May 2005 to Friday, 6 May 2005 both days inclusive, during which period no transfer of shares will be effected. All share transfer, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 4 May 2005.

BUSINESS REVIEW AND PROSPECTS

The year of 2004 has, beyond our expectation, recorded unsatisfactory results. Benefited from a strong recovery in the global and local economy, our Group has been able to achieve double-digit growth during the first-half year of 2004 compared to the corresponding period in 2003. To our disappointment, the performance for the second-half year of 2004 was hampered by several incidents including (i) the impact sustained from the set-up and learning process

Chairman's Statement

following the commencement of operation of the new golf bag facility in August 2004; (ii) the relocation and movement costs of approximately HK\$1.85 million incurred in relation to the new golf bag facility project; (iii) a decrease in gross margin by approximately 1.0% due to increase in materials and production costs; (iv) the incurrence of a bad debt provision of approximately HK\$9.5 million made against one of our overseas customers who filed for bankruptcy protection under Chapter 11 in the United States in late 2004, and (v) a slow down in sales following the tightened credit control on customers. Hard hit by the above events, the overall performance of the Group for 2004 declined both in turnover and profitability as compared to the preceding year. The Directors however believe that the adverse impact should not be long-lasting because our Group possesses a solid customer base and our products are highly recognised in the market place for their quality and competitiveness. Our Group's persistent investments in research and development in recent years has affirmed and much enhanced our industry profile and recognition. Our capability to produce higher end products such as golf clubs with titanium body and graphite top has helped strengthen our competitive advantage and our ability to swiftly react to market changes further distinguishes us from other golf manufacturers.



Sales of golf clubs and accessories for the year amounted to HK\$327,425,000, accounting for 83.1% of the annual turnover, while the remaining 16.9% or HK\$66,520,000 represents sales of golf bags. Results of the golf club and golf bag segments comprise a profit of HK\$39,575,000 and a loss of HK\$302,000 respectively.

Golf Clubs and Accessories Business

The golf club segment continues to dominate and generate most of the Group's revenue and profitability. Sales of golf clubs and accessories for the year has not shown a significant increase mainly because of a slow down in the last quarter sales due to our Group's review and tightened credit control on customers. In order to better control and enhance the quality of the Group's customer portfolio, we have screened out accounts which are less secured including those requiring a longer open credit or demonstrating a less satisfactory payment history. We imposed more stringent terms by shortening the allowed credit period and demanding settlement of overdue trade debts before release of new shipments. This strategy aims at reducing our Group's exposure to customers' failure and financial risks. As a consequence, the sales for the fourth quarter of 2004, which is normally the shipping season for new models, has slowed down to a level lower than that of the preceding period.

The results of the golf club segment has suffered when a customer, Huffy Corporation, ran into financial difficulty and filed for bankruptcy protection under Chapter 11 in the United States in late 2004. A proof of claims for the amount of debt owed by the Huffy group has been filed with the United States Bankruptcy Court. At the present stage, it is premature to accurately estimate the impact of the bankruptcy case on the Group. A bad debt provision of HK\$9.5 million, representing about 80% of the total outstanding balance, has been made in 2004 against the amount due from the Huffy group. It is expected that Huffy Corporation would be submitting a restructuring proposal for approval by its creditors around mid 2005. By then, we shall review and ascertain the actual impact on our Group and adjustment to the bad debt provision, if necessary, will be made to reflect the outcome in the accounts of 2005. Under the supervision of the United States Bankruptcy Court, Huffy Corporation continues to do business with its major suppliers including our Group on cash basis or

Chairman's Statement

under insurance coverage. Our Group has been cautious and prudent in granting customers' credits and usually would require cash deposits from new customers and payments on delivery for customers without sufficient credibility. Huffu Corporation through its golf subsidiary has been our customer for years with sound track record and performance. Its restructuring is an isolated case beyond our expectation and without prior signs of material breaches or non-performance.

To minimise future exposure to customers' failures, our Group has secured to the extent possible proper insurance coverage and non-recourse factoring arrangements for its major customers. We have also conducted an extensive review of the existing customer portfolio to ensure adequate monitoring over the receivables and eventual elimination of unsatisfactory accounts. More restrictions are imposed on those accounts bearing a long credit period and lengthened payment history whereby shipments would be withheld until the customers have been in compliance with the approved trade terms. Certain accounts have been abandoned due to unacceptable performance or higher risk. The review exercise on the customer portfolio has resulted in a short-term decline to the sales level achievable under the new practices which effect may likely extend into part of 2005. Concurrent with the customers review, our Group has been actively working with certain prominent brand names which are expected to add to broaden the customer portfolio in the coming season in late 2005. The business from the new customers is anticipated to boost sales of the golf club segment back to a growing trend. Rebound of golf club sales should be more obvious during the second-half year in 2005 when orders for new models are taken up and fulfilled. The Directors maintain a cautious but confident view that the performance of the golf club segment should steadily recover and show improvement in the year to come.

Golf Bags Business

Though the golf bag sales have demonstrated a mild increase of 7.5% during the first-half year of 2004 compared to the corresponding period in 2003, the annual sales of golf bags for 2004 has decreased by approximately 15.3% to HK\$66.5 million. The delay in the commencement of operation of the new golf bag factory and the subsequent set-up and learning process has resulted in our Group's failure to take up and fulfill certain mass orders of golf bags to meet customers' schedule. Certain customers have shifted their orders to other suppliers as a result of our Group's failure to fulfill their requirements. The loss in revenue and related gross margins were substantial and has adversely affected the performance of the golf bags segment during the second-half year.



Besides, the relocation of production from the old factory to the new factory has necessitated incurrence of some non-recurring costs aggregating to approximately HK\$1.85 million which includes the movement expenditure and the write-off of unamortised cost of the old factory's leasehold improvement. In order to mitigate the inconvenience caused by late shipments, the Group has incurred extra airfreight charges and further granted discounts on certain orders.

The adverse impact associated with the incidents on the new golf bag factory project is considered temporary because we anticipate that, with the new factory operating at its norm, the productivity of golf bags should steadily climb to exceed its historic peak. The Directors are confident that we should re-gain the foregone orders on golf bags as the new factory has been geared to operate at enhanced productivity and efficiency. The disappointing performance of the golf bag segment during the second-half year has to certain extent been mitigated by the cost savings derived from the termination of the assembly operation in the United States since December 2003.

Chairman's Statement

With the annual production capacity substantially enhanced and taking advantage of the improved efficiency of the new factory, the Directors remain confident that the golf bag business should show a rebound during the year of 2005, particularly during the second-half year when extra and new orders come on stream. Besides, we also expect increasing contribution to the golf bag sales to be forthcoming from additional businesses to be introduced by the Japanese partner as well as through the extensive network of our Group's golf club segment.



Product Costs and Gross Margins

During the year, both the materials such as titanium, graphite and PVC, and energy cost have increased by double digit percentage due to a relative shortage in the market supply. This has brought some pressure to squeeze upon the gross margin of our Group's products. In view of the anticipated increase in material costs, we have adopted a strategy to selectively store up certain key materials like titanium and graphite so as to stabilise the product cost at a reasonable level. During the last quarter of 2004, the titanium cost experienced further increase and this has created additional pressure upon the product margin. The urge in the titanium cost in late 2004 is likely to affect the product cost for some part of 2005 and we expect it will stabilise by mid 2005. To the extent possible, the increase in product cost will be adequately reflected in the sales price of new models to be introduced in the second-half year of 2005.

In spite of a rising trend in materials and production costs, our Group has been able to mitigate the impact of profit erosion due to a surge in product cost through improved production efficiency and lowering the wastage rates. Consequential on our efforts, the overall gross profit margin for the year decreased by approximately 1.0% to 31.0%. The management is devoted to further look into other available cost control measures to preserve our Group's competitiveness. We will also continue to explore and reinforce the Group's research and development activities that are key to our Group's long-term success.

Geographical Segments

Consistent with the historic trend, North America continues to constitute the largest geographical segment from which approximately 69.7% of the Group's annual turnover was generated. Europe, Japan and other countries in turn account for 7.7%, 12.8% and 9.8% of the Group's annual turnover respectively. During the year, percentage sales for the Japan market decreased from 21.3% to 12.8% mainly due to a decline in golf club sales which came as a refining adjustment in response to last year's aggressive sales programs. Nevertheless, Japan is still the market possessing much potential and deserving our Group's continued effort to persistently explore and penetrate. In addition, the strategic alliance since November 2003 with the Japanese partner will certainly continue to contribute and help bring additional golf bag orders to feed the Group's new golf bag facility, which possesses the capability to produce high end sophisticated golf bags to satisfy the demanding requirements of the Japanese customers. Regarding other geographical segments, sales for Europe and other countries increased moderately by 4% and 1.9% to account for approximately 7.7% and 9.8% of the Group's annual turnover respectively. On the other hand, there has been no significant change to the percentage sales for the North America, which increased slightly by 2.6% to 69.7%. It is our Group's main policy to continue exploring this largest golf market through the extensive business network and we are dedicated to better serve our customers with high quality products and value added services through the Group's fulfillment operation in the United States.

Chairman's Statement

Prospects


Throughout the years, it has been the Group's strategy to strengthen and broaden the customer base by consistently monitoring and supporting the existing customers to increase their market share through product innovations while concurrently taking opportunities on new customers and brand names with great potential. With the enhanced production capacity and productivity, we possess the competitive advantage to be able to bulk produce a variety of advanced golf bags to meet customers' requirements, particularly for the demanding customers of the Japan market. For the golf club business, the Group is at the technology forefront as a result of our persistent investments in product engineering and research and development regime. Our Group has outperformed other competitors in the assembly of completed clubs which outsourcing trend will continue in the foreseeable future and will definitely benefit us through taking on extra orders.

To cope with the anticipated development in the golf club business, the Group has embarked on a program to construct a new golf club factory at Shandong Province, the P.R.C. The new factory site is located to the northern part of China so as to take cost advantage of labour and land resources. The project is currently in the design stage and construction work is expected to commence around mid 2005. The Group plans to complete the new factory by first-half year of 2006 and will finance the new factory project by internal funding.

Our commitment to provide high quality products and value added services remain the Group's long-term goal to better serve the customers and faster react to the market needs. Taking into account the current situation of the Group and market conditions, the Directors are cautious but remain confident that our Group shall perform reasonably and show improvement during the ensuing year.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to thank our staff for their hard work and loyalty. I would also express my gratitude to our shareholders for their continued support and recognition. Our Group shall strive for improvement and further development for the interests of our shareholders and employees.



Chu Chun Man, Augustine
Chairman

Hong Kong
18 April 2005

Management



Discussion & Analysis



Management Discussion and Analysis

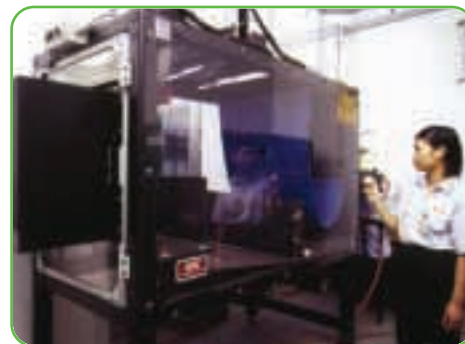
This statement provides supplementary information to the Chairman's Statement

FINANCIAL RESULTS

Consolidated turnover of the Group for the year ended 31 December 2004 decreased slightly by 1.7% to HK\$393,945,000 (2003: HK\$400,708,000). Net profit attributable to shareholders declined by 35.2% to HK\$28,092,000 (2003: 43,324,000). The substantial drop in profitability has mainly been attributable to a bad debt provision of approximately HK\$9.5 million made against one of the Group's overseas customers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally relies on internally generated funds and facilities granted by its principal bankers to finance its operations. In order to rationalise and further reduce interest costs, the Group has successfully refinanced the syndicated loan of HK\$105 million with bilateral term loans from its major bankers during the year. As a consequence, the interest rates have been lowered by at least 0.5% per annum. The bilateral loans are on similar terms to the then syndicated loan and repayable up to 3 years by installments. The Group has hedged interest costs by entering into interest rate swap contracts over the loan periods.



As at 31 December 2004, cash and bank balance amounted to approximately HK\$84.1 million (2003: HK\$93.8 million). The decrease in cash and bank balance has been attributed to funds appropriated for compiling inventories to meet scheduled productions and anticipated increase in materials cost. Despite the accounting impact attributable to the bad debt provision on amount owed by Huffu Corporation, the Group stressed that it has strong and adequate cash flow and there are no outstanding bills owed to banks in respect of shipments to Huffu Corporation.

Total borrowings from banks and financial institutions amounted to HK\$169.5 million as at 31 December 2004, of which HK\$75.2 million is repayable within one year. The Group's gearing ratio, defined as total bank borrowings and finance lease payable less cash and bank balance of approximately HK\$85.4 million divided by the shareholders' equity of approximately HK\$163.2 million, was 52.3% (2003: 25.4%). The significant increase in the gearing ratio has been the result of the Group's policy to utilise more bank loans with lower interest rates to substitute the discounting of bills and receivables. The shift in financing arrangements has given rise to a higher computed gearing ratio because the adoption of bank loans requires direct recognition of liabilities in the balance sheet.

Throughout the years, the Group has adopted prudent treasury practices to maintain a rational and reasonable financial position. As at 31 December 2004, the net asset value of the Group amounted to approximately HK\$163.2 million (2003: HK\$182.8 million). The apparent fall in the net asset value has been mainly due to the lower profitability achieved during the year, particularly due to the impact of a bad debt provision of approximately HK\$9.5 million. As a consequence, current and quick ratios of the Group decreased to 1.59 (2003: 2.39) and 0.95 (2003: 1.72) as at 31 December 2004 respectively. Both ratios have declined but stay within reasonable range.

Management Discussion and Analysis

AGREEMENT FOR DISPOSAL OF A SUBSIDIARY

On 31 December 2004, Sino Golf Manufacturing Company Limited (“SGMCL”) one of the Group’s indirect wholly-owned subsidiaries, has entered into an agreement to dispose of its 62.5% interest in 順德市順興隆高爾夫球製品有限公司 (“SHL”) to Global Sourcing and Distribution Limited (the “Purchaser”), an entity beneficially owned by the associates of the beneficial owner of the minority shareholder in SHL. The disposal constitutes a connected and disclosable transaction under Chapter 14A and Chapter 14 of the Listing Rules respectively and is subject to the shareholders’ approval of the Company in the special general meeting scheduled to be held on 27 May 2005. Pursuant to the terms of the agreement, the consideration for the disposal shall be determined with reference to, but not less than, the audited net asset value of SHL as at 31 December 2004. On 9 April 2005, SGMCL and the Purchaser entered into a supplemental agreement whereby the consideration for the disposal has been agreed as HK\$14.9 million which would be settled as to HK\$9.97 million on completion and the balance of HK\$4.93 is to be settled one year after completion of the transaction. The disposal will give rise to a gain of approximately HK\$2.6 million which will be recognised in 2005 upon completion of the disposal.

SHORTFALL UNDER PROFIT GUARANTEE

Pursuant to an agreement dated 22 December 2003 entered into between SGMCL and Mr. Chen Chien Hsiang (the “Agreement”), the Group has acquired from Mr. Chen Chien Hsiang (“Mr. Chen”) an additional 11.5% interest in the issued share capital of CTB Golf (HK) Limited (“CTB”). The consideration of the acquisition is HK\$9.8 million which is subject to refund by Mr. Chen if the audited consolidated profit of CTB is less than the guaranteed profit for each of the five profit guaranteed years commencing on 1 January 2004. As the audited consolidated profit after taxation but before extraordinary items of CTB for the year ended 31 December 2004, the first profit guaranteed year, was less than HK\$8,522,000, SGMCL is entitled to a receivable of approximately HK\$987,000 from Mr. Chen calculated in accordance with the terms of the Agreement. The amount of receivable has been concurrently accounted for and recorded as a liability in current year’s financial statements.



EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group has limited exposure to exchange rates fluctuations as most of the business transactions were conducted in the currency of United States dollars, Hong Kong dollars and Renminbi, all of which remained relatively stable during the year.

EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2004, the Group employed a total of approximately 2,900 staff in Hong Kong, the PRC and the United States. The employees were remunerated having regard to their performance, experience and expertise as well as the industry practices. Their remunerations are reviewed annually and discretionary bonuses may be granted based on the performance and contributions of individual employees.

Biographical Details of Directors and Management

EXECUTIVE DIRECTORS

CHU Chun Man, Augustine (“Augustine Chu”), aged 47, is the chairman and one of the founders of the Group and is responsible for the strategic planning, corporate policy and overall management and marketing aspect of the Group. Augustine Chu holds a bachelor degree in commerce from the University of Calgary, Alberta, Canada and an executive master of business administration from the Chinese University of Hong Kong. He has over 21 years of experience in golf equipment manufacturing industry. Prior to establishing the Group, Augustine Chu was a senior management of a Taiwanese golf equipment manufacturer for about 3 years.

Takanori MATSUURA (“Matsuura”), aged 69, is one of the founders of the Group and has over 38 years of experience in the golf equipment manufacturing industry. Matsuura is responsible for the strategic and business development of the Group, particularly in the Japanese market. He graduated with a bachelor degree in commerce from Chu-o University and a master degree in economics from Takushoku University and Chu-o in Japan. In addition, Matsuura is a member of The Institute of Internal Auditors.

CHU Yuk Man, Simon (“Simon Chu”), aged 49, is the brother of Augustine Chu. He has over 7 years of experience in the golf equipment manufacturing industry. Simon Chu is responsible for the sales and marketing functions as well as the customer relation functions of the Group. Simon Chu graduated with a bachelor degree in science in the Leland Stanford Junior University in the United States and a master degree in business administration from the Chinese University of Hong Kong. Prior to joining the Group in November 1997, Simon Chu held an Asia Pacific director position with an international firm which is listed on NASDAQ in the United States.

CHANG Hua Jung, aged 43, graduated from an industrial institution in Taiwan. Mr. Chang has over 22 years of experience in the golf equipment manufacturing industry. He joined the Group in August 1988 and is responsible for the production and the research and development functions of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHOY Tak Ho, aged 76, has over 42 years of experience in trading business in Hong Kong. He is the chairman of Union International (HK) Company Limited. Mr. Choy is the charter president of Hong Kong Kwun Tong Industries and Commerce Association Limited and the executive committee member of the Chinese Manufacturers’ Association of Hong Kong.

CHIU Lai Kuen, aged 44, is the Senior Vice President of DVN (Holdings) Limited, responsible for business development and operations. Before joining DVN, Ms. Chiu worked for Caltex where she was directly responsible for setting up the infrastructure of their Greater China operations. Ms. Chiu brings considerable expertise in information technology, media and corporate governance.

Ms. Chiu graduated with Class 1 Honors and holds a MBA degree. She is a member of HKICPA, a China CPA and a Certified Information Systems Auditor. Ms. Chiu was awarded one of the ten nationwide “Chinese Women of Achievement” award in the UK in 1991. She is currently a council member of the HKICPA and the Hong Kong Chinese Orchestra, the President of the Information Systems Audit and Controls Association (HK Chapter), and a member of the Hong Kong Institute of Directors.

Biographical Details of Directors and Management

TSE Ying Man, aged 48, is a Taiwanese. He is the chairman of Approach Golf International Co., Ltd, which is a golf processing factory. Mr. Tse has over 30 years of experience in golf manufacturing industry and possesses rich knowledge in the manufacturing processes of golf club as well as a considerable familiarity with the related market and materials.

SENIOR MANAGEMENT

CO Man Kwog, Rochester, aged 42, is the operations director of the Group and responsible for the financing activity, investors' relation, operations management and strategic planning of the Group. Mr. Co joined the Group in September 2002. Prior to that, he has worked in an international accounting firm for over 6 years before joining the commercial field for more than 11 years. Mr. Co graduated from the Hong Kong Polytechnic University and is a fellow member of the Association of Chartered Certified Accountants, the United Kingdom, and HKICPA.

CHOI Ying, Kammy, aged 36, is the financial controller of the Group and responsible for the overall financial planning and management of the Group. Ms. Choi joined the Group in December 1998. Prior to joining the Group, Ms. Choi has worked in an international accounting firm for over 5 years. Ms. Choi graduated with a bachelor degree in business administration from the University of Baptist. In addition, she is a member of the Association of Chartered Certified Accountants, the United Kingdom and HKICPA.

LEE May Yee, aged 35, is the senior marketing manager of the Group. Ms. Lee has over 12 years of experience in the golf equipment manufacturing industry. She graduated with a bachelor degree in business administration from the University of Baptist. She joined the Group in December 1992 and is currently in charge of the marketing functions of the Group.

HE Xin Hong, aged 41, is the assistant general manager of the Group's production department. He joined the Group in December 1990 and is currently in charge of the overall production of one of the subsidiaries. Mr. He has more than 14 years of experience in the golf manufacturing industry.

XIE Zi Peng, aged 37, is the internal audit manager of the Group. Mr. Xie graduated with a master degree in world economy from Zhongshan University. He is a member of the Institute of Internal Auditors. He joined the Group in April 2000 and is currently in charge of the overall internal audit of the Group.

CHENG Tai Kwong, Henricus, aged 50, is the senior manager of the Group. Mr. Cheng joined the Group in July 2003 and is currently in charge of the overall production re-engineering. Mr. Cheng graduated with a master degree in engineering from the University of Calgary, Alberta, Canada. In addition, he obtained the status of Chartered Engineer from IMechE, UK and professional engineer from APEGGA, Canada. Mr. Cheng has over 15 years of experience in project management and plant operation.

CHOU Wen Lai, aged 41, is the assistant general manager of the Group's research and development department. He joined the Group in June 2003. Mr. Chou graduated with a bachelor degree in science from the Feng-Chia University in Taiwan and a master degree in business administration from the National Kaoshiung First University of Science and Technology in Taiwan. Prior to joining the Group in June 2003. Mr. Chou has over 13 years of experience in steelmaking. He also has over 4 years of experience in golf manufacturing industry.

HUNG Yi Chuan, aged 42, is the assistant general manager of the Group's production department. He joined the Group in February 2000 and is currently in-charge of the overall production of one of the subsidiaries. Mr. Hung has more than 17 years experience in golf manufacturing industry.

Report of



the Directors



Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 65.

An interim dividend of HK6.3 cents per ordinary share was paid on 15 October 2004.

The directors do not recommend any payment of final dividend for the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements is set out on page 66. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and movements in the Company's share options during the year, together with the reasons therefor, are set out in notes 28 and 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's contributed surplus and retained profits accounts available for cash distribution and/or distribution in specie amounted to HK\$15,578,000. In accordance with the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus may be distributed in certain circumstances. In addition, the Company's share premium account, in the amount of HK\$57,270,000 may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$1,655,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 56% (2003: 56%) of the Group's total turnover for the year and sales to the largest customer included therein amounted to approximately 31% (2003: 16%). Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the years of 2004 and 2003.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

CHU Chun Man, Augustine
Takanori MATSUURA
CHU Yuk Man, Simon
CHANG Hua Jung

Non-executive director:

Carl Thomas McMANIS (resigned on 1 January 2004)

Independent non-executive directors:

Yasumori MUTA (resigned on 1 January 2004)
Carl Thomas McMANIS (appointed on 1 January 2004 and
resigned on 17 September 2004)
CHOY Tak Ho
CHIU Lai Kuen, Susanna (appointed on 17 September 2004)
TSE Ying Man (appointed on 17 September 2004)

In accordance with clause 86(2) of the Company's bye-laws, Chiu Lai Kuen, Susanna and Tse Ying Man, the newly appointed directors of the Company will retire at the Company's forthcoming annual general meeting.

Report of the Directors

In addition, in accordance with article 87 of the Company's bye-laws, Takanori Matsuura will retire by rotation at the forthcoming annual general meeting.

All the above retiring directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Choy Tak Ho, Chiu Lai Kuen, Susanna and Tse Ying Man, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 15 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company commencing on 1 December 2000 which will continue thereafter unless terminated in accordance with the relevant clauses of the service contracts.

Apart from the foregoing, no director of the Company proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 34 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the year.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(i) Long positions in ordinary shares of the Company:

| Name of director | Number of shares held, capacity and nature of interest | | | Total | Percentage of the Company's issued share capital |
|-----------------------------|---|---|---|-------------|--|
| | Directly beneficially owned | Through spouse or minor children | Through controlled corporation [#] | | |
| Executive directors: | | | | | |
| CHU Chun Man, Augustine | 263 | 1,000,000 | 171,543,775 | 172,544,038 | 57.10% |
| Takanori MATSUURA | 1,155,400 | – | – | 1,155,400 | 0.38% |
| CHU Yuk Man, Simon | 636,237 | – | – | 636,237 | 0.21% |
| CHANG Hua Jung | 456,793 | – | – | 456,793 | 0.15% |
| | 2,248,693 | 1,000,000 | 171,543,775 | 174,792,468 | |

[#] The shares of the Company are held by CM Investment Company Limited, a company incorporated in the British Virgin Islands, of which, approximately 67.46% of its issued share capital are owned by A & S Company Limited, approximately 26.32% of its issued share capital are owned by Takanori Matsuura, approximately 4.18% of its issued share capital are owned by Chu Chun Man, Augustine and approximately 1.21% of its issued share capital are owned by Chu Yuk Man, Simon. A & S Company Limited is a company incorporated in the British Virgin Islands and owned as to approximately 64.00% by Chu Chun Man, Augustine, approximately 21.71% by Chu Yuk Man, Simon and 14.29% by another family member. The interests of Chu Chun Man, Augustine, Takanori Matsuura and Chu Yuk Man, Simon, in the 171,543,775 shares of the Company therefore duplicate with those of CM Investment Company Limited and A & S Company Limited.

Report of the Directors

(ii) Long positions in ordinary and non-voting deferred shares of associated corporations:

| Name of director | Name of associated corporation | Relationship with the Company | Shares/equity derivatives | Numbers of shares/equity derivatives held | Capacity and nature of interest | Percentage of the associated corporation's issued non-voting deferred share capital |
|-------------------------|---|-------------------------------|----------------------------|---|---------------------------------|---|
| CHU Chun Man, Augustine | Sino Golf Manufacturing Company Limited | Company's subsidiary | Non-voting deferred shares | 1,190,607 | Directly beneficially owned | 30.98% |
| Takanori MATSUURA | Sino Golf Manufacturing Company Limited | Company's subsidiary | Non-voting deferred shares | 1,841,323 | Directly beneficially owned | 47.92% |
| CHU Yuk Man, Simon | Sino Golf Manufacturing Company Limited | Company's subsidiary | Non-voting deferred shares | 414,297 | Directly beneficially owned | 10.78% |
| CHANG Hua Jung | Sino Golf Manufacturing Company Limited | Company's subsidiary | Non-voting deferred shares | 3,600 | Directly beneficially owned | 0.09% |

The interests of the directors in the share options of the Company are separately disclosed in note 29 to the financial statements.

In addition to the above, a director has a non-beneficial personal equity interest in a subsidiary of the Company held for the benefit of the Group solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2004, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 29 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

| Name | Notes | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company's issued share Capital | Number of share options held |
|-------------------------------|-------|----------------------------------|--------------------------------|--|------------------------------|
| CM Investment Company Limited | | Directly beneficially owned | 171,543,775 | 56.76% | – |
| A & S Company Limited | (a) | Through a controlled corporation | 171,543,775 | 56.76% | – |
| Value Partners Limited | | Investment manager | 15,372,000 | 5.09% | – |
| Cheah Cheng Hye | (b) | Through a controlled corporation | 15,372,000 | 5.09% | – |
| Hung Tze Nga, Cathy | (c) | Through spouse | 171,544,038 | 56.77% | 3,000,000 |
| Hung Tze Nga, Cathy | | Directly beneficially owned | 1,000,000 | 0.33% | – |

Notes:

- (a) The interest disclosed includes the shares owned by CM Investment Company Limited. CM Investment Company Limited is held directly as to 67.46% by A & S Company Limited. Accordingly, A & S Company Limited is deemed to be interested in shares owned by CM Investment Company Limited.

Report of the Directors

- (b) The interest disclosed includes the shares owned by Value Partners Limited. Value Partners Limited is held directly as to 31.82% by Cheah Cheng Hye who reported the interest in shares owned by Value Partners Limited as a deemed interest.
- (c) Hung Tze Nga, Cathy is the spouse of Chu Chun Man, Augustine. Accordingly, Hung Tze Nga, Cathy is deemed to be interested in shares and share options owned by Chu Chun Man, Augustine.

Save as disclosed above, as at 31 December 2004, no person, other than the directors of the Company, whose interests are set out in the section “Directors’ interests and short positions in shares and underlying shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out in note 34 to the financial statements and have confirmed that these continuing connected transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 35 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company’s articles of association.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company’s code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company’s directors, the directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company has an audit committee, which was established in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

Report of the Directors

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD



Chu Chun Man, Augustine
Chairman

Hong Kong
18 April 2005



Report of the Auditors



To the members

Sino Golf Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 26 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
18 April 2005

Consolidated Profit and Loss Account

Year ended 31 December 2004

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|---|-------|------------------|------------------|
| TURNOVER | 5 | 393,945 | 400,708 |
| Cost of sales | | (271,723) | (272,580) |
| Gross profit | | 122,222 | 128,128 |
| Other revenue, net | | 8,510 | 10,891 |
| Selling and distribution costs | | (11,495) | (18,776) |
| Administrative expenses | | (57,580) | (48,231) |
| Other operating expenses, net | | (22,277) | (12,781) |
| PROFIT FROM OPERATING ACTIVITIES | 6 | 39,380 | 59,231 |
| Finance costs | 7 | (9,790) | (10,142) |
| PROFIT BEFORE TAX | | 29,590 | 49,089 |
| Tax | 10 | (1,706) | (5,281) |
| PROFIT BEFORE MINORITY INTERESTS | | 27,884 | 43,808 |
| Minority interests | | 208 | (484) |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 11 | 28,092 | 43,324 |
| DIVIDENDS | 12 | 19,039 | 43,215 |
| EARNINGS PER SHARE – Basic | 13 | 9.3 cents | 14.3 cents |

Consolidated Balance Sheet

31 December 2004

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|--|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 14 | 154,228 | 139,343 |
| Goodwill | 15 | 24,920 | 22,762 |
| | | 179,148 | 162,105 |
| CURRENT ASSETS | | | |
| Inventories | 17 | 101,684 | 68,346 |
| Trade and bills receivables | 18 | 45,033 | 61,860 |
| Deposits, prepayments and other receivables | 19 | 21,006 | 19,334 |
| Tax recoverable | | 1,599 | – |
| Cash and cash equivalents | 21 | 84,050 | 93,837 |
| | | 253,372 | 243,377 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 22 | 55,613 | 40,976 |
| Tax payable | | – | 2,631 |
| Other payables and accruals | 23 | 28,650 | 22,959 |
| Bank borrowings | 25 | 75,143 | 35,001 |
| Finance lease payables | 26 | 88 | 87 |
| | | 159,494 | 101,654 |
| NET CURRENT ASSETS | | 93,878 | 141,723 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 273,026 | 303,828 |
| NON-CURRENT LIABILITIES | | | |
| Bank borrowings | 25 | 94,150 | 105,000 |
| Finance lease payables | 26 | 83 | 171 |
| Deferred tax | 27 | 4,911 | 4,911 |
| | | 99,144 | 110,082 |
| MINORITY INTERESTS | | 10,697 | 10,905 |
| | | 163,185 | 182,841 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 28 | 30,220 | 30,220 |
| Reserves | 30 | 132,965 | 123,912 |
| Proposed final dividend | 12 | – | 28,709 |
| | | 163,185 | 182,841 |


Chu Chun Man, Augustine
 Director


Chu Yuk Man, Simon
 Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2004

| | <i>Notes</i> | 2004 HK\$'000 | 2003 HK\$'000 |
|--|--------------|------------------|------------------|
| Total equity – at beginning of year | | 182,841 | 162,823 |
| Surplus on revaluation | 30 | – | 3,404 |
| Deferred tax liabilities arising from revaluation | 30 | – | (503) |
| Exchange differences on translation of the financial statements of foreign entities | 30 | – | 85 |
| Net gains not recognised in the profit and loss account | | – | 2,986 |
| Net profit from ordinary activities attributable to shareholders | 30 | 28,092 | 43,324 |
| Dividends | 12, 30 | (47,748) | (26,292) |
| Total equity – at end of year | | 163,185 | 182,841 |

Consolidated Cash Flow Statement

Year ended 31 December 2004

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|--|-------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 29,590 | 49,089 |
| Adjustments for: | | | |
| Interest expenses | 7 | 7,986 | 6,681 |
| Interest income | 6 | (107) | (330) |
| Depreciation | 6 | 18,768 | 15,905 |
| Amortisation of goodwill | 6 | 2,997 | 2,216 |
| Impairment of goodwill | 6 | – | 23 |
| Loss/(gain) on disposal of fixed assets | 6 | 1,260 | (94) |
| Provision for bad and doubtful debts | 6 | 9,495 | 2,268 |
| Provision for bad debts written back | 6 | (1,692) | – |
| Operating profit before working capital changes | | 68,297 | 75,758 |
| Decrease/(increase) in inventories | | (33,338) | 8,690 |
| Decrease/(increase) in trade and bills receivables | | 9,024 | (9,444) |
| Decrease/(increase) in deposits, prepayments and other receivables | | (1,672) | 17,633 |
| Increase in trade and bills payables | | 14,637 | 7,532 |
| Increase/(decrease) in other payables and accruals | | 8,436 | (18,575) |
| Effect on foreign exchange rate changes, net | | – | 85 |
| Cash generated from operations | | 65,384 | 81,679 |
| Interest received | | 107 | 330 |
| Tax paid in the PRC | | (446) | (86) |
| Hong Kong profits tax paid | | (5,490) | (3,223) |
| Net cash inflow from operating activities | | 59,555 | 78,700 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of fixed assets | 14 | (35,489) | (20,746) |
| Proceeds from disposal of fixed assets | | 576 | 321 |
| Acquisition of additional equity interests in subsidiaries | | (7,900) | (10,580) |
| Acquisition of a subsidiary | 31 | – | 23 |
| Net cash outflow from investing activities | | (42,813) | (30,982) |

Consolidated Cash Flow Statement (Continued)

Year ended 31 December 2004

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| New bank loans | 173,000 | 115,000 |
| Repayment of bank loans | (143,708) | (71,563) |
| Interest paid | (7,981) | (6,648) |
| Dividends paid | (47,748) | (26,292) |
| Dividends paid to minority shareholders | – | (4,454) |
| Interest element of finance lease | (5) | (33) |
| Capital element of finance lease | (87) | (1,157) |
| Capital contribution from minority interests | – | 2,730 |
| Net cash inflow/(outflow) from financing activities | (26,529) | 7,583 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | |
| | (9,787) | 55,301 |
| Cash and cash equivalents at beginning of year | 93,837 | 38,536 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | |
| | 84,050 | 93,837 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 84,050 | 93,837 |

Balance Sheet of the Company

31 December 2004

| | <i>Notes</i> | 2004 HK\$'000 | 2003 HK\$'000 |
|---|--------------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | 16 | 101,257 | 131,572 |
| CURRENT ASSETS | | | |
| Deposits, prepayments and other receivables | 19 | 1,784 | 225 |
| Cash and cash equivalents | | 36 | 68 |
| | | 1,820 | 293 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | 23 | 9 | 143 |
| NET CURRENT ASSETS | | | |
| | | 1,811 | 150 |
| | | 103,068 | 131,722 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 28 | 30,220 | 30,220 |
| Reserves | 30 | 72,848 | 72,793 |
| Proposed final dividend | 12 | – | 28,709 |
| | | 103,068 | 131,722 |


Chu Chun Man, Augustine
Director


Chu Yuk Man, Simon
Director

Notes to Financial Statements

31 December 2004

1. CORPORATE INFORMATION

The registered office of the Company is located at Room 1901-1913, 19/F, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

During the year, the Group was principally engaged in the following activities:

- the manufacturing and trading of golf equipment; and
- the manufacturing and trading of golf bags and other accessories.

In the opinion of the directors, the ultimate holding company is A & S Company Limited, which is incorporated in the British Virgin Islands.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and the Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with HKFRSs (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received or receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Notes to Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 8 to 15 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Notes to Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however 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 an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. For those fixed assets which are stated in the balance sheet at valuation less accumulated depreciation and any impairment losses, revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the fixed asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Notes to Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|-----------------------------------|-----------|
| Land and buildings | 2% – 5% |
| Leasehold improvements | 20% |
| Plant and machinery | 10% – 20% |
| Furniture, fixtures and equipment | 20% |
| Motor vehicles | 20% |

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress

Construction in progress represents buildings, structures, plant and machinery and other fixed assets under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Inventories

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

Notes to Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which 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 balance sheets, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date 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 where the deferred tax liability arises from goodwill or 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 taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, 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 assets and unused tax losses can be utilised:

- except where 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.

Notes to Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) patent income, on an accrual basis in accordance with the substance of the relevant agreements; and
- (e) other income, on an accrual basis.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars 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 Hong Kong dollars at the weighted average exchange rates for the year.

Notes to Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account 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 the mainland of the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The assets of the schemes are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the participating employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Notes to Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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

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.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses can be divided into golf equipment segment and golf bag segment which are structured and managed separately according to the nature of their operation and the products they provide. Each of the Group's business segments a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segment. Summary details of the two business segments are as follows:

- (a) the golf equipment segment comprises the manufacturing and trading of golf equipment and related components and parts; and
- (b) the golf bag segment comprises the manufacturing and trading of golf bags, other accessories and related components and parts.

In determining the Group's geographical segments, revenues are attributed to the segments based on the shipment destination, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to Financial Statements

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4. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

| Group | Golf equipment | | Golf bag | | Eliminations | | Consolidated | |
|--|----------------|----------------|---------------|---------------|-----------------|-----------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | |
| Sales to external customers | 327,425 | 322,193 | 66,520 | 78,515 | - | - | 393,945 | 400,708 |
| Intersegment revenue | 520 | 3,221 | 17,259 | 10,417 | (17,779) | (13,638) | - | - |
| Other revenue | 5,789 | 10,239 | 2,614 | 322 | - | - | 8,403 | 10,561 |
| Total | 333,734 | 335,653 | 86,393 | 89,254 | (17,779) | (13,638) | 402,348 | 411,269 |
| Segment results | 39,575 | 62,678 | (302) | (3,777) | | | 39,273 | 58,901 |
| Interest income | | | | | | | 107 | 330 |
| Profit from operating activities | | | | | | | 39,380 | 59,231 |
| Finance costs | | | | | | | (9,790) | (10,142) |
| Profit before tax | | | | | | | 29,590 | 49,089 |
| Tax | | | | | | | (1,706) | (5,281) |
| Profit before minority interests | | | | | | | 27,884 | 43,808 |
| Minority interests | | | | | | | 208 | (484) |
| Net profit from ordinary activities attributable to shareholders | | | | | | | 28,092 | 43,324 |

Notes to Financial Statements

31 December 2004

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

| Group | Golf equipment | | Golf bag | | Eliminations | | Consolidated | |
|--|----------------|----------|----------|----------|--------------|----------|--------------|----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 327,423 | 293,863 | 41,111 | 29,949 | (21,663) | (12,167) | 346,871 | 311,645 |
| Unallocated assets | | | | | | | 85,649 | 93,837 |
| Total assets | | | | | | | 432,520 | 405,482 |
| Segment liabilities | 62,522 | 46,051 | 43,404 | 30,051 | (21,663) | (12,167) | 84,263 | 63,935 |
| Unallocated liabilities | | | | | | | 174,375 | 147,801 |
| Total liabilities | | | | | | | 258,638 | 211,736 |
| Other segment information: | | | | | | | | |
| Depreciation | 17,439 | 14,926 | 1,329 | 979 | - | - | 18,768 | 15,905 |
| Amortisation of goodwill | 1,372 | 1,372 | 1,625 | 844 | - | - | 2,997 | 2,216 |
| Impairment of goodwill | - | 23 | - | - | - | - | - | 23 |
| Provision for bad and doubtful debts | 9,495 | 942 | - | 1,326 | - | - | 9,495 | 2,268 |
| Capital expenditure | 33,173 | 46,628 | 7,471 | 582 | - | - | 40,644 | 47,210 |
| Surplus on revaluation recognised directly in equity | - | 3,404 | - | - | - | - | - | 3,404 |

Notes to Financial Statements

31 December 2004

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

| Group | North America | | Europe | | Asia (excluding Japan) | | Japan | | Others | | Consolidated | |
|-----------------------------|---------------|----------|----------|----------|---------------------------|----------|-----------|-----------|----------|----------|--------------|----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | | | | | |
| Sales to external customers | 274,713 | 268,934 | 30,281 | 14,967 | 25,158 | 20,572 | 50,365 | 85,135 | 13,428 | 11,100 | 393,945 | 400,708 |
| Other segment information: | | | | | | | | | | | | |
| Segment assets | 327,982 | 235,940 | 232,268 | 251,868 | 13,777 | 16,750 | (227,156) | (192,913) | | | 346,871 | 311,645 |
| Unallocated assets | | | | | | | | | | | 85,649 | 93,837 |
| Total assets | | | | | | | | | | | 432,520 | 405,482 |
| Capital expenditure | 316 | 28,439 | 40,328 | 18,711 | – | 60 | – | – | – | – | 40,644 | 47,210 |

5. TURNOVER

Turnover represents the invoiced value of goods sold during the year, net of trade discounts and goods returns.

Notes to Financial Statements

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6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

| | <i>Notes</i> | 2004 HK\$'000 | 2003 HK\$'000 |
|---|--------------|------------------|------------------|
| Cost of inventories sold | | 203,711 | 208,394 |
| Depreciation | 14 | 18,768 | 15,905 |
| Minimum lease payments under operating leases: | | | |
| Land and buildings | | 6,232 | 4,511 |
| Motor vehicles | | 132 | 132 |
| Amortisation of goodwill* | 15 | 2,997 | 2,216 |
| Impairment of goodwill* | | – | 23 |
| Auditor's remuneration | | | |
| Current year | | 950 | 850 |
| Underprovision in prior year | | 20 | 150 |
| | | 970 | 1,000 |
| Staff costs (including directors' remuneration – note 8): | | | |
| Wages and salaries | | 67,301 | 63,164 |
| Retirement benefits scheme contributions | | 2,246 | 1,652 |
| | | 69,547 | 64,816 |
| Provision for bad and doubtful debts | | 9,495 | 2,268 |
| Exchange losses, net | | 1,953 | 1,197 |
| Loss/(gain) on disposal of fixed assets | | 1,260 | (94) |
| Net rental income | | (1,897) | (396) |
| Interest income | | (107) | (330) |
| Patent income | | (783) | (2,535) |
| Bad debts recovery | | (45) | – |
| Provision for bad debts written back | | (1,692) | – |

* The amortisation and impairment of goodwill are included in "Other operating expenses, net" on the face of the consolidated profit and loss account.

Notes to Financial Statements

31 December 2004

7. FINANCE COSTS

| | Group | |
|---------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Interest on bank loans and overdrafts | 7,981 | 6,648 |
| Interest on finance leases | 5 | 33 |
| Total interest expenses | 7,986 | 6,681 |
| Bank charges | 1,804 | 3,461 |
| Total finance costs | 9,790 | 10,142 |

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|--|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Fees: | | |
| Executive directors | – | – |
| Non-executive director | – | 88 |
| Independent non-executive directors | 542 | 257 |
| | 542 | 345 |
| Other emoluments: | | |
| Executive directors: | | |
| Salaries | 3,854 | 3,854 |
| Bonuses | 1,180 | 820 |
| Housing benefits | 1,440 | 1,440 |
| Retirement benefits scheme contributions | 24 | 24 |
| | 6,498 | 6,138 |
| Non-executive director: | | |
| Consultancy fee | – | 617 |
| | 7,040 | 7,100 |

Notes to Financial Statements

31 December 2004

8. DIRECTORS' REMUNERATION (Continued)

The number of directors whose remuneration fell within the following bands is as follows:

| | Number of directors | |
|--------------------------------|---------------------|------|
| | 2004 | 2003 |
| Nil to HK\$1,000,000 | 6 | 6 |
| HK\$2,000,001 to HK\$2,500,000 | 1 | 1 |
| HK\$2,500,001 to HK\$3,000,000 | - | 1 |
| HK\$3,000,001 to HK\$3,500,000 | 1 | - |
| | 8 | 8 |

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

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: three) executive directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2003: two) non-director, highest paid employees for the year are as follows:

| | Group | |
|---|----------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Salaries, allowances and benefits in kind | 2,463 | 1800 |
| Performance related bonuses | 506 | 203 |
| Retirement benefits scheme contributions | 24 | 24 |
| | 2,993 | 2,027 |

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

| | Number of employees | |
|--------------------------------|---------------------|------|
| | 2004 | 2003 |
| Nil to HK\$1,000,000 | 2 | 1 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | 1 |
| | 3 | 2 |

During the year, no emoluments were paid by the Group to any of the three (2003: two) non-director, highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

Notes to Financial Statements

31 December 2004

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Group | |
|---|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | 1,885 | 4,670 |
| Underprovision/(overprovision) in prior years | (42) | 145 |
| Current – Elsewhere | (137) | 466 |
| Tax charge for the year | 1,706 | 5,281 |

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

| Group – 2004 | Hong Kong | | PRC | | Overseas | | Total | |
|--|--------------|------------|--------------|--------------|----------|----------|--------------|------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Profit/(loss) before tax | 18,739 | | 11,828 | | (977) | | 29,590 | |
| Tax at the applicable tax rate | 3,279 | 17.5 | 3,903 | 33.0 | (86) | 8.8 | 7,096 | 24.0 |
| Lower tax rate for specific provinces or local authority | – | – | (2,425) | (20.5) | – | – | (2,425) | (8.2) |
| Adjustments in respect of current tax of prior years | (42) | (0.2) | (474) | (4.0) | – | – | (516) | (1.7) |
| Income not subject to tax | (1,978) | (10.6) | (3,019) | (25.5) | – | – | (4,997) | (16.9) |
| Expenses not deductible for tax | 316 | 1.7 | 2,257 | 19.1 | 25 | (2.6) | 2,598 | 8.8 |
| Tax losses carried forward to future years | 268 | 1.4 | 265 | 2.2 | 61 | (6.2) | 594 | 2.0 |
| Tax losses utilised from prior years | – | – | (644) | (5.5) | – | – | (644) | (2.2) |
| Tax charge at the Group's effective rate | 1,843 | 9.8 | (137) | (1.2) | – | – | 1,706 | 5.8 |

Notes to Financial Statements

31 December 2004

10. TAX (Continued)

| Group – 2003 | Hong Kong | | PRC | | Overseas | | Total | |
|--|-----------|--------|----------|--------|----------|-------|----------|--------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Profit/(loss) before tax | 47,630 | | 8,713 | | (7,254) | | 49,089 | |
| Tax at the applicable tax rate | 8,335 | 17.5 | 2,875 | 33.0 | (641) | 8.8 | 10,569 | 21.5 |
| Lower tax rate for specific provinces or local authority | – | – | (224) | (2.6) | – | – | (224) | (0.5) |
| Adjustments in respect of current tax of prior years | 145 | 0.3 | – | – | – | – | 145 | 0.3 |
| Income not subject to tax | (5,142) | (10.8) | (1,507) | (17.3) | – | – | (6,649) | (13.5) |
| Expenses not deductible for tax | 1,207 | 2.5 | 233 | 2.7 | – | – | 1,440 | 2.9 |
| Tax losses carried forward to future years | 270 | 0.6 | 135 | 1.5 | 641 | (8.8) | 1,046 | 2.1 |
| Tax losses utilised from prior years | – | – | (1,046) | (12.0) | – | – | (1,046) | (2.1) |
| Tax charge at the Group's effective rate | 4,815 | 10.1 | 466 | 5.3 | – | – | 5,281 | 10.7 |

Under PRC income tax law, all PRC subsidiaries of the Group are subject to corporate income tax (“CIT”) at a rate ranging from 15% to 24% on the taxable income as reported in their statutory accounts, which are prepared in accordance with PRC Accounting Regulations.

In accordance with the approval document issued by the Tax Bureau of the PRC, 順德市順興隆高爾夫球製品有限公司, a 62.5% owned subsidiary of the Company established in the PRC, is entitled to an exemption from the PRC state CIT for the first two profitable financial years of its operation and thereafter 50% and 100% relief from the state CIT, respectively, for the following three financial years (the “Tax Holiday”). Upon expiry of the Tax Holiday, the state CIT rate of 24% is applicable to it. The two years’ tax exemption periods for 順德市順興隆高爾夫球製品有限公司 has commenced in the financial year ended 31 December 2003 under local jurisdiction.

In accordance with the approval documents issued by the Tax Bureau of the PRC, Guangzhou Sino Concept Golf Manufacturing Co., Ltd., Xiamen Sino Talent Golf Manufacturing Co., Ltd., 東莞騏衡運動用品製造有限公司 and Linyi Sinoeia Golf Co., Ltd., wholly-foreign owned subsidiaries of the Company established in the PRC, are also entitled to an exemption from the PRC state CIT for the first two profitable financial years of their operation and thereafter a 50% relief from the state CIT for the following three financial years (the “Tax Relief”). Upon expiry of the Tax Relief, the state CIT rate of 24% is applicable to them. The two years’ tax exemption periods for Guangzhou Sino Concept Golf Manufacturing Co., Ltd., Xiamen Sino Talent Golf Manufacturing Co., Ltd., 東莞騏衡運動用品製造有限公司 and Linyi Sinoeia Golf Co., Ltd. have not yet commenced during the year.

Notes to Financial Statements

31 December 2004

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK\$19,094,000 (2003: HK\$43,171,000 (note 30)).

12. DIVIDENDS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Interim – HK6.3 cents (2003: HK4.8 cents) per ordinary share | 19,039 | 14,506 |
| Proposed final – Nil (2003: HK9.5 cents) per ordinary share | – | 28,709 |
| | 19,039 | 43,215 |

No final dividend for the year is proposed for the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$28,092,000 (2003: HK\$43,324,000) and the weighted average of 302,200,000 (2003: 302,200,000) ordinary shares in issue during the year.

The diluted earnings per share for the years ended 31 December 2004 and 31 December 2003 have not been shown as there was no dilutive effect on the basic earnings per share for these years. The outstanding share options of the Company would not result in the issue of ordinary shares for less than the fair values as their exercise price was above the average market price of the Company's shares during these years.

Notes to Financial Statements

31 December 2004

14. FIXED ASSETS

| Group | Land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|---|-----------------------------------|---------------------------------------|------------------------------------|---|-------------------------------|---|-------------------|
| Cost or valuation: | | | | | | | |
| At 1 January 2004 | 103,846 | 4,200 | 96,377 | 5,715 | 5,481 | 342 | 215,961 |
| Additions | 16,129 | 3,276 | 14,619 | 520 | 247 | 698 | 35,489 |
| Disposals | – | (1,890) | (1,967) | (58) | (27) | – | (3,942) |
| Transfer from construction in progress | 258 | – | – | – | – | (258) | – |
| At 31 December 2004 | 120,233 | 5,586 | 109,029 | 6,177 | 5,701 | 782 | 247,508 |
| Analysis of cost or valuation: | | | | | | | |
| At cost | 16,387 | 5,586 | 109,029 | 6,177 | 5,701 | 782 | 143,662 |
| At 31 December 2003 valuation | 103,846 | – | – | – | – | – | 103,846 |
| | 120,233 | 5,586 | 109,029 | 6,177 | 5,701 | 782 | 247,508 |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2004 | 12,116 | 1,515 | 56,350 | 3,711 | 2,926 | – | 76,618 |
| Provided for the year | 2,682 | 750 | 13,830 | 669 | 837 | – | 18,768 |
| Disposals | – | (1,059) | (981) | (58) | (8) | – | (2,106) |
| At 31 December 2004 | 14,798 | 1,206 | 69,199 | 4,322 | 3,755 | – | 93,280 |
| Net book value: | | | | | | | |
| At 31 December 2004 | 105,435 | 4,380 | 39,830 | 1,855 | 1,946 | 782 | 154,228 |
| At 31 December 2003 | 91,730 | 2,685 | 40,027 | 2,004 | 2,555 | 342 | 139,343 |

Notes:

(a) The Group's land and buildings are situated in the PRC and are held under the following lease terms:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--------------------|------------------|------------------|
| Long term leases | 852 | 852 |
| Medium term leases | 119,381 | 102,994 |
| | 120,233 | 103,846 |

Notes to Financial Statements

31 December 2004

14. FIXED ASSETS (Continued)

Notes: (Continued)

- (b) Certain of the Group's land and buildings were revalued individually as at 31 December 2003 by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$91,730,000 based on their existing use. Such land and buildings were not revalued at 31 December 2004. In the opinion of the directors, there was no significant change in the valuations of these land and buildings from their carrying amount as at 31 December 2004. As at the balance sheet date, such land and buildings had an aggregate carrying amount of HK\$89,095,000 (2003: HK\$91,730,000) in the financial statements.
- (c) Had the revalued land and buildings been carried in the financial statements at historical cost less accumulated depreciation, their carrying amounts as at the balance sheet date would have been HK\$60,894,000 (2003: HK\$62,843,000).
- (d) The net book value of the fixed assets held under finance leases included in the total amount of motor vehicles as at the balance sheet date, amounted to HK\$222,000 (2003: HK\$306,000).
- (e) The gross amount and accumulated depreciation of the fixed assets under operating leases are HK\$575,000 and HK\$220,000, respectively.
- (f) As at 31 December 2004, the Group did not have title to a piece of land with carrying value of HK\$3,333,000. According to the land use right agreement, the Group has the right to use the land for 40 years up to 2044. It is the Group's intention to apply for the title certificate upon the completion of the factory building.

15. GOODWILL

The amounts of goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

Group

| | HK\$'000 |
|--|---------------|
| Cost: | |
| At 1 January 2004 | 28,956 |
| Additions | 5,155 |
| At 31 December 2004 | 34,111 |
| Accumulated amortisation and impairment: | |
| At 1 January 2004 | 6,194 |
| Amortisation provided during the year | 2,997 |
| At 31 December 2004 | 9,191 |
| Net book value: | |
| At 31 December 2004 | 24,920 |
| At 31 December 2003 | 22,762 |

Notes to Financial Statements

31 December 2004

16. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Unlisted shares, at cost | 15,717 | 15,717 |
| Due from subsidiaries | 85,540 | 115,855 |
| | 101,257 | 131,572 |

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

| Company name | Place of incorporation/ registration and operations | Issued and paid-up capital/ registered capital | Equity interest attributable to the Company | | Principal activities |
|--|---|--|---|------------------|--|
| | | | Direct | Indirect | |
| Sino Golf (BVI) Company Limited | British Virgin Islands | US\$101 | 100% | – | Investment holding |
| Sino Golf Manufacturing Company Limited ("SGMCL") | Hong Kong | HK\$2 (ordinary) HK\$3,842,700 (non-voting deferred) (Note a) | – | 100% | Investment holding and trading of golf equipment and accessories |
| 增城市順龍高爾夫球製品 有限公司* ("Zengcheng Sino Golf") | PRC | HK\$100,000,000 | – | 100% (Note b) | Manufacturing and trading of golf equipment and accessories |
| Guangzhou Sino Concept Golf Manufacturing Co., Ltd.* | PRC | HK\$30,000,000 | – | 100% | Manufacturing and trading of golf equipment and accessories |
| 順德市順興隆高爾夫球 製品有限公司** ("Shun Xing Long") | PRC | US\$1,380,000 | – | 62.5% | Manufacturing and trading of golf equipment |

Notes to Financial Statements

31 December 2004

16. INTERESTS IN SUBSIDIARIES (Continued)

| Company name | Place of incorporation/ registration and operations | Issued and paid-up capital/ registered capital | Equity interest attributable to the Company | | Principal activities |
|--|---|---|---|------------------|--|
| | | | Direct | Indirect | |
| CTB Golf (HK) Limited | Hong Kong | HK\$10,000,000 (ordinary) HK\$2,730,000 (preference) | – | 62.5% | Trading of golf bags and accessories |
| 東莞騏衡運動用品製造 有限公司* | PRC | HK\$10,312,000/ HK\$25,000,000 | – | 100% (Note c) | Manufacturing and trading of golf bags |
| Xiamen Sino Talent Golf Manufacturing Co., Ltd.* | PRC | US\$4,000,000/ US\$6,600,000 | – | 100% | Manufacturing and trading of golf equipment |
| Linyi Sinoeia Golf Co., Ltd.* | PRC | HK\$8,798,400/ HK\$50,000,000 | – | 100% (Note c) | Manufacturing and trading of golf equipment and accessories |
| Sino Golf Leisure Company Limited | Hong Kong | HK\$1,000,000 | – | 100% | Golf leisure promotion |
| Sino U.S. Holding Company, L.L.C. | USA | US\$100 | – | 100% | Investment holding |
| Sino CTB Company, L.L.C. ("Sino CTB") | USA | US\$500,000 | – | 100% | Trading of golf bags |
| Sino Golf Comercial Offshore De Macau Limitada | Macau | MOP100,000 | – | 100% (Note c) | Trading of golf equipment and accessories |

* a wholly-foreign owned enterprise under the PRC law.

** a Sino-foreign equity joint venture under the PRC law.

Notes to Financial Statements

31 December 2004

16. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

- (a) The non-voting deferred shares practically carry no rights to dividends or receive notice of or attend or vote at any general meeting of the company or to participate in any distribution on winding up.
- (b) During the year, the Group acquired the remaining 7.9% interest in Zengcheng Sino Golf from the PRC minority owner at a consideration of RMB8.4 million (equivalent to HK\$7.9 million). The acquisition has given rise to a goodwill of approximately HK\$5.2 million which is amortised in accordance with the Group's accounting policies. Subsequent to the acquisition, Zengcheng Sino Golf was changed from a Sino-foreign co-operative joint venture to a wholly-foreign owned enterprise under the PRC law.
- (c) These companies are newly set up by the Group in current year.

17. INVENTORIES

| | Group | |
|------------------|----------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 43,399 | 31,292 |
| Work in progress | 23,509 | 15,877 |
| Finished goods | 34,776 | 21,177 |
| | 101,684 | 68,346 |

No inventories were carried at net realisable value at the balance sheet date (2003: Nil).

18. TRADE AND BILLS RECEIVABLES

An aged analysis of the Group's trade and bills receivables as at the balance sheet date, based on the date of recognition of sale and net of provisions, is as follows:

| | 2004 | 2003 |
|-----------------|---------------|---------------|
| | HK\$'000 | HK\$'000 |
| Within 3 months | 13,650 | 49,359 |
| 4 to 6 months | 9,593 | 2,181 |
| 7 to 12 months | 20,400 | 8,951 |
| Over 1 year | 1,390 | 1,369 |
| | 45,033 | 61,860 |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period granted by the Group is generally between 30 to 120 days from the date of recognition of sale.

Notes to Financial Statements

31 December 2004

18. TRADE AND BILLS RECEIVABLES (Continued)

Included in the Group's trade and bills receivables as at the balance sheet date was an amount of HK\$1,751,000 due from (2003: HK\$3,149,000) Nikko Bussan Co., Ltd. ("Nikko Bussan (Japan)") arising from transactions carried out in the ordinary course of business of the Group. Takanori Matsuura, a director of the Company, has a beneficial interest in Nikko Bussan (Japan). The balance with Nikko Bussan (Japan) is unsecured, interest-free and is repayable within similar credit periods offered by the Group to its major customers.

19. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | Group | | Company | |
|------------------------------|----------|----------|----------|----------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Prepayments | 5,135 | 2,115 | – | – |
| Deposits and other debtors | 14,642 | 16,029 | 1,784 | 225 |
| Loans to directors – note 20 | 1,229 | 1,190 | – | – |
| | 21,006 | 19,334 | 1,784 | 225 |

20. LOANS TO DIRECTORS

Loans to directors, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

| Group Name | 31 December | Maximum amount outstanding during the year | 1 January |
|------------------------|-------------|---|-----------|
| | 2004 | | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Mr. Chu Yuk Man, Simon | 750 | 750 | 750 |
| Mr. Chang Hua Jung | 479 | 600 | 440 |
| | 1,229 | 1,350 | 1,190 |

The loan granted to Mr. Chu Yuk Man, Simon bears interest at a rate of 1.5% per annum and is repayable on 31 December 2006.

Except for a loan granted to Mr Chang Hua Jung of HK\$220,000, which bears interest at a rate of 1.5% per annum and is repayable before January 2006, the remaining balances of HK\$189,000 and HK\$70,000 are interest-free and are repayable before August 2007 and July 2010, respectively.

21. CASH AND CASH EQUIVALENTS

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$4,263,000 (2003: HK\$13,728,000). The RMB is not freely convertible into other currencies, however, under PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Notes to Financial Statements

31 December 2004

22. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at the balance sheet date is as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-----------------|------------------|------------------|
| Within 3 months | 47,875 | 36,118 |
| 4 to 6 months | 5,921 | 2,404 |
| 7 to 12 months | 990 | 1,425 |
| Over 1 year | 827 | 1,029 |
| | 55,613 | 40,976 |

23. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Accruals and other liabilities | 28,452 | 22,761 | 9 | 143 |
| Due to related parties – note 24 | 198 | 198 | – | – |
| | 28,650 | 22,959 | 9 | 143 |

24. DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

25. BANK BORROWINGS

| | Group | |
|---|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Bank loans, unsecured | 169,293 | 140,001 |
| Amounts repayable: | | |
| Within one year | 75,143 | 35,001 |
| In the second year | 57,200 | 50,000 |
| In the third to fifth years, inclusive | 36,950 | 55,000 |
| | 169,293 | 140,001 |
| Portion classified as current liabilities | (75,143) | (35,001) |
| Long term portion | 94,150 | 105,000 |

Notes to Financial Statements

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26. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles for its golf equipment manufacturing and trading business. These leases are classified as finance leases and have remaining lease terms of 23 months.

As at the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

Group

| | Minimum lease payments 2004 HK\$'000 | Minimum lease payments 2003 HK\$'000 | Present value of minimum lease payments 2004 HK\$'000 | Present value of minimum lease payments 2003 HK\$'000 |
|---|--|--|--|--|
| Amounts payable: | | | | |
| Within one year | 91 | 91 | 88 | 87 |
| In the second year | 83 | 91 | 83 | 87 |
| In the third to fifth years, inclusive | – | 84 | – | 84 |
| Total minimum finance lease payments | 174 | 266 | 171 | 258 |
| Future finance charges | (3) | (8) | | |
| Total net finance lease payables | 171 | 258 | | |
| Portion classified as current liabilities | (88) | (87) | | |
| Long term portion | 83 | 171 | | |

The Group's finance lease payables as at the balance sheet date were guaranteed by the Company.

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27. DEFERRED TAX

The movement in deferred tax liabilities of the Group during the year is as follows:

| | Accelerated tax depreciation HK\$'000 | Revaluation of land and buildings HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|---|--|---|--------------------|-------------------|
| At 1 January 2003 | 1,695 | 2,185 | 528 | 4,408 |
| Deferred tax debited to equity during the year | – | 503 | – | 503 |
| At 31 December 2003, 1 January 2004 and 31 December 2004 | 1,695 | 2,688 | 528 | 4,911 |

The unused tax losses include an amount of approximately HK\$1,694,000 (2003: HK\$1,862,000) for the year arising in the PRC which is due to expire within two to five years and an amount of approximately HK\$1,015,000 (2003: Nil) arising in Hong Kong for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these unused losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain 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 tax relief.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. SHARE CAPITAL

Shares

| | Company 2004 HK\$'000 | 2003 HK\$'000 |
|---|-----------------------------|------------------|
| Authorised: | | |
| 1,000,000,000 ordinary shares of HK\$0.1 each | 100,000 | 100,000 |
| Issued and fully paid: | | |
| 302,200,000 ordinary shares of HK\$0.1 each | 30,220 | 30,220 |

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

Notes to Financial Statements

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29. SHARE OPTION SCHEME

On 7 August 2002, the share option scheme of the Company adopted on 5 December 2000 (the “Old Share Option Scheme”) was terminated and a new share option scheme (the “New Share Option Scheme”) was adopted to comply with the new amendments of the Listing Rules regarding share option schemes of a company. As a result of these amendments, the Company may no longer grant further options under the Old Share Option Scheme. However, all options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect. There were no options outstanding under the Old Share Option Scheme as at 31 December 2004.

The purpose of the New Share Option Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the New Share Option Scheme include any employee (whether full-time or part-time), executive or officer of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and any business consultants, agents and legal or financial advisers, who, in the sole discretion of the board of directors of the Company, will contribute or have contributed to the Company and/or any of its subsidiaries. The New Share Option Scheme became effective on 7 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Pursuant to the New Share Option Scheme, the maximum number of shares in respect of which options may be granted under the New Share Option Scheme is such number of shares, when aggregated with shares subject to any other share option schemes (which, for this purpose, excludes the Old Share Option Scheme), must not exceed 30% of the shares in issue of the Company from time to time. The maximum number of shares issuable under share options to each eligible participant in the New Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period up to and including the date of the offer of the grant, are subject to the issue of a circular by the Company and the approval of the shareholders in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the board at its absolute discretion, and commences on a specified date and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the New Share Option Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors of the Company, but may not be less than the highest of (i) the closing price of the Company’s shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the date of grant, which must be a business day; (ii) the average closing price of the Company’s shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company’s shares.

Notes to Financial Statements

31 December 2004

29. SHARE OPTION SCHEME (Continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the New Share Option Scheme during the year:

| Name or category of participant | Number of share options | | | Date of grant of share options* | Exercise period of share options | Exercise price of share options** HK\$ |
|---------------------------------|-------------------------|------------------------|---------------------|---------------------------------|--------------------------------------|---|
| | At 1 January 2004 | Lapsed during the year | At 31 December 2004 | | | |
| Directors | | | | | | |
| Chu Chun Man, Augustine | 3,000,000 | – | 3,000,000 | 24 December 2003 | 29 December 2003 to 31 December 2006 | 1.51 |
| Chu Yuk Man, Simon | 3,000,000 | – | 3,000,000 | 24 December 2003 | 29 December 2003 to 31 December 2006 | 1.51 |
| Takanori Matsuura | 3,000,000 | – | 3,000,000 | 24 December 2003 | 29 December 2003 to 31 December 2006 | 1.51 |
| Others | | | | | | |
| In aggregate | 10,000,000 | (10,000,000) | – | 11 September 2003 | 1 October 2003 to 30 September 2004 | 1.60 |
| In aggregate | 8,280,000 | – | 8,280,000 | 24 December 2003 | 29 December 2003 to 31 December 2006 | 1.51 |
| | 27,280,000 | (10,000,000) | 17,280,000 | | | |

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At the balance sheet date, the Company had 17,280,000 share options outstanding under the New Share Option Scheme, which represented approximately 6% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 17,280,000 additional ordinary shares of the Company and additional share capital of HK\$1,728,000 and share premium of HK\$24,365,000 (before issue expenses).

Notes to Financial Statements

31 December 2004

30. RESERVES

Group

| | Share premium account HK\$'000 | Contributed surplus HK\$'000 | Fixed asset revaluation reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Other reserves HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|---|------------------------------------|---|--|-------------------------------|---------------------------------|-------------------|
| At 1 January 2003 | 57,270 | 10,564 | 25,134 | 1,711 | 50 | 26,088 | 120,817 |
| Surplus on revaluation | – | – | 3,404 | – | – | – | 3,404 |
| Deferred tax liabilities arising from revaluation | – | – | (503) | – | – | – | (503) |
| Exchange realignment | – | – | – | 85 | – | – | 85 |
| Net profit for the year | – | – | – | – | – | 43,324 | 43,324 |
| Interim dividend – note 12 | – | – | – | – | – | (14,506) | (14,506) |
| Proposed final dividend – note 12 | – | – | – | – | – | (28,709) | (28,709) |
| At 31 December 2003 and 1 January 2004 | 57,270 | 10,564 | 28,035 | 1,796 | 50 | 26,197 | 123,912 |
| Net profit for the year | – | – | – | – | – | 28,092 | 28,092 |
| Interim dividend – note 12 | – | – | – | – | – | (19,039) | (19,039) |
| At 31 December 2004 | 57,270 | 10,564 | 28,035 | 1,796 | 50 | 35,250 | 132,965 |

Company

| | Share premium account HK\$'000 | Contributed surplus HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|---|------------------------------------|---------------------------------|-------------------|
| At 1 January 2003 | 57,270 | 15,516 | 51 | 72,837 |
| Net profit for the year | – | – | 43,171 | 43,171 |
| Interim dividend – note 12 | – | – | (14,506) | (14,506) |
| Proposed final dividend – note 12 | – | – | (28,709) | (28,709) |
| At 31 December 2003 and 1 January 2004 | 57,270 | 15,516 | 7 | 72,793 |
| Net profit for the year | – | – | 19,094 | 19,094 |
| Interim dividend – note 12 | – | – | (19,039) | (19,039) |
| At 31 December 2004 | 57,270 | 15,516 | 62 | 72,848 |

Notes to Financial Statements

31 December 2004

30. RESERVES (Continued)

The Group's contributed surplus represents the difference between the nominal value of the shares and share premium account of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued for the acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of contributed surplus under certain circumstances.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of a subsidiary

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Net assets acquired: | | |
| Fixed assets | – | 26,464 |
| Deposits, prepayments and other receivables | – | 16 |
| Cash and bank balances | – | 23 |
| Trade payables | – | (1,218) |
| Other payables and accruals | – | (22,022) |
| Bank loans | – | (2,830) |
| Net assets | – | 433 |
| Goodwill arising on acquisition | – | 7,421 |
| | – | 7,854 |
| Satisfied by: | | |
| Other receivables | – | 7,854 |

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Cash and bank balances acquired | – | 23 |
| Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary | – | 23 |

The subsidiary acquired in the prior year contributed no turnover and a loss of HK\$746,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

Notes to Financial Statements

31 December 2004

32. CONTINGENT LIABILITIES

- (a) At the reporting date, the Group and the Company had the following contingent liabilities not provided for in the financial statements:

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Bills discounted with recourse | 17,969 | 29,754 | - | - |
| Guarantees for bank loans in favour of the subsidiaries | - | - | 163,000 | 140,001 |
| Guarantees for finance lease arrangements in favour of a subsidiary | - | - | 171 | 258 |
| | 17,969 | 29,754 | 163,171 | 140,259 |

- (b) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$1,764,000 (2003: HK\$1,648,000) as at 31 December 2004, as further explained under the heading "Employment Ordinance long service payments" in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

33. COMMITMENTS

(a) Capital commitments

At the balance sheet date, the Group had the following capital commitments:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Contracted, but not provided for: | | |
| Land and buildings | 1,563 | 1,447 |
| Plant and machinery | 500 | 263 |
| | 2,063 | 1,710 |
| Contracted, but not provided for: | | |
| Capital contribution into subsidiaries | 76,170 | 27,626 |
| | 78,233 | 29,336 |

Notes to Financial Statements

31 December 2004

33. COMMITMENTS (Continued)

The Company had no material capital commitments at the balance sheet date.

(b) Operating lease commitments

(i) As lessor

The Group leases its property and plant and machinery (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms of one year. The terms of the leases generally also require the tenants to pay security deposits.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|-----------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Within one year | 532 | 1,032 |

(ii) As lessee

The Group leases certain of its office properties, production plants, staff quarters and motor vehicles under operating lease arrangements, with leases negotiated for original terms ranging from 1 to 16 years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Within one year | 7,016 | 4,257 |
| In the second to fifth years, inclusive | 20,967 | 11,407 |
| After five years | 17,082 | 7,683 |
| | 45,065 | 23,347 |

Notes to Financial Statements

31 December 2004

34. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|---|----------|------------------|------------------|
| Purchases of raw materials from Nikko Bussan (Japan) | (a) | 85 | 125 |
| Sales of finished goods to Nikko Bussan (Japan) | (b) | 18,553 | 54,623 |
| Sales of finished goods to Global Sports Technology, Inc. ("Global Sports") | (b), (c) | - | 3,525 |
| Tooling income from Nikko Bussan (Japan) | (d) | - | 137 |
| Patent income from Nikko Bussan (Japan) | (e) | - | 780 |
| Rental expenses paid to Progolf Manufacturing Company Limited ("Progolf") and Oriental Leader Limited | (f) | 1,440 | 1,440 |
| Management income received from Progolf and Oriental Leader Limited | (g) | 15 | 35 |
| Sales commission paid to Global Sports | (h) | - | 2,124 |
| Rental income from Sino Sporting Company Limited ("Sino Sporting") | (i) | 399 | 303 |
| Rental expense paid to Sino Sporting | (i) | 132 | 132 |
| Commission income received from Sino Sporting | (j) | - | 100 |
| Management income received from Sino Sporting | (g) | 10 | 120 |
| Commission income received from Nikko Bussan (Japan) | (k) | 842 | - |

The directors, including the independent non-executive directors of the Company, have reviewed and confirmed that these transactions were conducted in the ordinary and usual course of the Group's business.

Notes:

- (a) Takanori Matsuura, a director of the Company, has a beneficial interest in Nikko Bussan (Japan). The purchase prices of raw materials were determined between the Group and Nikko Bussan (Japan) on a cost-plus basis.
- (b) The selling prices of finished goods were based on the agreements between the parties.
- (c) Global Sports is a 20% shareholder of Sino CTB until the Group acquired the equity interest of 20% owned by Global Sports in March 2003.
- (d) The tooling income was based on the agreement between the parties.
- (e) The patent income was based on the agreement between the parties.

Notes to Financial Statements

31 December 2004

34. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

- (f) Chu Chun Man, Augustine (“Augustine Chu”), a director of the Company, has a beneficial interest in ProGolf, and Chu Yuk Man, Simon (“Simon Chu”), a director of the Company, has a beneficial interest in Oriental Leader Limited. The rental expenses were determined at rates agreed between the Group and the corresponding related parties based on market rates.
- (g) The management income was based on the expense such as rental expenses and staff salary utilised by the related parties.
- (h) Sales commission paid to Global Sports as an agent in overseas for soliciting customers. The commission rate is determined at a mutually-agreed rate between the Group and Global Sports.
- (i) Augustine Chu, Takanori Matsuura and Simon Chu, the directors of the Company, have beneficial interests in Sino Sporting. The rental rates were based on the agreements between the parties.
- (j) Sales commission received from Sino Sporting for introducing customers to join the club. The commission rate is determined at a mutually-agreed rate between the Group and Sino Sporting.
- (k) Sales commission received from Nikko Bussan (Japan) for introducing customers. The commission rate is determined at a mutually-agreed rate between the Group and Nikko Bussan (Japan).

All related party transactions above also constitute continuing connected transactions as defined in chapter 14A of the Listing Rules.

35. POST BALANCE SHEET EVENT

On 31 December 2004, SGMCL, an indirect wholly-owned subsidiary of the Company, has entered into a conditional sale and purchase agreement (the “Agreement”) with Global Sourcing and Distribution Limited (the “Purchaser”), an associate of the minority owner of Shun Xing Long, to dispose of its entire 62.5% interest in Shun Xing Long to the Purchaser. Pursuant to the Agreement, the consideration is to be determined with reference to, but not less than, 62.5% of the audited net asset value of Shun Xing Long as at 31 December 2004. On 9 April 2005, a supplementary agreement was entered into by SGMCL and the Purchaser to agree the consideration at HK\$14.9 million. The consideration will be paid by the Purchaser on completion, except for a 40% multiple on the 62.5% share of audited net asset value which will be paid one year after completion. The completion of the transaction is subject to the Company’s shareholders’ approval in a meeting which is expected to be held in May 2005.

36. COMPARATIVE AMOUNTS

Certain comparative amounts have been added/restated to conform with the current year’s presentation. In the opinion of the directors, the changes provide a better presentation and are consistent with the presentation adopted for the current year.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2005.

Five Years' Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extract from the published audited financial statements is set out below.

| | Year ended 31 December 2004 HK\$'000 | Year ended 31 December 2003 HK\$'000 | Nine months ended 31 December 2002 HK\$'000 | Year ended 31 March 2002 HK\$'000 | Year ended 31 March 2001 HK\$'000 |
|--|---|---|---|---|---|
| RESULTS | | | | | |
| TURNOVER | 393,945 | 400,708 | 230,497 | 252,492 | 300,215 |
| Cost of sales | (271,723) | (272,580) | (162,426) | (177,194) | (191,402) |
| Gross profit | 122,222 | 128,128 | 68,071 | 75,298 | 108,813 |
| Other revenue, net | 8,510 | 10,891 | 5,010 | 6,293 | 4,509 |
| Selling and distribution costs | (11,495) | (18,776) | (10,051) | (11,361) | (8,652) |
| Administrative expenses | (57,580) | (48,231) | (23,182) | (16,890) | (13,962) |
| Other operating expenses, net | (22,277) | (12,781) | (6,601) | (11,213) | (9,309) |
| PROFIT FROM OPERATING ACTIVITIES | 39,380 | 59,231 | 33,247 | 42,127 | 81,399 |
| Finance costs | (9,790) | (10,142) | (5,069) | (7,121) | (9,876) |
| PROFIT BEFORE TAX | 29,590 | 49,089 | 28,178 | 35,006 | 71,523 |
| Tax | (1,706) | (5,281) | (2,003) | (3,219) | (6,257) |
| PROFIT BEFORE MINORITY INTERESTS | 27,884 | 43,808 | 26,175 | 31,787 | 65,266 |
| Minority interests | 208 | (484) | (650) | (1,340) | – |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 28,092 | 43,324 | 25,525 | 30,447 | 65,266 |

ASSETS, LIABILITIES AND MINORITY INTERESTS

| | 2004 HK\$'000 | As at 31 December | | As at 31 March | |
|--------------------|------------------|-------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| TOTAL ASSETS | 432,520 | 405,482 | 332,962 | 338,251 | 263,795 |
| TOTAL LIABILITIES | (258,638) | (211,736) | (158,133) | (147,514) | (93,821) |
| MINORITY INTERESTS | (10,697) | (10,905) | (12,006) | (10,235) | – |
| | 163,185 | 182,841 | 162,823 | 180,502 | 169,974 |

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Kowloon Room I, M Floor, Kowloon Shangri-La, 64 Mody Road, Kowloon, Hong Kong on Friday, 27 May 2005 at 2:30 p.m. for the following purposes:–

As Ordinary Business

1. to receive and consider the audited financial statements and the reports of the directors and of the auditors for the year ended 31 December 2004;
2. to declare no final dividend for the year ended 31 December 2004;
3. to re-elect the directors of the Company;
4. to authorise the board of directors to fix the directors' remuneration;
5. to re-appoint the auditors and to authorise the board of directors to fix their remuneration.

As Special Business

6. to consider and if thought fit, pass with or without amendments, the following resolutions each as an Ordinary Resolution:–

“THAT:–

- (a) subject to sub-paragraph (c) of this Resolution, pursuant to the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the exercise by the directors of the Company (the “**Directors**”) during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements and options, including warrants to subscribe for shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in sub-paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in sub-paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) any issue of shares upon the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company (“**Shares**”); or (iii) the exercise of any options granted under the share option scheme of the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of the dividend on Shares in accordance with the bye-laws of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

(d) for the purposes of this Resolution:

“Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:–

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1981 of Bermuda (as amended), or any other applicable law of Bermuda to be held; and
- (iii) the date on which the authority set out in this Resolution is revoked or varied by the passing of an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares, or offer or issue of warrants, options or other securities of the Company giving rights to subscribe for Shares, open for a period fixed by the Directors to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside the Hong Kong Special Administrative Region of the People’s Republic of China).”

7. to consider and, if thought fit, pass with or without amendment(s) the following resolution as Ordinary Resolution:

THAT:–

- (a) subject to sub-paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period of all the powers of the Company to repurchase Shares on Stock Exchange or any other exchange on which the Shares may be listed and recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchases (“Recognised Stock Exchange”) subject to and in accordance with all applicable laws and the requirements of the Listing Rules as amended from time to time or that of any other Recognised Stock Exchange, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the Shares which may be purchased by the Company pursuant to the approval in sub-paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

(c) for the purposes of this Resolution:–

“Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:–

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1981 of Bermuda (as amended), or any other applicable law of Bermuda to be held; and
- (iii) the date on which the authority set out in this Resolution is revoked or varied by the passing of an ordinary resolution of the shareholders of the Company in general meeting.

8. to consider and, if thought fit, pass with or without amendment(s) the following resolution as Ordinary Resolution:

“**THAT** conditional upon Resolution 6 and Resolution 7 set out in the notice convening this meeting of which this resolution forms part being passed, the aggregate nominal amount of the share capital of the Company which are repurchased by the Company after the date of the passing of this Resolution (up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company as stated in Resolution 7 set out in the notice convening this meeting of which this resolution forms part) shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted and issued by the directors of the Company under the authority granted pursuant to Resolution 6 set out in the notice convening this meeting of which this resolution forms part.”

By Order of the Board
Chu Chun Man, Augustine
Chairman

Hong Kong
18 April, 2005

Notice of Annual General Meeting

Notes:

- 1) Any shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint another person or his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company. A shareholder who is a holder of two or more shares may appoint more than one proxy to attend and vote on the same occasion.
- 2) In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of authority must be deposited at the Company's share registrar, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting.
- 3) Members are recommended to read the circular of the Company containing information concerning the resolutions proposed in this notice.

The directors of the Company as at the date of this notice are as follows:

Executive Directors

Mr. Chu Chun Man, Augustine
Mr. Takanori Matsuura
Mr. Chu Yuk Man, Simon
Mr. Chang Hua Jung

Independent Non-executive Directors

Mr. Choy Tak Ho
Ms. Chiu Lai Kuen, Susanna
Mr. Tse Ying Man