

ANNUAL REPORT  
2006



# Sino Golf

順龍

HOLDINGS LIMITED  
控股有限公司

(Incorporated in Bermuda with limited liability)  
(Stock Code : 0361)

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# Corporate Information

## EXECUTIVE DIRECTORS

CHU Chun Man, Augustine  
*(Chairman and member of Remuneration Committee)*

CHU Yuk Man, Simon  
*(Member of Remuneration Committee)*

CHANG Hua Jung

Takanori MATSUURA  
*(passed away on 13 August 2006)*

## INDEPENDENT NON-EXECUTIVE DIRECTORS

CHOY Tak Ho  
*(Member of Audit Committee and Remuneration Committee)*

CHIU Lai Kuen, Susanna  
*(Chairman of Audit Committee and Member of Remuneration Committee)*

TSE Ying Man  
*(Chairman of Remuneration Committee and member of Audit Committee)*

## COMPANY SECRETARY

CO, Man Kwong, Rochester

## AUDITORS

Ernst & Young  
*Certified Public Accountants*

18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

## PRINCIPAL BANKERS

Standard Chartered Bank  
(Hong Kong) Limited

DBS Bank (Hong Kong) Limited

The Bank of Tokyo –  
Mitsubishi UFJ, Limited

Bank SinoPac, Hong Kong Branch

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

26th Floor, Tesbury Centre  
28 Queen's Road East  
Hong Kong

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton, HM 11  
Bermuda

## 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 Golf  
Manufacturing  
Company Limited  
(100%)**

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

**Sino Golf Sourcing  
Company Limited  
(51%)**

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

上海順龍  
商務諮詢有限公司  
(100%)

Sino Victory  
Sourcing and Distribution  
Company Ltd  
(51%)

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

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

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

Sino Golf  
(USA), Inc.  
(100%)

Sino Golf Leisure  
Company Limited  
(100%)

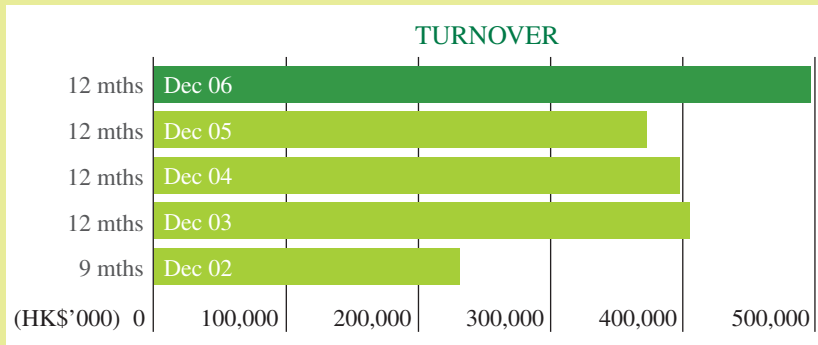
增城市順龍高爾夫球  
製品有限公司  
(Zengcheng Sino Golf)  
(100%)

CTB Golf (HK) Limited  
(100%)

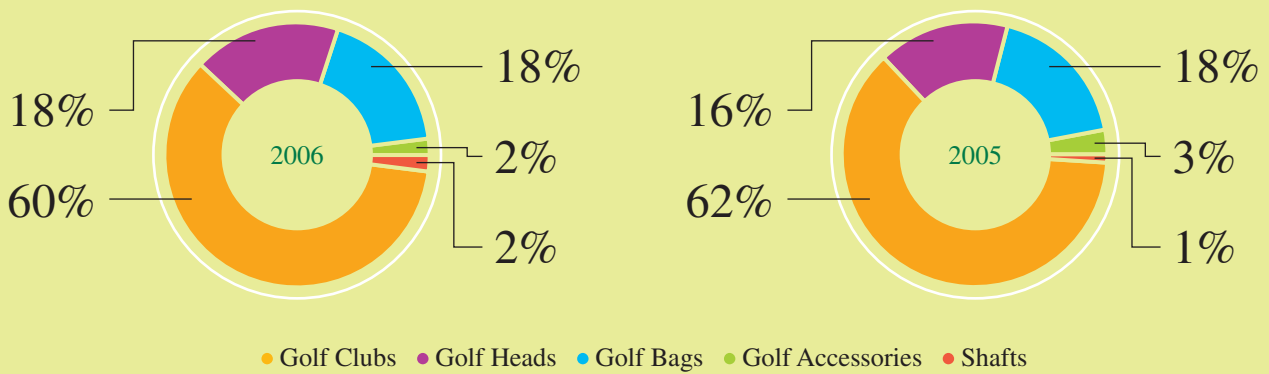
Linyi Sinoeia Golf  
Co., Ltd  
(100%)

東莞騏衡  
運動用品製造有限公司  
(100%)

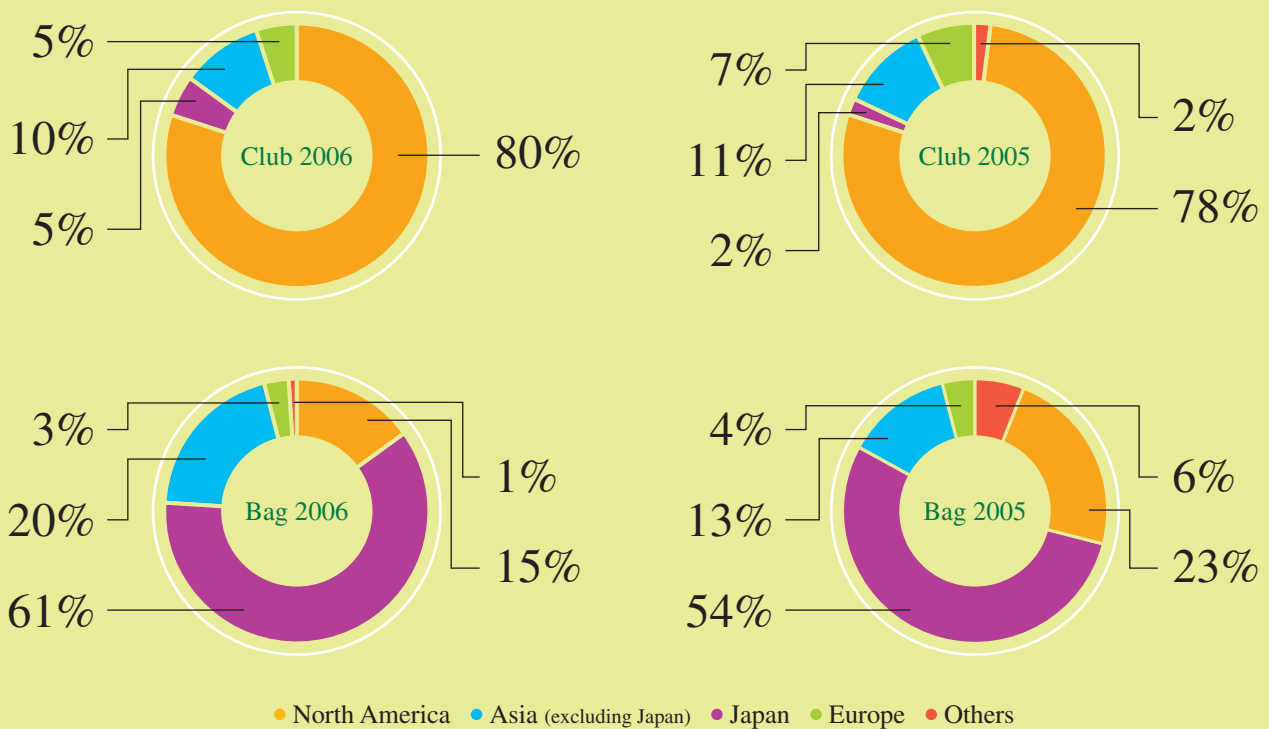
# Financial Highlights



## TURNOVER BY PRODUCT



## TURNOVER BY GEOGRAPHICAL AREA





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 2006.

Chu Chun Man, Augustine  
Chairman

## RESULTS AND DIVIDENDS

Consolidated turnover and net profit attributable to equity holders of the Company for the year amounted to HK\$493,376,000 (2005: HK\$367,257,000) and HK\$33,315,000 (2005: HK\$31,560,000) respectively. Basic and diluted earnings per share were HK11.0 cents (2005: HK10.4 cents) and HK11.0 cents (2005: N/A) accordingly.

The directors recommend the payment of a final dividend of HK2.2 cents per share, which is subject to the approval by shareholders at the forthcoming annual general meeting. Together with the interim dividend of HK3.3 cents per share declared and paid, the total annual dividend of HK5.5 cents (2005: HK7.0 cents) per share represents a payout ratio of 50% (2005: 67.3%).

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 23 May 2007 to Monday, 28 May 2007 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Tuesday, 22 May 2007 in order to qualify for the final dividend proposed which will be payable on or about 28 June 2007.

## BUSINESS REVIEW

### Overview

The business re-engineering process initiated by the Group in 2005 has been successful in enhancing the customer portfolio to encompass a greater number of high-end clients. We resigned from some low-end and less performing customers and at the same time succeeded in soliciting a number of prominent name-brands to strengthen our customers base. Turnover and gross profit of the Group for 2006 soared significantly by about 34.3% and 28.8% to HK\$493,376,000 and HK\$137,905,000 respectively. Profit attributable to equity holders of the Company increased to HK\$33,315,000 from HK\$31,560,000 of the preceding year.

Sales to key customers increased significantly during the year mainly due to strong market demands for our customers' products renowned for their innovative edge and great value. Our Group's focus on product innovation and research and development has proven to be a vital strategy to sustain long-term growth. Throughout the years, this has helped enhance our Group's competitive advantage and reinforce our growth potential. We are progressing along this direction to better serve our customers and further equip ourselves to cultivate business opportunities with other top tier golf companies.



# Chairman's Statement

Materials price fluctuations, though somewhat stabilized during the latter part of the year, have continued to pose threats on the profit margin achievable by the Group. During the year, we have managed to adjust the pricing of new products to reflect the effect of cost increase to the extent allowable. However, the shift by customers to rely more on direct components purchase, due to the shortage in raw materials for production of components like graphite shafts, has reduced the room to improve margins. In addition, the variation to product specifications of some new models initiated by changes in industry standards have result in a more complicated production processes and thus a drop in the output efficiency. Average gross profit margin for the year declined to approximately 27.7% from 28.8% of the prior year while the gross profit amount increased by about 28.8% to approximately HK\$137,905,000 against the increased sales revenue of the year.

For the year of 2006, golf equipment sales climbed to HK\$402,188,000 representing 81.5% of the Group's annual turnover, while golf bags and accessories sales accounted for the remaining 18.5% or HK\$91,188,000. The golf equipment and golf bags segments achieved segmental profits of approximately HK\$48,949,000 and HK\$5,547,000 respectively. Both business segments have shown satisfactory improvement over the preceding year.

## Golf Equipment Business

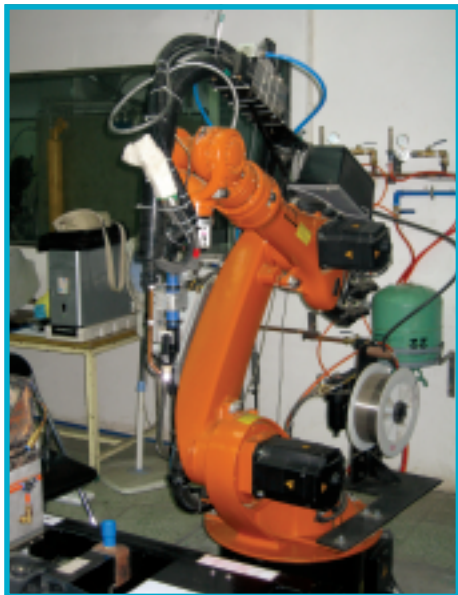
Being traditionally the largest business segment, golf equipment sales continued to dominate and accounted for approximately 81.5% of the Group's annual turnover. During the year, sales of golf equipment increased by about 33.6% to approximately HK\$402,188,000 of which about 58% were realized during the first half of 2006 taking into account the seasonal effect and some order rescheduling by customers during the latter part of the year.

Of the total segment turnover, golf clubs sales accounted for about 72.8% or HK\$292,733,000, while components sales including club heads, shafts and accessories took up the remaining 27.2% or HK\$109,455,000. Among the golf clubs sales, the split between sales of clubs sets and individual clubs were approximately 51.2% and 48.8% respectively. There has not been any material fluctuations in the product mix percentages in the past few years.

Driven by the successful launch of the hybrid iron set program in the United States by the Group's largest customer, sales to this customer surged by about 67.1% to approximately HK\$214,911,000 during the year, representing approximately 53.4% of segment sales or 43.6% of the Group's turnover for the year. Significant growth was also recorded on sales to a number of other customers, thanks to the realization of product innovations through effective marketing programs. Sales of golf equipment to the top five golf club customers aggregated to approximately HK\$323,594,000, representing about 80.5% of the segment sales or 65.6% of the Group's annual turnover. While experiencing remarkable growth with the major customers, our Group continues to devote efforts to explore business opportunities with targeted golf companies. Supported by our enhanced reputation, the Group is well positioned to bring in high profile new customers following the completion of the new production facility in Shandong Province, the P.R.C. during the latter part of 2007. The Group's continuing investments in research and development have successfully enhanced our industry profile and recognition over the years. Our competitive advantage built on the capability to produce sophisticated high-end golf clubs and the ability to react swiftly to the rapid market changes also reaffirms the Group's presence in the golf industry.



## Chairman's Statement



As not uncommon in the golf industry, the Group conducts its business through a relatively small number of active key customers and adopts tight credit controls in setting terms on sales to individual customers. We safeguard recoverability of trade debts by procuring non-recourse factoring or insurance on shipments to major customers. To minimize bad debt risks, any material delay in payments or non-payments by customers beyond the approved credit terms are immediately reported to management for further action. Appropriate steps including the withholding of shipments will be taken to ensure prompt collection of outstanding debts. We also regularly review the credit policies in accordance to the performance of the customers. As noted in the 2005 annual report, Huffey Corporation, one of the Group's customers, had successfully implemented its restructuring plan which was approved at the creditors' meeting and confirmed by the U.S. bankruptcy court in late 2005. Against the debts that Huffey Corporation owes to our Group, we are entitled to receive a proportionate share of (i) a US\$9 million promissory note which will be paid by four annual installments commencing on 30 June 2007 and carries interest at 10% per annum; and (ii) the class B common stock of US\$14 million of Huffey Corporation. Sales by the Group to Huffey Corporation during the

year amounted to approximately HK\$11 million which was timely settled and covered by insurance. Taking into account the current conditions of Huffey Corporation and the amount of bad debt provision already made by the Group for debts outstanding prior to the filing of bankruptcy protection by Huffey Corporation, it is considered that no material impairment in value of the remaining debts has happened and no further provision is required.

During the first half of 2006, raw material prices went up further especially that for graphite sheets, the supply of which has become more volatile and scarce. To secure uninterrupted production amidst insufficient supply of graphite sheets for shaft production, the Group has opted for more direct purchase of graphite shafts from the component makers. In some cases, the Group had to purchase certain materials from suppliers specified by the customers. Such changes in the purchasing pattern have reduced the flexibility and choice the Group has in the selection of suppliers and determination of purchase terms. The situation has somewhat improved as the materials price and supply began to stabilize during the latter part of the year. On the other hand, there were variations to the product specifications of some new models as initiated by changes in industry standards. The increased complexity in the production processes of those models had led to a drop in the output efficiency. To optimize materials cost and supply, the Group strategically stocked up selected key materials to help preserve product margins and to ensure materials availability for orders fulfillment. The overall inventory level thus increased as a result of the procedures taken to combat the impact of material price hikes.

Supported by a strong revenue stream, the golf equipment segment achieved a segmental profit of approximately HK\$48,949,000 for the year, representing an improvement of about 18% over that of the preceding year. In consideration of the current order book status and a competitive market environment, the management maintains a cautious but confident view for a further strengthened golf equipment business going forward.

# Chairman's Statement

## Golf Bags Business

Sales of the golf bag segment increased by about 37.7% during the year to approximately HK\$91,188,000, representing approximately 18.5% of the Group's turnover compared to 18.0% in 2005. Of the total segment sales, golf bags sales amounted to approximately HK\$72,662,000 or 79.7%, while sales of accessories including shoe bags sales accounted for the remaining 20.3% or HK\$18,526,000. There has not been any material change in the product mix percentage in the past few years. The significant surge in turnover came as a result of the stepping up of production capability and the gaining back of orders lost in the preceding year due to delivery problems. During the year, sales to the largest customer increased by over 1.2 times to approximately HK\$49,466,000, representing about 54.2% of the segment turnover or 9.9% of the Group's turnover. Sales to the top five golf bag customers during the year aggregated to approximately HK\$64,551,000, accounting for about 70.8% of the segment turnover or 13.0% of the Group's turnover.

The Japan line of products continued to dominate and took up over 60% of the segment sales, against the non-Japan line of products in American and European style. In general, the more sophisticated Japan line commands a higher gross margin and is expected to grow with strong momentum through businesses secured by our Japanese partner. The SOE compliant status of our golf bag facility has successfully generated new business for the Group and helped enhance our competitive advantage. Our Group possesses strong reputation in the golf bag industry and is now serving substantially all the major brand names in the golf bag sector. To cope with the increasing demands for our products, we have rented additional factory space of approximately 12,000 square meters near the existing golf bag facility to provide extra production capacity and to reduce subcontracting requirements. Additional workers were employed and trained to work at the new factory facility during the second half of 2006. The expenses comprising rental, wages and overheads incurred for the newly rented factory space amounted to over HK\$2.5 million.



Supported by the remarkable growth in turnover, the golf bag segment achieved a segmental profit of approximately HK\$5,547,000 for the year in contrast to that of approximately HK\$1,775,000 in 2005. During the year, major material prices for golf bags production like PVC, PU and nylon continued to escalate while the energy and overhead costs remained high. To combat the impact of price hikes, the Group will continue expand the Japan line products that offer higher average margins and implement measures to uplift productivity and reduce wastages. Taking into account the current order book status and the competitive advantage of the Group, the management is confident that the golf bag segment will grow continually at an uninterrupted pace.

## Geographical Segments

The Group's geographical spread has not changed materially throughout the years. North America continues to represent the largest geographical segment contributing approximately 68.6% of the Group's annual turnover. Other geographical regions comprising Japan Europe and other countries contributed 15.3%, 4.3% and 11.8% of the Group's annual turnover respectively.

North America remained the principal market for the Group's export business. As a percentage to the Group's turnover, sales to the North American market increased from 67.6% in 2005 to 68.6% this year. In contrast and driven by the business development efforts devoted, sales to Japan increased considerably from 11.2% to 15.3% of the Group's turnover. During the year, sales to other geographical regions covering Europe and other countries declined from 21.2% to 16.1% of the Group's turnover but the sales amount increased by about HK\$1.6 million in monetary term. It is obvious that the Japanese market has become relatively more important in recent years as a result of the resources directed to expand business in this market. Being the largest golf market in Asia, there is huge potential for our Japan business to grow given the relatively small scale of the existing sales volume.

# Chairman's Statement

In monetary terms, sales to the North American market increased by about 36.3% during the year to approximately HK\$338,244,000 comprising mostly golf clubs sales with about 4% of golf bags sales only. On the other hand, sales to Japan increased by about 83.5% to HK\$75,616,000, of which approximately HK\$55,547,000 or 73.5% was golf bags sales. Sales to other geographical regions covering Europe and other countries increased slightly by about 2% to approximately HK\$79,516,000. It is encouraging to see satisfactory growth in both the North American and Japanese markets, with a mild increase in sales to Europe and other countries.

It is the Group's strategy to strengthen and further develop its business in North America so as to uphold our competitive advantage in the world's largest golf market. On the other hand, continued efforts will be expended to tap the huge opportunities existing in Japanese market, particularly the golf equipment business for which the outsourcing portion still lags behind the pace of the western world. There have not been active marketing rollouts in the markets of Europe and other countries, but the Group was still able to achieve mild business growth in this geographical region.

## PROSPECTS AND RISK FACTORS

### Prospects

Although the golf industry has become more competitive in the face of the challenges caused by material price hikes, it remained a relatively stable industry in 2006 underpinned by a robust global economy. There has been strong market demands for high quality innovative products that helped drive the golf sector to grow and to sustain long-term developments. Supported by a high-end customer portfolio, the Group pursues its mission of providing one-stop premium services to the customers with value added options. It is also our objective to continually expand our participation to play a leading role in the golf sector and to strengthen our competitive advantages. The remarkable sales growth and the enhanced industry recognition of the Group are achievements validating our success and supporting our further progress towards such goals.

The management remains cautiously confident about the outlook of the Group's business for 2007. Supported by the SOE compliant golf bag facility, the golf bag business has been growing at uninterrupted pace with a double-digit percentage annual increment. The Japan line of golf bags will continue to expand with momentum under the support of the Japanese partner while the non-Japan line comprising mainly golf bags of American style is anticipated to grow remarkably in 2007 with the contribution from bulk volume customers. The Group has been successful in strengthening its competitive advantage and leading role in the golf bag industry. As regards the golf equipment business, it is envisaged that some consolidations will be experienced during the first half of 2007 due to the product cycle effect. The Group's policy is to focus on higher end products while dropping unwarranted low end models. Nevertheless, the golf equipment business for the second half of 2007 is expected to grow beyond that of the corresponding period in 2006 upon the launch of new models for the coming season. It is anticipated that overall business volume of the golf equipment segment for 2007 would not fluctuate materially compared to that of 2006. Shipments of the Group during the first quarter of 2007 amounted to approximately HK\$112 million comprising golf equipment sales of HK\$73 million and golf bag sales of HK\$39 million, which is close to the sales of HK\$113 million for the corresponding period in 2006.

With a strong reputation, the Group has been approached by some leading golf companies for business opportunities. There has been satisfactory progress in such negotiations and factory visits have been arranged for the evaluation of the Group's capabilities. Given the competitive advantages of the Group and following the completion of the new golf club facility, the management feels confident of bringing in new first tier clients to contribute to the Group's future revenue and profitability.

# Chairman's Statement

To sustain long-term development, our Group will continually focus on research and development, product innovation and customer services. With enhanced competencies, we are now better positioned to establish closer links with other leading golf companies to explore business opportunities. The Group is devoted to further develop the North American and the Japanese markets from which over 80% of the revenue is generated. Being the world's major golf markets, both regions present huge opportunities for which the Group has been devoting major resources throughout the years. The Group will effectively leverage its extensive golf equipment network in North America to achieve synergies in the future rollout of its golf bag business in this market. With contributions from some new customers, the golf bag segment is expected to grow remarkably in 2007. On the other hand, the Group will also continue to make inroads in the golf equipment segment of the Japanese market by taking advantage of its dominant position in the Japan's golf bag sector. These business rollouts will enable further diversification of the product range and allow the Group to exploit synergies across business streams by deploying its competencies Group-wide.

The performance of the Group is ultimately dependent on the extent to which it can realize its business plans and targets under prevailing market conditions and subject to changes that arise from time to time, but our growth aspirations will continue to lead our way forward.

## Risk Factors

Given that the Group's historical results are not necessarily indicative of the Group's future performance and/or financial condition, it is desirable to present a discussion of those factors that could affect the Group's future performance and/or financial condition. These factors could cause the Group's future performance and/or financial condition to differ materially from those of the prior years or from management's expectations or estimates.

## Trade Relations between China and the United States

Since the Group exports majority of its products to the United States, the trade status and relations between China and the United States is a crucial factor that may potentially affect the Group's business. In the case of major trade disputes between these two countries or the imposition of trade sanctions by either party, the scale of exports from China to the United States may experience a significant shrinkage. Besides, the impact of continued Renminbi appreciation is another factor that could adversely affect the competitive advantage of the goods exported from China.

## Interest Rates Movements

The Group generally employs banking facilities to finance its operations, which mostly bear interests at floating rates. Movements in the interest rates therefore affect the level of finance cost to be borne by the Group. The successive increase in interest rates during 2006 has resulted in substantial increase in the finance cost incurred by the Group. Any rise in interest rates will further increase the finance burden of the Group. Although the Group has the option to enter into interest rate swap contracts to hedge interest payments, there is no assurance that the interest swaps would result in any material savings for the Group.

## Concentration of Key Customers

In 2006, the largest customer individually represented over 53% of the turnover of the golf equipment segment or over 43% of the Group's annual turnover. The five largest customers in aggregate accounted for nearly 73% of the Group's turnover for the year. Although the Group endeavors to explore and develop additional high-end customers, there is no assurance that the existing key customers would continue to expand and contribute sufficient sales to support the growth expected of the Group before the contribution from new customers achieves a meaningful portion of the Group's turnover. It is inevitable that matters with material adverse impact on the Group's key customers would also adversely affect the Group.

# Chairman's Statement

## Materials Cost and Sources of Supply

In recent years, the golf industry has been facing challenges from a trend of rising materials costs, such as those of major materials titanium plates and graphite sheets. While most manufacturers have managed to shift the cost increase to customers to the extent allowable, it is worth noting that the price adjustments reflect mostly the cost increase and do not carry a meaning profit margin. Such cost-driven price adjustments, unlike revenues generated from increased sales, would not contribute additional profits of any material extent for the Group. For some products, a lower overall gross profit margin may result against an increase in selling prices.

During the first half of 2006, the supply of graphite sheets had become more volatile and subject to severe limitations. To secure smooth production and product delivery, there was an increased tendency for the golf OEM manufacturers to opt for direct components purchase such as graphite shafts, or for procurement of materials and components from sources specified by the customers. The changes in the purchasing pattern of materials and components would reduce the flexibility and choices of selecting suppliers and could undermine the gross profit margin achievable on the golf equipment sales.

## Increased Complexity in Production Processes

To sustain continued product innovation in response to changes in industry standards, there comes a trend of pursuing upgrades and modifications to production processes and methodologies when fulfilling the requirements for some advanced new products. The increased complexity in product specifications not only requires additional staff trainings and but also changes to production methodologies and processes. The set up and learning process generally involves an initial phase of higher wastages and lower output efficiency leading to lower margins being achieved for varying lengths of periods. It is apparent that there is a cost to get us qualified to acquire business from high-end customers and to sustain long-term profitability.

In addition to the above risk factors, the Group may also be subject to other risks and uncertainties that could arise when conditions change from time to time. The management is devoted to keeping alert of the possible risks and adopting appropriate measures to mitigate the Group's exposure.

## ACKNOWLEDGEMENT AND CONDOLENCES

It is with sadness that we report the passing away of Mr. Takanori Matsuura on 13 August 2006. Mr. Matsuura was a co-founder of the Group and an executive director of the Company. He had made irreplaceable contribution to the growth and development of the Group and his departure is a great loss to all of us. The Company will build on the solid foundations laid down by Mr. Matsuura to the benefit of all shareholders of the Company.

On behalf of the Board, I would also like to express my thanks to everyone on the Board, the management and all employees for their commitments, hard work and loyalty. Their continued support is crucial for the Group to further develop and achieve its goals and mission with greater success.

**Chu Chun Man, Augustine**

*Chairman*

Hong Kong

20 April 2007



# Management Discussion and Analysis

# Management Discussion and Analysis

This statement provides supplementary information to the Chairman's Statement

## RESULTS OF OPERATIONS

Consolidated turnover of the Group for the year ended 31 December 2006 increased significantly by about 34.3% to approximately HK\$493,376,000 (2005: HK\$367,257,000). Net profit attributable to equity holders of the Company improved by about 5.6% to approximately HK\$33,315,000 (2005: HK\$31,560,000). The remarkable growth in turnover was a result of the Group's successful enhancement of its customer portfolio with the addition of high-end clients, as well as the satisfactory performance achieved from the existing customers.

With the surge in business volume, gross profit for the year increased by about 28.8% to approximately HK\$137,905,000 from HK\$107,054,000 of the preceding year. Average gross profit margin however slipped from about 28.8% in 2005 to approximately 27.7% this year mainly attributable to the impact of the increase in material cost and the adoption of more direct components purchase in reaction to shortages in the supply of raw materials for components production. The impact of such cost increase has been mitigated to some extent by sales price adjustments on new models and other cost control measures. However, the overall increase in production overheads and the learning curve effect brought by the production of certain advanced new models further restricted the room to improve margins.



Other income and gains for the year dropped significantly from about HK\$7,010,000 in 2005 to approximately HK\$1,655,000 this year mainly due to the reduction in handling charge and compensation income and the recording of a non-recurring gain on disposal of a subsidiary of approximately HK\$2,581,000 in 2005.

Selling and distribution costs nearly doubled from HK\$12,273,000 in 2005 to approximately HK\$23,850,000 for 2006 primarily due to additional commissions, duties and freight charges incurred against the increased sales volume. In particular, commissions increased from approximately HK\$4,886,000 in 2005 to HK\$11,391,000 this year mainly due to the surge in sales volume as well as the increase in commission rates for some products. Administrative expenses for the year amounted to approximately HK\$53,549,000 and did not fluctuate materially compared to the preceding year. Other operating expenses for the year decreased from HK\$7,511,000 in 2005 to approximately HK\$6,844,000 mainly as a result of the decrease in loss on fixed assets written off.

Finance costs increased to approximately HK\$20,603,000 for the year from HK\$12,058,000 in 2005 principally due to the increase in both the interest rates and the utilization factoring facilities as well as trade finance during the year.

To conclude, profit attributable to equity holders of the Company for 2006 amounted to approximately HK\$33,315,000, representing a mild improvement of about 5.6% over that of 2005.

## LIQUIDITY AND FINANCIAL RESOURCES

Guided by prudent principles, the Group formulates and implements effective policies to manage its funds. The Group generally relies on internally generated funds and banking facilities to finance its operations. To limit the exposure to various financial risks, the Group has established appropriate policies and guidelines to ensure that such risks are properly monitored and confined within acceptable ranges.

# Management Discussion and Analysis

Cash and cash equivalents at 31 December 2006 amounted to approximately HK\$73.1 million (31 December 2005: HK\$79.1 million) and were denominated mostly in United States dollars and Hong Kong dollars. The decrease in the level of cash and cash equivalents was primarily the result of appropriating funds as scheduled for the construction of the new golf club facility. Besides, in anticipation of increased business volume of the golf bag segment, the Group has stocked up bags related inventories to meet production requirements. At the balance sheet date, the bags related inventory increased by approximately HK\$9.2 million compared to that of the preceding yearend date. To help stabilize the impact of rising materials cost and to safeguard production against shortages of raw materials, the Group also selectively stocked up some key inventory items to secure uninterrupted product deliveries. Overall inventory level thus elevated and stood at approximately HK\$151 million at the balance sheet date (31 December 2005: HK\$124 million).

Without major changes, borrowings of the Group are mostly denominated in the currencies of Hong Kong dollars and United States dollars and carry interest on HIBOR or LIBOR plus basis. At 31 December 2006, borrowings (including finance lease payable) aggregated to approximately HK\$191.9 million (31 December 2005: HK\$175.8 million), of which approximately HK\$149.1 million (31 December 2005: HK\$138.9 million) is repayable or deemed repayable within one year. The level of bank borrowings increased mainly due to higher utilization of banking facilities to finance the increased business volume. Gearing ratio, defined as total bank borrowings and finance lease payable less cash and cash equivalents of approximately HK\$118.8 million divided by the shareholders' equity of approximately HK\$200.4 million, was 59.3% as at 31 December 2006 (31 December 2005: 51.9%). The gearing ratio went up as a result of the increase in net bank borrowings.

It has been the Group's objective to maintain a financial position being adequate and supportive of its growth and development needs. At 31 December 2006, the net asset value of the Group amounted to approximately HK\$200.4 million (31 December 2005: HK\$186.0 million). Current and quick ratios as at 31 December 2006 were approximately 1.05 (31 December 2005: 1.14) and 0.43 (31 December 2005: 0.59) respectively. The current ratio decreased mainly because prepayments on the new golf club facility of approximately HK\$29.5 million were classified as non-current assets. The current ratio will improve upon the refinancing of bank loans in due course. On the other hand, the quick ratio fell mainly due to the escalation of the inventory in anticipation of business expansion. Both ratios stayed at acceptable levels with rooms for improvement when bank loans to be matured shortly are refinanced with long term arrangements.

## SHORTFALL UNDER PROFIT GUARANTEE

Pursuant to an agreement dated 22 December 2003 (the "Agreement") entered into between Sino Golf Manufacturing Company Limited ("SGMCL"), an indirect wholly owned subsidiary of the Company, and Mr. Chen Chien Hsiang ("Mr. Chen"), SGMCL acquired from Mr. Chen an additional 11.5% interest in the ordinary share capital of CTB Golf (HK) Limited ("CTB"), rendering CTB 62.5% then owned by the Group. 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 of HK\$8,522,000 ("Guaranteed Profit") for each of the five profit guaranteed years commencing on 1 January 2004. As the audited consolidated profit of CTB for the year ended 31 December 2006 was less than the Guaranteed Profit, SGMCL is entitled to a receivable of approximately HK\$737,000 from Mr. Chen calculated in accordance with the terms of the Agreement. The amount receivable from Mr. Chen has been accounted for in the balance sheet under other receivables and other payables.



# Management Discussion and Analysis

## CONTINUING CONNECTED TRANSACTIONS

On 18 April 2005, Sino Golf Comercial Offshore De Macau Limitada (“Sino Golf Macau”), an indirect wholly owned subsidiary of the Company, entered into a supply agreement (the “Supply Agreement”) with Nikko Bussan Co., Ltd. (“Nikko Bussan (Japan)”) for the supply of golf products to Nikko Bussan (Japan) subject to a cap of HK\$30,000,000 per annum. As Mr. Takanori Matsuura (deceased on 13 August 2006), who was a director of the Company, owned 58.75% of Nikko Bussan (Japan), the transactions contemplated under the Supply Agreement constitute continuing connected transactions (“Continuing Connected Transactions”) under Chapter 14A of the Listing Rules. The Supply Agreement and the annual cap were approved by the independent shareholders of the Company in a special general meeting held on 27 May 2005.

During the year, sale of golf products to Nikko Bussan (Japan) under the Supply Agreement amounted to approximately HK\$5,845,000, of which about HK\$3,592,000 represented sales for the period prior to the death of Mr. Takanori Matsuura. The Continuing Connected Transactions have been reviewed by the independent non-executive directors of the Company who confirmed that:

(i) the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group; (ii) the Continuing Connected Transactions have been entered into on an arm’s length basis, on normal commercial terms and on terms no less favorable than terms available to independent third parties or on terms that are fair and reasonable so far as the shareholders of the Company taken as a whole are concerned; (iii) the Continuing Connected Transactions have been carried out in accordance with the terms of the Supply Agreement; (iv) the Continuing Connected Transactions have received the approval of the Board; and (v) the Continuing Connected Transactions have not exceeded the annual cap of HK\$30,000,000.

The auditors of the Company have reviewed the Continuing Connected Transactions and confirmed in writing to the Board that (i) the Continuing Connected Transactions (i) have received the approval of the Board; (ii) are in accordance with the pricing policies of the Group; (iii) have been entered into in accordance with the relevant agreement governing the transactions; and (iv) have not exceeded the annual cap of HK\$30,000,000.

## NEW GOLF CLUB FACILITY UNDER CONSTRUCTION

At 31 December 2006, the Group invested in aggregate HK\$62.9 million in respect of the new golf club facility project in Shandong Province, the P.R.C., which comprised land premium and related costs of approximately HK\$15.7 million and progress payments on construction of approximately HK\$47.2 million. It is estimated that further cost relating mainly to electrical and ventilation systems of approximately HK\$20 million will be incurred in 2007, which will be financed by internal funding. Pre-operating expenses of approximately HK\$1.6 million incurred during the year have been charged to the profit and loss account.

The completion of the new golf club facility has been rescheduled to around third quarter of 2007 for reasons caused by design modifications and weather conditions. To expedite smooth operations when the new golf club facility is completed, a number of production related positions have been filled up and trainings are currently taking place at the Group’s main factory in Guangdong Province, the P.R.C. Trial production at the new golf club facility is anticipated to commence during the fourth quarter of 2007 and mass production is planned to start in early 2008. The new golf club facility is an important milestone for the Group with which we reaffirm our leading status and expect to materialize business dealings with potential top tier customers. The new golf club facility will provide the additional capacity necessary for satisfying the growing needs for golf clubs from both existing and potential new customers. Taking advantage of lower land and labor cost in Shandong Province, it is anticipated that the Group can achieve further cost savings when the new golf club facility commences operations.

# Management Discussion and Analysis

## **INDEPENDENT VALUATION OF PROPERTIES**

In accordance with Group policies, the properties of the Group comprising land and buildings at 31 December 2006 were revalued by an independent professional valuer. A revaluation deficit of approximately HK\$483,000 arose and was recorded to the asset revaluation reserve account.

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES**

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of operations to which they relate. The currencies giving rise to this risk are primarily United States dollars, Japan Yen and Renminbi.

## **EMPLOYEE AND REMUNERATION POLICIES**

At 31 December 2006, the Group employed a total of over 3,100 employees to work in Hong Kong, Macau, the P.R.C. and the United States. It is the Group's policy to pursue and promote a harmonious relation with its employees by offering competitive remuneration packages and training programs. The employees were remunerated based on their performance, experience and expertise as well as industry practices. The remuneration packages are reviewed annually to assure fairness and appropriateness and discretionary bonuses may be awarded to employees based on individual performance and contributions.

# Biographical Details of Directors and Management

## EXECUTIVE DIRECTORS

**CHU Chun Man, Augustine (“Augustine Chu”)**, aged 49, 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 23 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.

**CHU Yuk Man, Simon (“Simon Chu”)**, aged 51, is the brother of Augustine Chu. He has over 9 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 45, graduated from an industrial institution in Taiwan. Mr. Chang has over 24 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 78, has over 44 years of experience in trading business in Hong Kong. He is the President of Union International (HK) Company Limited. Mr. Choy is the Charter President of Hong Kong Kwun Tong Industries and Commerce Association Limited, Charter President of Hong Kong and Overseas Chinese Association of Commerce Ltd. Hon. Permanent President of Hong Kong Commerce Industrial Ltd., Hon. Life Chairman of Chinese General Chamber of Commerce, Hong Kong, Executive Committee Member of the Chinese Manufacturers’ Association of Hong Kong, Member of National Committee 9th of the Chinese People’s Political Consultative Conference, Executive Committee Member 8th of All China Federation of Industrial and Commerce, Hon. Director of China Overseas Friendship Association.

Mr. Choy is also an independent non-executive Director of Yanion International Holdings Limited (Stock Code: 082), Multifield International Holdings Limited (Stock Code: 898), Oriental Explorer Holdings Limited (Stock Code: 430), EVA Precision Industrial Holdings Limited (Stock Code: 838).

**CHIU Lai Kuen, Susanna**, aged 46, is the Senior Vice President of Li & Fung (Trading) Limited, responsible for operations of the LF1 Hardgoods business stream. Ms Chiu is a qualified Chartered Accountant from England, holds an Executive MBA degree from the Chinese University of Hong Kong. She is currently the Council Member of the HK Institute of Certified Public Accountant, Council Honorary Secretary of the HK Chinese Orchestra, Immediate Past President of ISACA (HK Chapter). Ms Chiu is also appointed by the government to serve on the Antiquities Advisory Board 2007. Ms Chiu is a member of the HK Institute of Directors. Ms Chiu brings considerable experience in business operations, finance, internal control and corporate governance.”

**TSE Ying Man**, aged 50, is a Taiwanese. He is the chairman of Approach Golf International Co., Ltd, which is a golf processing factory. Mr. Tse has over 32 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.

# Biographical Details of Directors and Management

## SENIOR MANAGEMENT

**CO Man Kwong, Rochester**, aged 44, is the operations director and company secretary of the Group and is 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.

**MAK Yat Ho, Humphrey**, aged 34, joined the Group in April 2005, and is the deputy financial controller of the Group. He is responsible for accounting, financial management and company secretarial affairs of the group. He holds a bachelor degree in Accountancy from the University of Wollongong in Australia and has more than 10 years of experience in auditing, finance and accounting. He is a member of the Certified Practising Accountants in Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

**LEE May Yee**, aged 37, is the senior marketing manager of the Group. Ms. Lee has over 14 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 43, 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 16 years of experience in the golf manufacturing industry.

**XIE Zi Peng**, aged 39, 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.

**HUNG Yi Chuan**, aged 44, is the assistant general manager of the Group's research and development department. He joined the Group in February 2000 and is currently in-charge of the overall research and development activities. Mr. Hung has more than 19 years experience in golf manufacturing industry.



Report of the Directors

# Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 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 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 49 to 106.

An interim dividend of HK3.3 cents per ordinary share was paid on 27 October 2006. The directors recommend the payment of a final dividend of HK2.2 cents per ordinary share in respect of the year to shareholders whose names appear on the register of members on 28 May 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years/period, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on pages 107 and 108. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment 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 30 and 31 to the financial statements, respectively.

## 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 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

# Report of the Directors

## DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution amounted to HK\$24,020,000. 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\$221,000.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 73% of the total sales for the year and sales to the largest customer included therein amounted to approximately 44%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

CHU Yuk Man, Simon

CHANG Hua Jung

Takanori MATSUURA (passed away on 13 August 2006)

### Independent non-executive directors:

CHOY Tak Ho

CHIU Lai Kuen, Susanna

TSE Ying Man

In accordance with article 87 of the Company's bye-laws, Chang Hua Jung will retire by rotation at the forthcoming annual general meeting.

The retiring director being eligible, will offer himself 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 18 to 19 of the annual report.

# Report of the Directors

## **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. These service contracts are exempt from the shareholders' approval requirement under Rule 13.68 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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 which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## **DIRECTORS' REMUNERATION**

With the shareholders' approval at general meetings, the Company's board of directors was authorised to fix the directors' remuneration including directors' fees. 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 38 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 or subsidiaries was a party during the year.

# Report of the Directors

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interests and short positions of the directors (including the director who passed away during the year) in the share capital and underlying shares 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 <sup>#</sup>		
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	57.84%

<sup>#</sup> These 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 issued share capital are owned by A & S Company Limited, approximately 16.80% of issued share capital are owned by Takanori Matsuura, approximately 4.18% of 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 is owned as to approximately 64% 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.

\* The director passed away on 13 August 2006 and his legacies have not yet been arranged.

# Report of the Directors

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

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

Name of director	Name of associated corporation	Relationship with the Company	Shares	Numbers of shares 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 director passed away on 13 August 2006.

The interests of the directors in the share options of the Company are separately disclosed in note 31 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 2006, none of the directors had registered an interest or short position in the shares, underlying shares, or debentures 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 31 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 or 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 31 to the financial statements.

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

At 31 December 2006, 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 issued held	Percentage of the Company's issued share capital
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%
Preferable Situation Assets Limited		Directly beneficially owned	15,600,000	5.16%
Webb David Micheal	(b)	Through a controlled corporation	15,600,000	5.16%
Webb David Micheal		Directly beneficially owned	2,606,000	0.86%
Hung Tze Nga, Cathy	(c)	Through spouse	171,544,038	56.77%
Hung Tze Nga, Cathy		Directly beneficially owned	1,000,000	0.33%

### Notes:

- (a) The interest disclosed are the shares directly beneficially 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 the shares owned by CM Investment Company Limited.
- (b) The interest disclosed are the shares directly beneficially owned by Preferable Situation Assets Limited. Preferable Situation Assets Limited is wholly owned by Webb David Michael, who reported the interest in shares of the Company owned by Preferable Situation Assets Limited as his 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 the shares owned by Chu Chun Man, Augustine.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

Save as disclosed above, as at 31 December 2006, 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 38 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 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.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules as at the date of this report.

## 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 remaining independent non-executive directors of the Company.

## COMPLIANCE WITH CHAPTER 13 OF THE LISTING RULES

As at 31 December 2006, the Company had loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholders of the Company during the tenure of such loan facilities. The specific performance obligations are that the controlling shareholders shall maintain a holding of no less than 51% in one case and 40% in another case of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and repayable on demand by the relevant lenders according to the respective terms and conditions thereof. The details of the loan facilities are as follows:

<b>Amounts outstanding as at 31 December 2006</b>	<b>Final maturity of the loan facilities</b>
HK\$4 million	February 2007
HK\$9.2 million	October 2007

# Report of the Directors

## POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 40 to the financial statements.

## 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

20 April 2007

# Corporate Governance Report

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "CG Code") of the Listing Rules throughout the year ended 31 December 2006, except for certain deviations which are explained below. The Company has also put in place certain Recommended Best Practices as set out in the CG Code.

## CG PRINCIPLES/CODE PROVISIONS AND SINO GOLF'S PRACTICES

### A. Director

#### *The Board*

#### **Code Principle**

The board should assume responsibilities for leadership and control of the issuer; and be responsible for directing and supervising the issuer's affairs.

Code provisions	Comply?	Governance Practices for Sino Golf																				
<ul style="list-style-type: none"> <li>At least four board meetings a year.</li> </ul>	✓	<ul style="list-style-type: none"> <li>The Board met nine times during the year.</li> <li>Details of Directors' attendance records in 2006:                             <table style="width: 100%; margin-left: 20px;"> <thead> <tr> <th colspan="2" style="text-align: right;"><b>Attendance</b></th> </tr> </thead> <tbody> <tr> <td colspan="2"><b>Executive Directors</b></td> </tr> <tr> <td>CHU Chun Man, Augustine (<i>Chairman</i>)</td> <td style="text-align: right;">9/9</td> </tr> <tr> <td>Takanori MATSUURA (<i>deceased on 13 August 2006</i>)</td> <td style="text-align: right;">0/9</td> </tr> <tr> <td>CHU Yuk Man, Simon</td> <td style="text-align: right;">8/9</td> </tr> <tr> <td>CHANG Hua Jung</td> <td style="text-align: right;">4/9</td> </tr> <tr> <td colspan="2"><b>Independent non-executive Directors</b></td> </tr> <tr> <td>TSE Ying Man</td> <td style="text-align: right;">4/9</td> </tr> <tr> <td>CHOY Tak Ho</td> <td style="text-align: right;">5/9</td> </tr> <tr> <td>CHIU Lai Kuen, Susanna</td> <td style="text-align: right;">6/9</td> </tr> </tbody> </table> </li> </ul>	<b>Attendance</b>		<b>Executive Directors</b>		CHU Chun Man, Augustine ( <i>Chairman</i> )	9/9	Takanori MATSUURA ( <i>deceased on 13 August 2006</i> )	0/9	CHU Yuk Man, Simon	8/9	CHANG Hua Jung	4/9	<b>Independent non-executive Directors</b>		TSE Ying Man	4/9	CHOY Tak Ho	5/9	CHIU Lai Kuen, Susanna	6/9
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<b>Independent non-executive Directors</b>																						
TSE Ying Man	4/9																					
CHOY Tak Ho	5/9																					
CHIU Lai Kuen, Susanna	6/9																					
<ul style="list-style-type: none"> <li>All directors be given an opportunity to include matters in the agenda for regular board meetings.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Directors are consulted to include any matter in the agenda for regular Board meetings.</li> </ul>																				
<ul style="list-style-type: none"> <li>Notice of at least 14 days be given of a regular board meeting.</li> </ul>	✓	<ul style="list-style-type: none"> <li>The Company generally gives notice and draft agenda of regular Board meetings at least 14 days in advance. The company aims at giving reasonable notice generally for all other Board meetings.</li> </ul>																				

# Corporate Governance Report

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>Access to advice and services of the company secretary.</li> </ul>	✓	<ul style="list-style-type: none"> <li>All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters.</li> </ul>
<ul style="list-style-type: none"> <li>Minutes of meetings kept by company secretary and open for inspection.</li> <li>Draft and final minutes sent to all Directors for comments within a reasonable time.</li> </ul>	✓	<ul style="list-style-type: none"> <li>The Company Secretary is responsible for taking minutes of Board and Board Committee meetings, which would be sent to Directors within a reasonable time (generally within 14 days) after each meeting and generally be made available for inspection by Directors/committee members.</li> </ul>
<ul style="list-style-type: none"> <li>Agreed procedure for Directors to seek independent professional advice at the Company's expense.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Sino Golf's corporate governance guidelines provide for Directors taking independent professional advice at the Company's expense.</li> </ul>
<ul style="list-style-type: none"> <li>If a substantial shareholder/director has a conflict of interest in a material matter, board meeting should be held. Such director must abstain from voting and not be counted in quorum.</li> </ul>	✓	<ul style="list-style-type: none"> <li>There is a prescribed list of matters reserved for full Board decision, which includes material transactions with connected persons.</li> <li>The Company's Bye Laws provide for voting and quorum requirements conforming with Code requirements (Bye Laws 114 - 116).</li> </ul>

The Board of Sino Golf is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The Management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established audit committee and remuneration committee and has delegated to these committees various responsibilities set out in their terms of reference respectively.

# Corporate Governance Report

## *Chairman and Chief Executive Officer*

### **Code Principle**

Clear division of responsibilities – separate offices of chairman and chief executive officer to ensure a balance of power and authority.

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>Roles of chairman and chief executive officer should be separate; clearly established and set out in writing.</li> </ul>	✘	<ul style="list-style-type: none"> <li>Chu Chun Man, Augustine, who acts as the Chairman of the Company, is also responsible for overseeing the general operations of the Group. The Company does not at present have any office with the title “Chief Executive Officer”. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.</li> <li>The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Company does not consider appointing a “Chief Executive Officer” at the present stage.</li> </ul>
<ul style="list-style-type: none"> <li>The Chairman should ensure all directors be briefed on issues arising at the board meetings.</li> <li>The chairman should ensure directors to receive adequate information in a timely manner.</li> </ul>	✓	<ul style="list-style-type: none"> <li>The Chairman has a clear responsibility to provide the whole Board with all the information that is relevant to the discharge of the Board’s responsibilities.</li> <li>The Company aims to continually improve on the quality and timeliness of the dissemination of information to Directors.</li> </ul>

# Corporate Governance Report

Recommended Best Practice	Comply?	Governance Practices for Sino Golf
<p>Various recommended roles for Chairman including:</p> <ul style="list-style-type: none"> <li>Drawing up and approving board agenda.</li> </ul>	✓	<ul style="list-style-type: none"> <li>The agenda of Board meetings is finalized by the Chairman in consultation with executive Directors and Company Secretary after taking into consideration any matters proposed by the independent non-executive Directors.</li> </ul>
<ul style="list-style-type: none"> <li>Establishment of good corporate governance practices and procedures.</li> <li>Encourage directors to make a full and active contribution to board affairs.</li> <li>Facilitate the effective contribution of non-executive directors and ensure constructive relations between executive and non-executive directors.</li> </ul>	✓	<ul style="list-style-type: none"> <li>The Chairman plays a key role in driving corporate governance development in the Company.</li> <li>An independent board committee comprising of non-executive directors will be formed, whenever necessary, to give recommendations to independent shareholders and board.</li> <li>An independent financial adviser will be appointed to give recommendations to the Independent Board Committee and independent shareholders where necessary.</li> </ul>

## *Board composition*

The list of all directors is set out under “Corporate Information” on page 2.

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under “Biographical Details of Directors and Management” on page 18 to 19 of the annual report.

## *Code Principle*

The board should have a balance of skills and experience appropriate to the requirements of the business of the issuer, which also consists of a balanced composition of executive and non-executive directors (including independent non-executive directors) so that independent judgment can effectively be exercised.

# Corporate Governance Report

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>Identify the independent non-executive directors in all corporate communications.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Composition of the Board, by category of Directors, including names of Chairman, executive Directors and Independent non-executive Directors is disclosed in all corporate communications.</li> </ul>
Recommended Best Practice		
<ul style="list-style-type: none"> <li>Independent non-executive directors should represent at least one-third of the board.</li> </ul>	✓	<ul style="list-style-type: none"> <li>The Board comprises three independent non-executive Directors representing more than one third of the full Board.</li> </ul>
<ul style="list-style-type: none"> <li>Maintain on the Company's website an updated list of its directors identifying their role and function and independence</li> </ul>	✓	<ul style="list-style-type: none"> <li>An updated list of the executive directors and independent non-executive directors is maintained on the Company's website.</li> <li>Biographies of Directors, including clear designation of their roles and responsibilities, are published in the annual report.</li> </ul>

Sino Golf's Board members bring an appropriate diverse set of experience, competencies, skills and judgment to the Board.

## *Skill/experience*

### **Executive Directors**

- Top management (strategic planning, corporate policy and overall management and marketing of Sino Golf) – CHU Chun Man, Augustine (Chairman) and Takanori MATSUURA (Director, Japanese market, deceased on 13 August 2006)
- Business line – CHU Yuk Man, Simon (Director, Marketing and Customer Relation)
- Production and Research Development – CHANG Hua Jung (Director, Production and Research Development)

### **Independent non-executive Directors**

- Trading companies exposure – CHOY Tak Ho
- Related business (Golf manufacturing) – TSE Ying Man
- I.T. and Corporate Governance – CHIU Lai Kuen, Susanna

# Corporate Governance Report

## *Appointments, re-election and removal*

### **Code Principle**

Formal, considered and transparent procedures should be established for the appointment of new directors. Significant emphasis should also be placed on issue of succession planning.

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>Non-executive directors should be appointed for a specific term, subject to re-election.</li> <li>Every director should be subject to rotation at least once every three years.</li> <li>All directors appointed to fill a casual vacancy should be subject to election at the first and subsequent general meeting.</li> </ul>	<p>✓ with deviation</p>	<ul style="list-style-type: none"> <li>Although the independent non-executive directors have not been appointed for any specific terms, they are required by the Company's Bye Laws to retire by rotation approximately once every three years at the Company's annual general meeting.</li> <li>The Company's Bye Law 87(1) provides that the chairman of the Board and/or the managing director shall not be subject to retirement by rotation. Such provisions are inconsistent with the Code Provision A.4.2. Nonetheless, the Company has, in practice, complied with and adopted the said Code Provision as Mr. Chu Chun Man, Augustine, Chairman of the Board, voluntarily offered himself to retire at the 2006 annual general meeting along with Mr. Chu Yuk Man, Simon and Mr. Choy Tak Ho. To conform with Code Provision A.4.2, a special resolution will be proposed at the 2007 annual general meeting of the Company to amend the Company's Bye Laws so that all directors will be subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.</li> </ul>

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

According to clauses 87(1) and 87(2) of the Company's Bye-Laws, Mr. Chang Hua Jung will retire and offer himself for re-election at the 2007 annual general meeting.

# Corporate Governance Report

The Board recommended the re-appointment of the director standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 27 April 2007 contains detailed information of the director standing for re-election.

## *Responsibilities of directors*

### **Code Principle**

All directors (including non-executive directors) are required to keep abreast of their responsibilities as directors of an issuer and of the conduct, business activities and development of that issuer.

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>Every newly appointed director should receive a comprehensive, formal and tailored induction to ensure that he/she has a proper understanding of the business, his/her responsibilities under the Listing Rules, applicable regulatory requirements, business and governance policies of the issuer.</li> </ul>	✓	<ul style="list-style-type: none"> <li>On appointment, new Directors will be given a comprehensive orientation package, including introduction to Group activities, induction into their responsibilities and duties, and other regulatory requirements.</li> <li>Non-executive Directors are regularly updated with management's strategic plans, lines of business, financial objectives, plans and actions.</li> <li>The Company Secretary is responsible for keeping all Directors updated on Listing Rules and other statutory requirements.</li> </ul>
<ul style="list-style-type: none"> <li>Functions of non-executive directors should include:                             <ul style="list-style-type: none"> <li>bringing an independent judgment at the board meeting;</li> <li>taking the lead where potential conflicts of interests arise;</li> <li>serving on committees if invited;</li> <li>scrutinising the issuer's performance and monitoring the reporting of performance.</li> </ul> </li> <li>Directors should ensure that they can give sufficient time and attention to the affairs of the issuer.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Strategic planning and monitoring are two distinct but intertwined roles of Sino Golf Directors. Strategic planning should be based on an identification of the opportunities and the full ranges of risks that will determine which of these opportunities are worth pursuing.</li> </ul> <p>On an on-going basis, the Board will review with management how the strategic environment is changing, what major risks and opportunities have emerged, how they are being managed and what, if any, adjustments in strategic direction would be required.</p> <ul style="list-style-type: none"> <li>There is satisfactory attendance for Board and Board Committee meetings in 2006.</li> </ul>

# Corporate Governance Report

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>Directors must comply with their obligations under the Model Code set out in Appendix 10.</li> </ul>	✓	<ul style="list-style-type: none"> <li>The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2006.</li> <li>The Company also has established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.</li> <li>No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.</li> </ul>

## *Supply of and access to information*

### **Code Principle**

Directors should be provided in a timely manner with appropriate information so as to enable them to make an informed decision and to discharge their duties and responsibilities.

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>Board papers should be sent to all directors at least three days before the date of board/committee meeting.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Board papers are sent to all Directors at least 3 days before the date of board/committee meeting.</li> </ul>
<ul style="list-style-type: none"> <li>Each director should have separate and independent access to senior management.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Senior management is from time to time brought into formal and informal contact with the Board at board meetings and other events.</li> </ul>
<ul style="list-style-type: none"> <li>Directors are entitled to have access to board papers; steps must be taken to respond properly and fully to director queries.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Board papers and minutes are available for inspection by Directors and Committee Members.</li> </ul>

# Corporate Governance Report

## B. Remuneration of Directors and Senior Management

### *The level and make-up of remuneration and disclosure*

#### **Code Principle**

A formal and transparent procedure should be established for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. No director should be involved in deciding his own remuneration.

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>• Issuers should establish a remuneration committee with specific written terms of reference (containing the minimum prescribed duties) which information is available on request and on the Company's website. A majority of the members should be independent non-executive directors.</li> </ul>	✓	<ul style="list-style-type: none"> <li>• The remuneration committee with written terms of reference was set up on 23 September 2005. It comprises three independent non-executive directors and two executive directors. The terms of reference are available on request and on the Company's website.</li> </ul>
<ul style="list-style-type: none"> <li>• The committee should consult the chairman and/or chief executive officer regarding proposed remuneration of other executive directors and have access to professional advice where necessary.</li> </ul>	✓	<ul style="list-style-type: none"> <li>• The remuneration committee is responsible for formulating and making recommendation to the Board on the Group's policy and structure for all remuneration of the Directors of the Company and senior management of the Group.</li> </ul>
<ul style="list-style-type: none"> <li>• The remuneration committee should be provided with sufficient resources to discharge its duties.</li> </ul>	✓	<ul style="list-style-type: none"> <li>• Independent professional advice will be sought to supplement internal resources where necessary.</li> </ul>
Recommended Best Practice		
<ul style="list-style-type: none"> <li>• A significant proportion of executive directors' remuneration should be linked to corporate and individual performance.</li> </ul>	✓	<ul style="list-style-type: none"> <li>• The directors' remuneration is determined by the Company in general meeting. It is delegated to the Board by the shareholders at the AGM. The emolument is determined with reference to the directors' duties, responsibilities, performance and the results of the Group.</li> </ul>

# Corporate Governance Report

## *Remuneration Committee*

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets towards the end of each year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee met once during the year ended 31 December 2006 and reviewed the remuneration policy and structure of the Company and remuneration packages of the directors and the senior management for the year under review.

Details of attendance records of Remuneration Committee meetings in 2006:

<b>Executive Directors</b>	<b>Attendance</b>
CHU Chun Man, Augustine	1/1
CHU Yuk Man, Simon	1/1
<b>Independent non-executive Directors</b>	
TSE Ying Man ( <i>Chairman</i> )	1/1
CHOY Tak Ho	1/1
CHIU Lai Kuen, Susanna	1/1

# Corporate Governance Report

## C. Accountability and Audit

### *Financial reporting*

#### **Code Principle**

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>Management should provide explanation and information to enable the board to make informed assessment of relevant matters.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Directors are regularly kept informed and updated with management's strategic plans, lines of business, financial objectives, plans and actions.</li> </ul>
<ul style="list-style-type: none"> <li>The directors should acknowledge their responsibility for preparing the accounts; there should be a statement by the auditors regarding their reporting responsibilities in the auditors' report.</li> </ul>	✓	<ul style="list-style-type: none"> <li>A Statement of Director Responsibilities for Financial Statements is set out in this Annual Report on page 48.</li> <li>The statement of the external auditors about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 48.</li> </ul>
<ul style="list-style-type: none"> <li>The Board's responsibility to present a balanced, clear and understandable assessment extends to annual/interim reports, other price-sensitive announcements and other financial disclosures/reports under the Listing Rules and statutory requirements.</li> </ul>	✓	<ul style="list-style-type: none"> <li>The Board aims to present a comprehensive, balanced and understandable assessment of the Group's position and prospects in all shareholder communications.</li> </ul>

The remuneration paid/payable to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2006 amounted to HK\$1,330,000 and HK\$99,200 respectively.

# Corporate Governance Report

## Internal Controls

### Code Principle

The board should maintain a sound and effective internal controls system to safeguard the shareholders' investment and the issuer's assets.

Code provisions	Comply?	Governance Procedures for Sino Golf
<ul style="list-style-type: none"> <li>The directors should at least annually conduct a review of the effectiveness of the system of internal controls.</li> </ul>	✓	<ul style="list-style-type: none"> <li>The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness.</li> <li>Management is charged with the responsibility to design and implement an appropriate system of internal controls.</li> <li>Management regularly reviews the effectiveness of the risk management and system of internal controls. Key findings are reported to the Audit Committee and the Board.</li> <li>The Board has engaged an external professional adviser to assist it to conduct an annual review of the effectiveness of the system of internal controls of the Group and is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report is sound and effective to safeguard the shareholders' investment and the Group's assets.</li> </ul>

At Sino Golf, Management is primarily responsible for the design, implementation and maintenance of internal controls. The Board and its Audit Committee oversee the actions of Management and monitor the effectiveness of the controls that have been put in place. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage, rather than eliminate, risks of failure in operational systems and achievement of the Group's objectives.

Our system of internal controls comprises the following five interrelated components:

1. Control Environment
2. Risk Assessment
3. Information and communication
4. Control Activities
5. Monitoring

# Corporate Governance Report

## *Control Environment*

Sino Golf's directors bring an appropriate diverse set of experience, competencies, skill and judgment to the Board, which has a strong commitment to integrity and high ethical values. The Group's value and behavioral standards are explicitly communicated to all employees through the terms in the employment contracts, internal circulars and a formal Code of Conduct.

The Board and its Audit Committee actively participate in the Group's corporate governance and oversight. Major transactions have to be reviewed and approved by the Board/Audit Committee. All members of the Audit Committee are independent non-executive directors with appropriate experiences and expertise and one of them is a qualified accountant. Independent professional advice, where necessary, is available for them to discharge their duties and responsibilities, which are outlined in its term of reference.

The Group has well-defined lines of authority and control responsibilities within the organization structure. Every employee has a written job descriptions and performance is evaluated and reviewed annually.

The management team possesses broad functional skill and experiences appropriate to the Group's business requirement. It is committed to provide sufficient competent personnel to keep pace with the growth and complexity of the business. It has adopted a conservative financial reporting philosophy thereby biases that may affect significant accounting estimates and other judgments are minimized. Significant issues relating to internal control and accounting matters are consulted with the auditors and the Audit Committee. Any identified deficiencies in the internal controls are discussed, investigated and corrected on a timely basis.

## *Risk Assessment*

Strategic planning is one of the distinct roles of the Board. It is based on an identification of the opportunities and the full ranges of risks that determine which of these opportunities are worth pursuing. On an on-going basis, the Board reviews with Management of the changes in the strategic environment, the management of major risks and opportunities and adjustments in strategic direction.

The market trends are actively monitored through internal research and attendance of local and overseas business shows and exhibitions and visits to overseas customers. Key financial and operational performance indicators are reviewed to monitor the Group's performance. Annual employee performance and compensation review is conducted to ensure that quality staff is retained in the Group.

The regulatory environment is monitored through attendance to professional seminars and conferences periodically. Qualified accountants are hired in key positions to ensure high level of competence and quality. The accounting department is promptly notified of any changes that may affect the process of recording transactions. Policies and procedures are also revised to reflect significant changes in internal control of the operating environment as a result of new or changing regulations. Significant changes in accounting practices have to be reviewed and approved by the Audit Committee. Procedures are established to identify related party transactions and the latter is reviewed and approved by the Audit Committee. Unauthorized use of confidential and insider information is strictly prohibited and is stipulated in both the employment contracts and the Code of Conduct.

# Corporate Governance Report

Information that is or is expected to be price-sensitive is submitted to the Board for discussion. Professional advice is sought promptly whenever necessary and details of the enquiries, discussion and advice are documented. Consultation with the Exchange is also sought promptly whenever there is any doubt. Once a decision is made and approved for the disclosure of price-sensitive information, arrangement will be made for reporting to the Exchange and announcement to the public as soon as practicable. All such information is kept strictly confidential until an announcement is made.

## *Information and communication*

Management is committed to provide sufficient human and financial resources to develop or revise the necessary information systems in response to the Group's business strategy, or process and application objectives. The Group's information systems provide Management with sufficient details on a timely basis to enable it to carry out its responsibilities efficiently and effectively. Procedures and guidelines are established for timely and appropriate response to external enquiries about the Group's affairs. Senior staff of the Group are identified and authorized to act as its spokespersons in response to enquiries in designated area of issues. The Group's objectives are communicated to the employees through staff meetings and internal circulars. All employees are encouraged to report any potential improprieties or constructive suggestions to Management and they will be handled confidentially to the extent possible under the circumstances. Lines of authority and responsibilities are clearly defined and every employee has a written job descriptions. Procedures and guidelines are established to ensure that proper controls are in place for safeguarding assets and the recording of complete, accurate and timely accounting and management information. They are reviewed by the Operations Director and the Deputy Financial Controller periodically and discussed with the Audit Committee where necessary. Regular audits are carried out to ensure that the financial statements are prepared in accordance with generally accepted accounting principles, legislation, regulations, and the group's policies.

## *Control Activities*

Policies and procedures are reviewed periodically for appropriateness to the Group's business. All valuable assets are properly secured and register is maintained for all fixed assets. Physical checks are performed periodically. Programs and data files are backed up daily and access to specific applications and databases are restricted to authorized personnel. Procedures and guidelines are established for implementing, documenting, testing and approving changes to computer programs. Major information system projects and resources priorities are to be reviewed by the Audit Committee. Duties are segregated so that no one is responsible for both asset custody and records keeping. All transactions are properly documented and approved by authorized personnel. Significant accounting estimates and unusual transactions are to be reviewed by the Board/Audit Committee. Accounting and closing practices are followed consistently throughout the year. Key performance indicators and monthly financial statements accompanied by analytical comments are prepared and submitted to Management for review. Quarterly financial reports are to be reviewed by the Audit Committee.

## *Monitoring*

Internal audit plays an important role in monitoring the Group's internal governance and provides an objective assurance to the Board that a sound internal control system is maintained and operated by Management in compliance with the Group's policies. An independent internal audit department, headed by a member of the Institute of Internal Auditors, has been set up to monitor the Group's activities and to ensure that they are carried out in accordance with the policies laid down by Management. The scope of planned internal audit activities is reviewed in advance with Management. Independent reviews of different financial, business and functional operations and activities are conducted with resources focused on higher risk areas. Ad hoc reviews are also conducted on areas of concern identified by Management. Procedures and control processes are reviewed periodically to ensure that the controls are in place and applied as expected. Exceptions and overrides are investigated and corrective actions are taken promptly on deficiencies. Findings and recommendations from internal auditors and regulators are timely addressed by Management.

# Corporate Governance Report

## *Audit Committee*

### **Code Principle**

The audit committee should have clear terms of reference, including arrangements for considering how it applies the financial reporting and internal controls principles. The committee should maintain an appropriate relationship with the company's auditors.

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>Minutes be kept by a duly appointed secretary; and should be sent to all committee members within a reasonable time.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Draft minutes prepared by the Company Secretary are sent to members generally within 14 days of each meeting.</li> </ul>
<ul style="list-style-type: none"> <li>A former partner of the existing auditors should not sit on the Audit Committee.</li> </ul>	✓	<ul style="list-style-type: none"> <li>None of the three Audit Committee members are former partners of the external auditors.</li> </ul>
<ul style="list-style-type: none"> <li>The terms of reference of audit committee (containing the minimum prescribed duties) be made available on request and on the Company's website.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Full terms of reference are available on request and on the Company's website.</li> </ul>
<ul style="list-style-type: none"> <li>Where the Board disagrees with the audit committee's view on the selection, appointment, resignation or the dismissal of the external auditors, there should be a statement from the audit committee explaining its recommendation and the reason(s) why the board has taken a different view.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Audit Committee recommended to the Board (which in turn endorsed the view) that, subject to shareholders' approval at the forthcoming AGM, Ernst &amp; Young be reappointed as the external auditors for 2007.</li> </ul>
<ul style="list-style-type: none"> <li>The audit committee should be provided with sufficient resources to discharge its duties.</li> </ul>	✓	<ul style="list-style-type: none"> <li>There is an agreed procedure for Audit Committee members to take independent professional advice at Company's expense.</li> </ul>

# Corporate Governance Report

Recommended Best Practice	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>• Terms of reference include:               <ul style="list-style-type: none"> <li>– Review arrangements by which employees of the issuer may, in confidence, raise concerns about possible improprieties.</li> <li>– Oversee the issuer's relation with the external auditor.</li> </ul> </li> </ul>	✓	<ul style="list-style-type: none"> <li>• The arrangement is included in the Company's Code of Conduct – Employees/Directors.</li> <li>• The Audit Committee oversees the relationship of management with the external auditors.</li> </ul>

## *Audit Committee*

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise).

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held three meetings during the year ended 31 December 2006 to review the financial results and reports, financial reporting and compliance procedures, the internal control and risk management, the report of External Auditor to the Audit Committee in relation to the audit of the consolidated financial statements of the Group and the re-appointment of the external auditors.

The Company's annual results for the year ended 31 December 2006 has been reviewed by the Audit Committee.

Details of attendance records of Audit Committee Meetings in 2006:

Independent non-executive Directors	Attendance
CHIU Lai Kuen, Susanna ( <i>Chairman</i> )	3/3
CHOY Tak Ho	2/3
TSE Ying Man	3/3

# Corporate Governance Report

## D. Delegation by the Board

### *Management functions*

#### **Code Principle**

An issuer should have a formal schedule of matters reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>Board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the board.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Matters reserved for the Board's decision includes:                             <ul style="list-style-type: none"> <li>Long-term objectives and strategies of the Group;</li> <li>Material change in or extension of group activities into new business areas;</li> <li>Preliminary announcements of interim and final results;</li> <li>Dividends;</li> <li>Material banking facilities;</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Formalize the functions reserved to the board and those delegated to management.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Material acquisitions and disposals of assets and/or business;</li> <li>Annual assessment of the effectiveness of the internal controls;</li> <li>Appointment of members to the Board; and</li> <li>Other matters of significance, which the management submits for the Board's consideration and decision.</li> </ul>
Recommended Best Practice		
<ul style="list-style-type: none"> <li>Issuers should have formal letters of appointment for directors setting out the key terms and conditions relative to their appointment.</li> </ul>	✓	<ul style="list-style-type: none"> <li>A formal appointment letter, setting out the key terms and conditions relative to their appointment, will be prepared for each newly appointed Director.</li> </ul>

# Corporate Governance Report

## Board Committees

### Code Principle

Board committees should be formed with specific written terms of reference that deal clearly with the committees' authority and duties.

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>Clear terms of reference to enable proper discharge of committee functions.</li> </ul>	✓	<ul style="list-style-type: none"> <li>The Board has established two Board Committees (i.e. the audit committee and the remuneration committee) with specific terms of reference.</li> </ul>
<ul style="list-style-type: none"> <li>The terms of reference should require committees to report their decisions to the board.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Board Committees present their respective reports to the Board after each meeting, which reports address their work and findings.</li> </ul>

## E. Communication with Shareholders

### Effective communication

#### Code Principle

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>A separate resolution be proposed by the chairman for each substantially separate issue.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Separate resolutions are proposed at the meeting on each substantially separate issue, including the election of individual directors.</li> </ul>
<ul style="list-style-type: none"> <li>The chairman of the board should attend the general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) to be present.</li> </ul>	✓	<ul style="list-style-type: none"> <li>The Chairman of the Board and two other directors including an independent non-executive director were present in the 2006 Annual General Meeting to answer questions raised by the shareholders.</li> </ul>

# Corporate Governance Report

## *Voting by poll*

### **Code Principle**

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.

Code provisions	Comply?	Governance Practices for Sino Golf
<ul style="list-style-type: none"> <li>The general meeting circulars should disclose the procedures and rights of shareholders to demand a poll.</li> </ul>	✓	<ul style="list-style-type: none"> <li>Procedures for demanding a poll were set out in the circular accompanying the AGM Notice. Poll procedures were also explained during the AGM proceedings. The Chairman of the meeting has demanded poll on each and every resolution put to the vote in the 2006 AGM.</li> <li>The Share Registrars of the Company was appointed as scrutineer.</li> <li>Poll results were published in major Hong Kong newspapers on the business day following the meeting and posted on the websites of the Stock Exchange and the Company.</li> </ul>
<ul style="list-style-type: none"> <li>Ensure that votes cast are properly counted and recorded.</li> </ul>		
<ul style="list-style-type: none"> <li>Chairman of meeting should adequately explain the poll procedures at the commencement of the meeting.</li> </ul>		

# Independent Auditors' Report



**To the shareholders of Sino Golf Holdings Limited**  
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Sino Golf Holdings Limited set out on pages 49 to 106, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Ernst & Young

*Certified Public Accountants*

18/F., Two International Finance Centre

8 Finance Street

Hong Kong

20 April 2007

# Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
REVENUE	5	497,502	371,989
Cost of sales		(359,597)	(264,935)
Gross profit		137,905	107,054
Other income and gain	5	1,655	7,010
Selling and distribution costs		(23,850)	(12,273)
Administrative expenses		(53,549)	(50,243)
Other expenses		(6,844)	(7,511)
Finance costs	7	(20,603)	(12,058)
PROFIT BEFORE TAX	6	34,714	31,979
Tax	10	(1,580)	(1,130)
PROFIT FOR THE YEAR		33,134	30,849
Attributable to:			
Equity holders of the parent	11	33,315	31,560
Minority interests		(181)	(711)
		33,134	30,849
DIVIDENDS	12		
Interim		9,973	9,066
Proposed final		6,648	12,088
		16,621	21,154
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		HK11.0 cents	HK10.4 cents
Diluted		HK11.0 cents	N/A

# Consolidated Balance Sheet

31 December 2006

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i> (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	156,674	140,379
Prepaid land lease payments	15	20,765	20,736
Goodwill	16	25,723	25,723
Prepayments for acquisition of items of property, plant and equipment		29,517	7,984
<b>Total non-current assets</b>		<b>232,679</b>	194,822
<b>CURRENT ASSETS</b>			
Inventories	18	151,062	123,970
Prepaid land lease payments	15	459	459
Trade receivables	19	16,295	27,099
Prepayments, deposits and other receivables	20	15,702	27,068
Derivative financial instruments	22	–	172
Tax recoverable		–	559
Cash and bank balances	23	73,105	79,141
<b>Total current assets</b>		<b>256,623</b>	258,468
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	24	53,967	45,644
Other payables and accruals	25	37,811	42,387
Due to related parties	26	454	–
Tax payable		2,090	–
Interest-bearing bank and other borrowings	27	149,059	138,860
<b>Total current liabilities</b>		<b>243,381</b>	226,891
<b>NET CURRENT ASSETS</b>		<b>13,242</b>	31,577
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>245,921</b>	226,399
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	27	42,842	36,950
Deferred tax liabilities	29	2,718	3,459
<b>Total non-current liabilities</b>		<b>45,560</b>	40,409
<b>Net assets</b>		<b>200,361</b>	185,990
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	30	30,220	30,220
Reserves	32(a)	160,926	141,010
Proposed final dividend	12	6,648	12,088
<b>Minority interests</b>		<b>197,794</b>	183,318
		<b>2,567</b>	2,672
<b>Total equity</b>		<b>200,361</b>	185,990

Chu Chun Man, Augustine  
Director

Chu Yuk Man, Simon  
Director

# Consolidated Statement of Changes in Equity

Year ended 31 December 2006

	Attributable to equity holders of the parent											
	Issued	Share		Asset	Exchange	Share		Proposed		Minority	Total	
	share	premium	Contributed	revaluation	fluctuation	option	Retained	final	Total	interests	equity	
Notes	capital	account	surplus	reserve	reserve	reserve	profits	dividend				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(note 30)		(note 32(a))									
At 1 January 2005		30,220	57,270	10,564	25,042	1,846	-	33,669	-	158,611	10,697	169,308
Exchange realignment		-	-	-	-	2,329	-	-	-	2,329	-	2,329
Total income and expense recognised												
directly in equity		-	-	-	-	2,329	-	-	-	2,329	-	2,329
Profit for the year		-	-	-	-	-	-	31,560	-	31,560	(711)	30,849
Total income and expense for the year		-	-	-	-	2,329	-	31,560	-	33,889	(711)	33,178
Disposal of a subsidiary	33	-	-	-	(199)	-	-	-	-	(199)	(5,962)	(6,161)
Acquisition of minority interests		-	-	-	-	-	-	-	-	-	(1,352)	(1,352)
Equity-settled share option expense	31	-	-	-	-	-	83	-	-	83	-	83
2005 interim dividend	12	-	-	-	-	-	-	(9,066)	-	(9,066)	-	(9,066)
Proposed 2005 final dividend	12	-	-	-	-	-	-	(12,088)	12,088	-	-	-
At 31 December 2005		30,220	57,270*	10,564*	24,843*	4,175*	83*	44,075*	12,088	183,318	2,672	185,990
At 1 January 2006		30,220	57,270	10,564	24,843	4,175	83	44,075	12,088	183,318	2,672	185,990
Changes in fair value of land and building		-	-	-	(483)	-	-	-	-	(483)	-	(483)
Exchange realignment		-	-	-	-	3,393	-	-	-	3,393	76	3,469
Total income and expense for the year												
recognised directly in equity		-	-	-	(483)	3,393	-	-	-	2,910	76	2,986
Profit for the year		-	-	-	-	-	-	33,315	-	33,315	(181)	33,134
Total income and expense for the year		-	-	-	(483)	3,393	-	33,315	-	36,225	(105)	36,120
Equity-settled share option expense	31	-	-	-	-	-	312	-	-	312	-	312
2005 final dividend declared		-	-	-	-	-	-	-	(12,088)	(12,088)	-	(12,088)
2006 interim dividend	12	-	-	-	-	-	-	(9,973)	-	(9,973)	-	(9,973)
Proposed 2006 final dividend	12	-	-	-	-	-	-	(6,648)	6,648	-	-	-
At 31 December 2006		30,220	57,270*	10,564*	24,360*	7,568*	395*	60,769*	6,648	197,794	2,567	200,361

\* These reserve accounts comprise the consolidated reserves of HK\$160,926,000 (2005: HK\$141,010,000) in the consolidated balance sheet.

# Consolidated Cash Flow Statement

Year ended 31 December 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		34,714	31,979
Adjustments for:			
Interest expense	7	9,248	8,498
Interest incomes	6	(821)	(748)
Fair value gains on interest rate swaps	6	–	(2,060)
Loss on derecognition of interest rate swaps	6	172	–
Depreciation	6	13,557	15,095
Recognition of prepaid land lease payments	6	493	161
Gain on disposal of items of property, plant and equipment	6	(150)	–
Write-off of items of property, plant and equipment	6	103	385
Equity-settled share option expense	6	312	83
Write-off of obsolete inventories	6	–	5,379
Impairment of trade receivables	6	822	352
Gain on disposal of a subsidiary	6	–	(2,581)
		<b>58,450</b>	<b>56,543</b>
Increase in inventories		(27,092)	(31,065)
Decrease in trade receivables		9,982	11,111
Decrease/(increase) in prepayments, deposits and other receivables		11,366	(1,816)
Increase in amounts due to related parties		454	–
Increase/(decrease) in trade and bills payables		8,323	(5,947)
Increase/(decrease) in other payables and accruals		(4,576)	14,743
Cash generated from operations		56,907	43,569
Interest received		821	748
Tax paid in the PRC		(469)	(81)
Hong Kong profits tax (paid)/refunded		797	(1,157)
Net cash inflow from operating activities		<b>58,056</b>	<b>43,079</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		(15,149)	(31,041)
Proceeds from disposal of items of property, plant and equipment		844	–
Additions of prepaid land lease payments	15	–	(4,641)
Prepayments for acquisition of items of property, plant and equipment		(29,517)	(7,984)
Acquisition of an additional equity interest in a subsidiary		–	(2,625)
Disposal of a subsidiary	33	–	9,405
Net cash outflow from investing activities		<b>(43,822)</b>	<b>(36,886)</b>

# Consolidated Cash Flow Statement

Year ended 31 December 2006

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
		(Restated)
Net cash outflow from investing activities	(43,822)	(36,886)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
New bank loans	102,991	40,371
Repayment of bank loans	(91,553)	(33,938)
Interest paid	(9,142)	(8,493)
Dividends paid	(22,061)	(9,066)
Interest element of finance leases	(106)	(5)
Capital element of finance leases	(555)	(87)
Net cash outflow from financing activities	(20,426)	(11,218)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(6,192)</b>	<b>(5,025)</b>
Cash and bank balances at beginning of year	79,141	84,050
Effect on foreign exchange rate change, net	156	116
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>73,105</b>	<b>79,141</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	73,105	79,141

# Balance Sheet

31 December 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	17	109,823	114,424
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables	20	1,705	1,784
Cash and bank balances		137	38
<b>Total current assets</b>		<b>1,842</b>	1,822
<b>CURRENT LIABILITIES</b>			
Other payables and accruals	25	155	7
<b>NET CURRENT ASSETS</b>		<b>1,687</b>	1,815
<b>Net assets</b>		<b>111,510</b>	116,239
<b>EQUITY</b>			
Issued capital	30	30,220	30,220
Reserves	32(b)	74,642	73,931
Proposed final dividend	12	6,648	12,088
<b>Total equity</b>		<b>111,510</b>	116,239

**Chu Chun Man, Augustine**  
*Director*

**Chu Yuk Man, Simon**  
*Director*

# Notes to Financial Statements

31 December 2006

## 1. CORPORATE INFORMATION

Sino Golf Holdings Limited is a limited liability company incorporated in Bermuda. The principal place of business 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:

- manufacture and trading of golf equipment, and related components and parts; and
- manufacture and trading of golf bags, other accessories, and related components and parts.

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

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 buildings and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

# Notes to Financial Statements

31 December 2006

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) *HKAS 21 The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) *HKAS 39 Financial Instruments: Recognition and Measurement*

(i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intra-group forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

# Notes to Financial Statements

31 December 2006

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

### (c) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

# Notes to Financial Statements

31 December 2006

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity 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 income statement to the extent of dividends received or receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

#### *Goodwill on acquisitions for which the agreement date is on or after 1 January 2005*

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

# Notes to Financial Statements

31 December 2006

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Goodwill *(continued)*

#### *Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (continued)*

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

### Impairment of non-financial assets other than goodwill

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, 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 such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

# Notes to Financial Statements

31 December 2006

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is a member of the key management personnel of the Group or its parent;
- (c) the party is a close member of the family of any individual referred to in (a) or (b); or
- (d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c).

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the 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 income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the 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 2006

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment and depreciation *(continued)*

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

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

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

### Leases

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 property, plant and equipment, and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement 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 receivable under the operating leases are credited to the income statement 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 income statement on the straight-line basis over the lease terms.

# Notes to Financial Statements

31 December 2006

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *Leases (continued)*

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

### **Investments and other financial assets**

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount as premium on acquisition and includes fees that are an internal part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

### **Impairment of financial assets**

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

# Notes to Financial Statements

31 December 2006

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of financial assets *(continued)*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

# Notes to Financial Statements

31 December 2006

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Derecognition of financial assets *(continued)*

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing bank and other borrowings)

Financial liabilities, including trade and other payables, interest-bearing bank and other borrowings and amounts due to related parties, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

### Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

### Derecognition of financial liabilities

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

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

# Notes to Financial Statements

31 December 2006

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of interest rate swap contracts is determined by reference to the present value of estimated future cash flows.

### 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.

### 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.

# Notes to Financial Statements

31 December 2006

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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, 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 credits 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 credits 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.

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 reassessed at each balance sheet date and 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.

# Notes to Financial Statements

31 December 2006

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income tax *(continued)*

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 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 an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (c) rental income, on a time proportion basis over the lease terms; and
- (d) other income, on an accrual basis.

### Employee benefits

#### *Share-based payment transactions*

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model, further details of which are given in note 31. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

# Notes to Financial Statements

31 December 2006

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Employee benefits *(continued)*

#### *Share-based payment transactions (continued)*

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

#### *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 schemes*

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 income statement 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.

# Notes to Financial Statements

31 December 2006

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Employee benefits *(continued)*

#### *Retirement benefits schemes (continued)*

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The assets of the scheme 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 income statement as they become payable in accordance with the rules of the central pension scheme.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity 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.

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

# Notes to Financial Statements

31 December 2006

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies *(continued)*

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into 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.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK\$25,723,000 (2005: HK\$25,723,000). More details are given in note 16 to the financial statements.

### Provision against inventories

A provision for inventories is made when the net realisable values of the inventories are less than their costs. Net realisable value is determined by reference to the estimated selling price less further cost to completion and disposal.

Estimating the selling price requires the Group to establish an estimated amount at which the inventories can be disposed of at arm's length and on normal commercial terms. Further cost to completion and disposal is ascertained by estimating the additional costs, including selling expense, to be incurred to allow the disposal of the inventories to materialise.

## 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 operations and the products they provide. Each of the group's business segments represents 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 of manufacture and trading of golf equipment, and related components and parts; and
- (b) the golf bag segment comprises of manufacture and trading of golf bags, other accessories, and related components and parts.

# Notes to Financial Statements

31 December 2006

## 4. SEGMENT INFORMATION *(continued)*

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.

### (a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group	Golf equipment		Golf bag		Eliminations		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
<b>Segment revenue:</b>								
Sales to external customers	402,188	301,046	91,188	66,211	-	-	493,376	367,257
Intersegment revenue	4,475	4,217	11,079	6,242	(15,554)	(10,459)	-	-
Other revenue	3,093	9,124	1,867	1,870	-	-	4,960	10,994
<b>Total</b>	<b>409,756</b>	<b>314,387</b>	<b>104,134</b>	<b>74,323</b>	<b>(15,554)</b>	<b>(10,459)</b>	<b>498,336</b>	<b>378,251</b>
<b>Segment results</b>	<b>48,949</b>	<b>41,514</b>	<b>5,547</b>	<b>1,775</b>			<b>54,496</b>	<b>43,289</b>
Interest income							821	748
Finance costs							(20,603)	(12,058)
Profit before tax							34,714	31,979
Tax							(1,580)	(1,130)
Profit for the year							33,134	30,849

# Notes to Financial Statements

31 December 2006

## 4. SEGMENT INFORMATION *(continued)*

### (a) Business segments *(continued)*

Group	Golf equipment		Golf bag		Eliminations		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
		(Restated)						(Restated)
<b>Assets and liabilities:</b>								
Segment assets	373,977	339,533	55,504	53,558	(13,284)	(19,501)	416,197	373,590
Unallocated assets							73,105	79,700
Total assets							489,302	453,290
Segment liabilities	56,078	80,360	51,528	27,172	(13,284)	(19,501)	94,322	88,031
Unallocated liabilities							194,619	179,269
Total liabilities							288,941	267,300
<b>Other segment information:</b>								
Depreciation	11,640	13,617	1,917	1,478	–	–	13,557	15,095
Impairment of trade receivables	822	352	–	–	–	–	822	352
Capital expenditure	43,270	41,500	6,744	2,969	–	–	50,014	44,469



# Notes to Financial Statements

31 December 2006

## 5. REVENUE, OTHER INCOME AND GAIN

Revenue represents the invoiced value of goods sold net of trade discounts and goods returns (which is also the Group's turnover), gross rental income, testing income and tooling charges received and receivable during the year.

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

	Note	Group	
		2006 HK\$'000	2005 HK\$'000
<b>Revenue</b>			
Turnover:			
Sale of goods		493,376	367,257
Gross rental income		1,974	2,030
Testing income		9	1,771
Tooling charges		2,143	931
		<b>497,502</b>	<b>371,989</b>
<b>Other income</b>			
Compensation income		–	1,170
Commission income		–	112
Bank interest income		821	736
Interest income from loan receivable		–	12
Patent income		–	859
Gain on disposal of items of property, plant and equipment		150	–
Others		684	1,540
		<b>1,655</b>	<b>4,429</b>
<b>Gain</b>			
Gain on disposal of a subsidiary	33	–	2,581
		<b>1,655</b>	<b>7,010</b>

# Notes to Financial Statements

31 December 2006

## 6. PROFIT BEFORE TAX

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

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
			(Restated)
Cost of inventories sold		243,293	191,735
Depreciation	14	13,557	15,095
Recognition of prepaid land lease payments	15	493	161
Minimum lease payments under operating leases:			
Land and buildings		7,541	6,479
Motor vehicles		–	66
Auditors' remuneration		1,330	1,150
Employee benefits expense (including directors' remuneration – note 8):			
Wages and salaries		84,262	62,287
Equity-settled share option expense		312	83
Retirement benefits scheme contributions*		2,187	2,305
		<b>86,761</b>	64,675
Impairment of trade receivables**		822	352
Foreign exchange differences, net		1,141	47
Write-off of items of property, plant and equipment**	14	103	385
Write-off of obsolete inventories***		–	5,379
Gain on disposal of a subsidiary	33	–	(2,581)
Gain on disposal of items of property, plant and equipment		(150)	–
Rental income		(1,974)	(2,030)
Bank interest income		(821)	(736)
Interest income from loan receivable		–	(12)
Loss on derecognition of interest rate swaps	22	172	–
Fair value gains on interest rate swaps	22	–	(2,060)

\* At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits schemes in future years (2005: Nil).

\*\* The impairment of trade receivables and write-off of items of property, plant and equipment for the year are included in "Other expenses" on the face of the consolidated income statement.

\*\*\* The write-off of obsolete inventories for the year is included in "Cost of sales" on the face of the consolidated income statement.

# Notes to Financial Statements

31 December 2006

## 7. FINANCE COSTS

	Group	
	2006 HK\$'000	2005 HK\$'000
		(Restated)
Fair value gains on interest rate swaps (note 22)	–	(2,060)
Loss on derecognition of interest rate swaps (note 22)	172	–
Factoring charges	8,236	3,461
Interest on bank loans	9,248	8,498
Interest on finance leases	106	5
Bank charges	2,841	2,154
<b>Total finance costs</b>	<b>20,603</b>	<b>12,058</b>

## 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	
	2006 HK\$'000	2005 HK\$'000
Fees	270	210
Other emoluments:		
Salaries	3,698	3,854
Bonuses	620	620
Housing benefits	1,440	1,440
Employee share option benefits	78	–
Retirement benefits scheme contributions	24	24
	<b>5,860</b>	<b>5,938</b>
	<b>6,130</b>	<b>6,148</b>

During the year, one of the directors was granted share options, in respect of his service to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options which has been recognised to the income statement over the vesting period was determined as at the date of grant, and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

# Notes to Financial Statements

31 December 2006

## 8. DIRECTORS' REMUNERATION (continued)

### (a) Independent non-executive directors

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

	2006 HK\$'000	2005 HK\$'000
Choy Tak Ho	120	120
Tse Ying Man	50	50
Chiu Lai Kuen, Susanna	100	40
	270	210

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

### (b) Executive directors

	Salaries HK\$'000	Bonuses HK\$'000	Housing benefits HK\$'000	Employee share option benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Total remuneration HK\$'000
2006						
Chu Chun Man, Augustine	1,560	200	840	–	12	2,612
Chu Yuk Man, Simon	1,200	300	600	–	12	2,112
Takanori Matsuura*	218	–	–	–	–	218
Chang Hua Jung	720	120	–	78	–	918
	3,698	620	1,440	78	24	5,860
2005						
Chu Chun Man, Augustine	1,560	200	840	–	12	2,612
Chu Yuk Man, Simon	1,200	300	600	–	12	2,112
Takanori Matsuura*	374	–	–	–	–	374
Chang Hua Jung	720	120	–	–	–	840
	3,854	620	1,440	–	24	5,938

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

\* Takanori Matsuura passed away on 13 August 2006.

# Notes to Financial Statements

31 December 2006

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2005: two) executive directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2005: three) non-director, highest paid employees for the year are as follows:

	Group	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	2,284	3,134
Performance related bonuses	230	350
Employee share option benefits	–	45
Retirement benefits scheme contributions	12	24
	<b>2,526</b>	<b>3,553</b>

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

	Number of employees	
	2006	2005
HK\$1,000,001 to HK\$1,500,000	2	3

## 10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current – Hong Kong		
Charge for the year	1,761	1,814
Current – Elsewhere	560	481
Deferred tax ( <i>note 29</i> )	(741)	(1,165)
Tax charge for the year	<b>1,580</b>	<b>1,130</b>

# Notes to Financial Statements

31 December 2006

## 10. TAX (continued)

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 – 2006

	Hong Kong		Mainland China		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	13,942		(7,250)		28,022		34,714	
Tax at the statutory tax rate	2,440	17.5	(2,392)	33.0	4,203	15.0	4,251	12.2
Lower tax rate for specific provinces or local tax authority	–	–	(245)	3.4	–	–	(245)	(0.7)
Income not subject to tax	(1,629)	(11.7)	(1,065)	14.7	(4,373)	(15.6)	(7,067)	(20.3)
Expenses not deductible for tax	209	1.5	827	(11.4)	170	0.6	1,206	3.5
Tax losses not recognised	–	–	3,435	(47.4)	–	–	3,435	9.9
Tax charge at the Group's effective rate	1,020	7.3	560	(7.7)	–	–	1,580	4.6

### Group – 2005

	Hong Kong		Mainland China		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	18,841		(5,624)		18,762		31,979	
Tax at the statutory tax rate	3,297	17.5	(1,856)	33.0	2,814	15.0	4,255	13.3
Lower tax rate for specific provinces or local tax authority	–	–	323	(5.7)	8	–	331	1.0
Income not subject to tax	(3,034)	(16.2)	(602)	10.7	(2,840)	(15.1)	(6,476)	(20.2)
Expenses not deductible for tax	371	2.0	804	(14.3)	–	–	1,175	3.7
Tax losses utilised	–	–	(170)	3.0	–	–	(170)	(0.5)
Tax losses not recognised	15	0.1	1,982	(35.3)	18	0.1	2,015	6.2
Tax charge at the Group's effective rate	649	3.4	481	(8.6)	–	–	1,130	3.5

Under the income tax law in the People's Republic of China ("PRC"), all PRC subsidiaries of the Group are subject to corporate income tax ("CIT") at rates ranging from 15% to 24% on the taxable income as reported in their statutory accounts.

# Notes to Financial Statements

31 December 2006

## 10. TAX (continued)

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., indirect wholly-foreign-owned subsidiaries of the Company established in the PRC, are entitled to exemption from the PRC state CIT for the first two profitable financial years and 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 applicable to them ranges from 15% to 24%. The two-year tax exemption periods for these companies have not yet commenced during the year.

## 11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK\$17,020,000 (2005: HK\$22,154,000) which has been dealt with in the financial statements of the Company (note 32(b)).

## 12. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim – HK3.3 cents (2005: HK3 cents) per ordinary share	9,973	9,066
Proposed final – HK2.2 cents (2005: HK4 cents) per ordinary share	6,648	12,088
	16,621	21,154

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$33,315,000 (2005: HK\$31,560,000) and the weighted average number of 302,200,000 (2005: 302,200,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issued during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued for nil consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

A diluted earnings per share amount for the year ended 31 December 2005 has not been disclosed as no diluting events existed in the prior year.

# Notes to Financial Statements

31 December 2006

## 14. PROPERTY, PLANT AND EQUIPMENT

### Group

	Land and buildings	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>31 December 2006</b>							
At 31 December 2005 and at 1 January 2006:							
Cost or valuation	99,985	5,809	82,041	3,792	3,742	8,909	204,278
Accumulated depreciation	(14,250)	(1,892)	(43,395)	(1,806)	(2,556)	–	(63,899)
Net carrying amount	85,735	3,917	38,646	1,986	1,186	8,909	140,379
At 1 January 2006, net of							
accumulated depreciation	85,735	3,917	38,646	1,986	1,186	8,909	140,379
Additions	1,632	1,136	12,703	412	470	11,988	28,341
Disposals	(694)	–	–	–	–	–	(694)
Write-off	–	–	(100)	(3)	–	–	(103)
Deficit on revaluation	(483)	–	–	–	–	–	(483)
Depreciation provided							
during the year	(3,262)	(818)	(8,227)	(723)	(527)	–	(13,557)
Transfers	761	–	–	–	–	(761)	–
Exchange realignment	1,806	68	656	27	13	221	2,791
At 31 December 2006, net of							
accumulated depreciation	85,495	4,303	43,678	1,699	1,142	20,357	156,674
At 31 December 2006:							
Cost or valuation	102,654	7,035	94,935	4,260	3,978	20,357	233,219
Accumulated depreciation	(17,159)	(2,732)	(51,257)	(2,561)	(2,836)	–	(76,545)
Net carrying amount	85,495	4,303	43,678	1,699	1,142	20,357	156,674
Analysis of cost or valuation:							
At cost	–	7,035	94,935	4,260	3,978	20,357	130,565
At 31 December 2006 valuation	102,654	–	–	–	–	–	102,654
	102,654	7,035	94,935	4,260	3,978	20,357	233,219

# Notes to Financial Statements

31 December 2006

## 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

### Group

	Land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2005</b>							
At 31 December 2004 and at 1 January 2005:							
Cost or valuation	98,510	5,586	109,029	6,177	5,701	782	225,785
Accumulated depreciation	(13,881)	(1,206)	(69,199)	(4,322)	(3,755)	–	(92,363)
Net carrying amount	84,629	4,380	39,830	1,855	1,946	782	133,422
At 1 January 2005, net of							
accumulated depreciation	84,629	4,380	39,830	1,855	1,946	782	133,422
Additions	5,770	276	15,297	1,119	212	8,367	31,041
Disposal of a subsidiary (note 33)	(4,307)	–	(6,213)	(226)	(366)	–	(11,112)
Write-off	(28)	(10)	(241)	(19)	(87)	–	(385)
Depreciation provided							
during the year	(2,496)	(789)	(10,508)	(663)	(639)	–	(15,095)
Transfers	393	–	9	6	–	(408)	–
Exchange realignment	1,774	60	472	(86)	120	168	2,508
At 31 December 2005, net of							
accumulated depreciation	85,735	3,917	38,646	1,986	1,186	8,909	140,379
At 31 December 2005:							
Cost or valuation	99,985	5,809	82,041	3,792	3,742	8,909	204,278
Accumulated depreciation	(14,250)	(1,892)	(43,395)	(1,806)	(2,556)	–	(63,899)
Net carrying amount	85,735	3,917	38,646	1,986	1,186	8,909	140,379
Analysis of cost or valuation:							
At cost	12,487	5,809	82,041	3,792	3,742	8,909	116,780
At 31 December 2003 valuation	87,498	–	–	–	–	–	87,498
	99,985	5,809	82,041	3,792	3,742	8,909	204,278

# Notes to Financial Statements

31 December 2006

## 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Notes:

- (a) Certain of the Group's land and buildings were revalued individually as at 31 December 2006 by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$102,654,000 based on their existing use.
- (b) Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK\$62,164,000 (2005: HK\$48,266,000).
- (c) The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of plant and machinery and motor vehicles at 31 December 2006 amounted to HK\$5,748,000 (2005: HK\$139,000).
- (d) The gross amount and accumulated depreciation of the property, plant and equipment under operating leases are HK\$840,000 and HK\$336,000, respectively.

## 15. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January	21,195	17,833
Additions	–	4,641
Disposal of a subsidiary <i>(note 33)</i>	–	(1,293)
Recognised during the year	(493)	(161)
Exchange realignment	522	175
Carrying amount at 31 December	21,224	21,195
Current portion	(459)	(459)
Non-current portion	20,765	20,736

# Notes to Financial Statements

31 December 2006

## 15. PREPAID LAND LEASE PAYMENTS (continued)

The Group's leasehold land is situated in Mainland China and is held under the following lease terms:

	2006 HK\$'000	2005 HK\$'000
Long-term leases	–	247
Medium-term leases	21,224	20,948
	21,224	21,195

At 31 December 2006, the Group did not have title to a piece of land with carrying value of HK\$3,397,000 (2005: HK\$3,397,000). 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.

## 16. GOODWILL

	Group HK\$'000
Cost at 1 January 2005 and 2006, net of accumulated impairment	25,723
Impairment during the year	–
Cost and carrying amount at 31 December 2005 and 2006	25,723
At 31 December 2005 and 2006	
Cost	25,723
Accumulated impairment	–
Net carrying amount	25,723

### Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Golf equipment cash-generating unit; and
- Golf bag cash-generating unit.

# Notes to Financial Statements

31 December 2006

## 16. GOODWILL (continued)

Impairment testing of goodwill (continued)

### Golf equipment cash-generating unit

The recoverable amount of the golf equipment cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 12%.

### Golf bag cash-generating unit

The recoverable amount of the golf bag cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12%. The growth rate used to extrapolate the cash flows of the golf bag unit is 5%.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Golf equipment		Golf bag		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Carrying amount of goodwill	12,389	12,389	13,334	13,334	25,723	25,723

Key assumptions were used in the value in use calculation of the golf equipment and golf bag cash-generating units for 31 December 2006. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Budgeted gross margins* – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements, and expected market development.
- Discount rates* – The discount rates used are before tax and reflect specific risks relating to the relevant units.

## 17. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	15,717	15,717
Due from subsidiaries	94,106	98,707
	109,823	114,424

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

# Notes to Financial Statements

31 December 2006

## 17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Sino Golf (BVI) Company Limited	British Virgin Islands/ Hong Kong	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*	PRC	HK\$99,999,000	–	100%	Manufacture and trading of golf equipment and accessories
Guangzhou Sino Concept Golf Manufacturing Co., Ltd.*	PRC	HK\$30,000,000	–	100%	Manufacture and trading of golf equipment and accessories
CTB Golf (HK) Limited ("CTB")	Hong Kong	HK\$10,000,000 (ordinary) HK\$2,730,000 (preference)	–	100%	Trading of golf bags and accessories
東莞騏衡運動用品製造 有限公司*	PRC	HK\$20,311,618	–	100%	Manufacture and trading of golf bags

# Notes to Financial Statements

31 December 2006

## 17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Xiamen Sino Talent Golf Manufacturing Co., Ltd.*	PRC	US\$4,000,000	–	100%	Manufacture and trading of golf equipment
Linyi Sinoeia Golf Co., Ltd.*	PRC	HK\$59,911,383	–	100%	Manufacture 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.	USA	US\$500,000	–	100%	Investment holding
Sino Golf (USA) Inc.	USA	US\$1,000	–	100%	Trading of golf bags
Sino Golf Comercial Offshore De Macao Limitada	Macau	MOP100,000	–	100%	Trading of golf equipment and accessories
Sino Golf Sourcing Company Limited	Hong Kong	HK\$1,000	–	51%	Investment holding and provision of trading services
上海順龍商務資訊有限公司*	PRC	US\$140,000	–	51%	Provision of consulting and trading services
Sino Golf Victory and Distribution Company Limited	Hong Kong	HK\$1,000	–	51% (Note b)	Provision of trading services

\* Wholly-foreign-owned enterprises established under the PRC law.

# Notes to Financial Statements

31 December 2006

## 17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows: *(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) A company is newly set up by the Group in current year.

## 18. INVENTORIES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Raw materials	60,149	48,718
Work in progress	35,734	30,810
Finished goods	55,179	44,442
	151,062	123,970

## 19. TRADE RECEIVABLES

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 is generally between 30 to 120 days from the date of recognition of sale. In view of the fact that the Group's trade receivables relate to a number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Within 3 months	10,862	18,407
4 to 6 months	480	2,169
7 to 12 months	2,050	3,187
Over 1 year	2,903	3,336
	16,295	27,099



# Notes to Financial Statements

31 December 2006

## 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Prepayments	2,257	1,957	–	–
Deposits and other debtors	13,315	24,248	1,705	1,784
Loans to director (note 21)	130	863	–	–
	<b>15,702</b>	<b>27,068</b>	<b>1,705</b>	<b>1,784</b>

## 21. LOANS TO DIRECTORS

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

Name	Group		
	31 December 2006 HK\$'000	Maximum amount outstanding during the year HK\$'000	1 January 2006 HK\$'000
Chu Yuk Man, Simon	–	687	687
Chang Hua Jung	130	176	176
	<b>130</b>		<b>863</b>

The loan granted to Chang Hua Jung of HK\$130,000 is interest-free and payable on demand.

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2006 HK\$'000	2005 HK\$'000
Interest rate swaps	–	172

The carrying amounts of interest rate swaps are the same as their fair values.

The Group has entered into various interest rate swap contracts to manage its finance cost exposures which did not meet the criteria for hedge accounting. Loss of derecognition of non-hedging interest rate swaps amounting to HK\$172,000 were charged to the income statement during the year while changes in the fair value of non-hedging interest rate swaps amounting to HK\$2,060,000 were credited to the income statement in year 2005.

# Notes to Financial Statements

31 December 2006

## 23. CASH AND BANK BALANCES

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$18,068,000 (2005: HK\$8,448,000). 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for periods of three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

## 24. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the date of receipt of goods, is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within 3 months	46,310	40,419
4 to 6 months	6,933	3,379
7 to 12 months	428	1,307
Over 1 year	296	539
	<b>53,967</b>	<b>45,644</b>

The trade payables are non-interest-bearing and are normally settled on 30 to 60 days.

## 25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Accruals and other liabilities	36,826	42,387	155	7
Due to related parties (note 26)	985	-	-	-
	<b>37,811</b>	<b>42,387</b>	<b>155</b>	<b>7</b>

Other payables are non-interest-bearing and have an average term of three months.

## 26. AMOUNTS DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, interest-free and repayable on demand.

# Notes to Financial Statements

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## 27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	2006 HK\$'000	Group 2005 HK\$'000
<b>Current</b>				
Finance lease payables (note 28)	HIBOR+1.125 to 5.13	2009-2010	1,269	84
Bank loans – unsecured	HIBOR+1.45 to HIBOR+0.8	2007-2009	147,790	138,776
			<b>149,059</b>	<b>138,860</b>
<b>Non-current</b>				
Finance lease payables (note 28)	HIBOR+1.125 to 5.13	2009-2010	3,468	–
Bank loans – unsecured	HIBOR+1.45 to HIBOR+0.8	2007-2009	39,374	36,950
			<b>42,842</b>	<b>36,950</b>
			<b>191,901</b>	<b>175,810</b>
<b>Analysed into:</b>				
Bank loans repayable:				
Within one year or on demand			147,790	138,776
In the second year			37,517	36,950
In the third to fifth years, inclusive			1,857	–
			<b>187,164</b>	<b>175,726</b>
Other borrowings repayable:				
Within one year			1,269	84
In the second year			2,331	–
In the third to fifth years, inclusive			1,137	–
			<b>4,737</b>	<b>84</b>
			<b>191,901</b>	<b>175,810</b>

# Notes to Financial Statements

31 December 2006

## 27. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

*Notes:*

- (a) All the Group's bank and other borrowings are denominated in Hong Kong dollars.
- (b) All bank and other borrowings of the Group bear interest at floating interest rates.
- (c) The carrying amounts of the Group's borrowings approximate to their fair values which have been calculated by discounting the expected future cash flows at prevailing interest rates.
- (d) As at 31 December 2006, the Group did not comply with certain financial covenants as set out in the banking facility agreements entered into with two banks. The loans with these two banks of approximately HK\$6.2 million and HK\$25.5 million were recorded as current liabilities in the balance sheet as of 31 December 2006. As a consequence of the above, a bank loan of approximately HK\$40 million with another bank, which was also recorded as current liabilities in the balance sheet as of 31 December 2006, might meet the cross default event as set out in the relevant agreement.

On 20 April 2007, the Group repaid the above HK\$6.2 million bank loan in accordance with the original repayment schedule. Management has also received a preliminary indication from bank that it will consider granting a waiver for non-compliance of financial covenants in respect of the above HK\$25.5 million. As such, management believes all the above defaults have been remedied.

# Notes to Financial Statements

31 December 2006

## 28. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its golf equipment manufacturing business. These leases are classified as finance leases and have remaining lease terms of 34 months to 43 months.

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 2006 <i>HK\$'000</i>	Minimum lease payments 2005 <i>HK\$'000</i>	Present value of minimum lease payments 2006 <i>HK\$'000</i>	Present value of minimum lease payments 2005 <i>HK\$'000</i>
Amounts payable:				
Within one year	1,488	86	1,269	84
In the second year	3,710	–	3,468	–
Total minimum finance lease payments	5,198	86	4,737	84
Future finance charges	(461)	(2)		
Total net finance lease payables	4,737	84		
Portion classified as current liabilities ( <i>note 27</i> )	(1,269)	(84)		
Non-current portion ( <i>note 27</i> )	3,468	–		

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

# Notes to Financial Statements

31 December 2006

## 29. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities of the Group during the year are as follows:

	<b>Depreciation allowance in excess of related depreciation</b> <i>HK\$'000</i>	<b>Revaluation of land and buildings</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2006	1,076	2,383	–	3,459
Deferred tax credited to the income statement during the year ( <i>note 10</i> )	(741)	–	–	(741)
Deferred tax liabilities at 31 December 2006	335	2,383	–	2,718
At 1 January 2005	1,695	2,383	546	4,624
Deferred tax credited to the income statement during the year ( <i>note 10</i> )	(619)	–	(546)	(1,165)
Deferred tax liabilities at 31 December 2005	1,076	2,383	–	3,459

The unused tax losses arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose amounting to approximately HK\$830,000 (2005: HK\$830,000). Deferred tax assets have not been recognised in respect of these unused tax losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which tax losses can be utilised.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: 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.

# Notes to Financial Statements

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## 30. SHARE CAPITAL

### Shares

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
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 31 to the financial statements.

## 31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 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, at 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 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 Scheme, the maximum number of shares in respect of which options may be granted under the Scheme, when aggregated with shares subject to any other share option schemes, must not exceed 30% of the shares in issue of the Company at any time. The maximum number of shares issuable under share options to each eligible participant in the 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.

# Notes to Financial Statements

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## 31. SHARE OPTION SCHEME *(continued)*

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 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 issuance 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 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 offer of the share options or the expiry date of the 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 daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

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

# Notes to Financial Statements

31 December 2006

## 31. SHARE OPTION SCHEME (continued)

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

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options	Price of the	
	At 1 January 2006	Granted during the year	Expired during the year	At 31 December 2006			Exercise price of share options** HK\$ per share	Company's shares at grant date of options*** HK\$ per share
<i>Directors</i>								
Chu Chun Man, Augustine	3,000,000	-	(3,000,000)	-	24 December 2003	29 December 2003 to 31 December 2006	1.51	1.48
Chu Yuk Man, Simon	3,000,000	-	(3,000,000)	-	24 December 2003	29 December 2003 to 31 December 2006	1.51	1.48
Takanori Matsuura****	3,000,000	-	(3,000,000)	-	24 December 2003	29 December 2003 to 31 December 2006	1.51	1.48
Chang Hua Jung	-	1,000,000	-	1,000,000	3 August 2006	3 August 2006 to 31 July 2008	0.7	0.68
<i>Other employees</i>								
In aggregate	1,100,000	-	-	1,100,000	9 June 2005	4 July 2005 to 8 June 2007	0.83	0.82
<i>Others</i>								
In aggregate	8,280,000	-	(8,280,000)	-	24 December 2003	29 December 2003 to 31 December 2006	1.51	1.48
In aggregate	-	3,000,000	-	3,000,000	3 August 2006	3 August 2006 to 31 July 2008	0.7	0.68
	18,380,000	4,000,000	(17,280,000)	5,100,000				

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

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

\*\*\* The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options.

\*\*\*\* Passed away on 13 August 2006.

# Notes to Financial Statements

31 December 2006

## 31. SHARE OPTION SCHEME *(continued)*

The fair value of the share options granted during the year was approximately HK\$312,000. The Group recognised a share option expense of HK\$312,000 during the year ended 31 December 2006.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006:

Expected volatility (%)	30.00
Risk-free interest rate (%)	4.14
Expected life of option (year)	2.00
Stock asset price (HK\$)	0.68
Option strike price (HK\$)	0.70

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur.

The volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

At the balance sheet date, the Company had 5,100,000 share options outstanding under the Scheme. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 5,100,000 additional ordinary shares of the Company and an additional share capital of HK\$510,000 and share premium of HK\$3,203,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 5,100,000 share options outstanding under the Scheme, which represented approximately 1.69% of the Company's shares in issue as at that date.

## 32. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 51.

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.

# Notes to Financial Statements

31 December 2006

## 32. RESERVES (continued)

### (b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
At 1 January 2005	57,270	15,516	–	62	–	72,848
Equity-settled share option expense (note 31)	–	–	83	–	–	83
Profit for the year	–	–	–	22,154	–	22,154
2005 interim dividend (note 12)	–	–	–	(9,066)	–	(9,066)
Proposed 2005 final dividend (note 12)	–	–	–	(12,088)	12,088	–
At 31 December 2005 and 1 January 2006	57,270*	15,516*	83*	1,062*	12,088	86,019
Equity-settled share option expense (note 31)	–	–	312	–	–	312
Profit for the year	–	–	–	17,020	–	17,020
2005 final dividend declared	–	–	–	–	(12,088)	(12,088)
2006 interim dividend (note 12)	–	–	–	(9,973)	–	(9,973)
Proposed 2006 final dividend (note 12)	–	–	–	(6,648)	6,648	–
At 31 December 2006	57,270*	15,516*	395*	1,461*	6,648	81,290

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 the contributed surplus under certain circumstances.

\* These reserve accounts comprise the reserves of HK\$74,642,000 (2005: HK\$73,931,000) in the balance sheet.

# Notes to Financial Statements

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## 33. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2005, the Group disposed of its entire 62.5% interest in 順德市順興隆高爾夫球製品有限公司 (“Shun Xing Long”) to an associate of the minority owner of Shun Xing Long. The results of the subsidiary disposed of in the year ended 31 December 2005 had no significant impact on the Group’s consolidated turnover or profit after tax for that year.

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Net assets disposed of:			
Property, plant and equipment	14	–	11,112
Prepaid land lease payments	15	–	1,293
Inventories		–	3,400
Trade receivables		–	6,471
Prepayments and other receivables		–	2,957
Amount due from Group companies		–	3,722
Cash and bank balances		–	567
Trade payables		–	(4,022)
Other payables and accruals		–	(3,298)
Amount due to Group companies		–	(2,275)
Tax payable		–	(17)
VAT payable		–	(1,430)
Asset revaluation reserve		–	(199)
Minority interests		–	(5,962)
			12,319
Gain on disposal of a subsidiary	5, 6	–	2,581
			14,900
Satisfied by:			
Cash		–	9,972
Other receivables		–	4,928
			14,900

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

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Cash consideration	–	9,972
Cash and bank balances disposed of	–	( 567)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	9,405

# Notes to Financial Statements

31 December 2006

## 34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

### Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK\$5,208,000 (2005: nil).

## 35. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	607,860	505,860

As at 31 December 2006, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$305,034,000 (2005: HK\$289,654,000).

(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\$2,375,000 (2005: HK\$2,140,000) as at 31 December 2006, as further explained under the heading “Employee benefits” in note 2.4 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.

## 36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its plant and machinery (note 14 to the financial statements) and subleases certain office properties under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants and lessees 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 and lessees falling due as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	1,919	1,907
In the second to fifth years, inclusive	2,216	3,611
	4,135	5,518

# Notes to Financial Statements

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## 36. OPERATING LEASE ARRANGEMENTS (continued)

### (b) 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 terms ranging from 1 to 13 years.

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

	2006 HK\$'000	2005 HK\$'000
Within one year	5,510	5,461
In the second to fifth years, inclusive	8,015	9,666
After five years	1,419	2,992
	<b>14,944</b>	18,119

## 37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Contracted, but not provided for:				
Land and buildings	24,376	9,893	–	–
Plant and machinery	4,562	925	–	–
Furniture, fixtures and equipment	168	–	–	–
	<b>29,106</b>	10,818	–	–
Authorised, but not contracted for:				
Land and buildings	–	6,375	–	–
Contracted, but not provided for:				
Capital contribution into subsidiaries	–	–	75,850	98,679
	–	–	<b>75,850</b>	98,679
	<b>29,106</b>	17,193	<b>75,850</b>	98,679

# Notes to Financial Statements

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## 38. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Purchases of raw materials from			
Nikko Bussan Co., Ltd. (“Nikko Bussan”)	<i>(i)</i>	<b>11</b>	9
Sale of finished goods to Nikko Bussan	<i>(ii)</i>	<b>5,845</b>	5,688
Rental expenses paid to Progolf Manufacturing Company Limited (“Progolf”) and Oriental Leader Limited	<i>(iii)</i>	<b>1,440</b>	1,440
Rental income from Sino Sporting Company Limited (“Sino Sporting”)	<i>(iv)</i>	<b>287</b>	520
Rental expenses paid to Sino Sporting	<i>(iv)</i>	–	66

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:*

- (i) Takanori Matsuura\*, a director of the Company, had a beneficial interest in Nikko Bussan. The purchase prices of raw materials and club heads were determined based on the agreement between the parties.
- (ii) The sales constitute continuing connected transactions as defined in Chapter 14A of Listing Rules. The selling prices of finished goods were determined based on a cost plus basis.
- (iii) 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.
- (iv) Augustine Chu, Takanori Matsuura\* and Simon Chu, directors of the Company, have beneficial interests in Sino Sporting. The rental rates were based on agreement among the parties.

\* Mr. Takanori Matsuura passed away on 13 August 2006 and his legacies have not yet been arranged.

# Notes to Financial Statements

31 December 2006

## 38. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties:

- (i) Details of the Group's loans to directors are included in note 21 to the financial statements.
- (ii) In addition to the balances detailed elsewhere in these financial statements, the Group had the following outstanding balances with other related parties included in trade receivables:

	Due from related parties	
	31 December 2006 HK\$'000	31 December 2005 HK\$'000
Nikko Bussan	–	528

(c) Compensation of key management personnel of the Group:

Key management personnel of the Group includes all the directors and the five highest paid employees. Details of compensation of directors and the five highest paid employees are included in notes 8 and 9 to the financial statements, respectively.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, finance lease payables, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swap contracts. The purpose is to manage the interest rate risks arising from the Group's sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

In the course of normal business, the Group is exposed to a variety of financial risks, namely, credit risk, liquidity risk, foreign exchange risk and interest rate risk. These risks are managed in accordance with the financial management policies of the Group that seek to minimise their potential adverse effects on the Group's performance.

# Notes to Financial Statements

31 December 2006

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (a) Credit risk

Credit risk, the risk that a counterparty will fail to pay amounts in full when due, exists in respect of the Group's financial assets that include cash equivalents and trade receivables. Cash equivalents consist mainly of short-term deposits placed with highly-rated financial institutions and bear minimal risk. To date, the Group has not sustained any losses on cash equivalents.

The Group markets its products primarily to the OEM and ODM customers in the United States, Europe and Japan. The Group limits its exposure to credit risk by prudently selecting customers and by diversifications. The Group also continually evaluates the credit risk of its customers to ensure appropriateness of the amount of credit granted. Credit is extended to customers based on the evaluation of individual customer's financial conditions and collateral in the form of cash deposits, which are usually required from new customers. Only customers of sufficient credit stance and with proven track record are exempt from the down payment requirement. Through factoring and related agreements, the Group assigns the majority of its trade receivables to banks and transfers to banks the credit risk of the debtors' failure to make payments. There was no material credit loss sustained on trade receivables in 2006 and 2005, except as disclosed in last year's annual report.

### (b) Liquidity risk

Liquidity risk represents the risk that funds will not be available to meet liabilities when they fall due, and it arises from the mismatches of the amount and maturity of assets and those of liabilities. The Group keeps sufficient cash to meet the operating needs and manages liquidity risk by monitoring the working capital through cash flow projections to ensure that all liabilities due and known funding requirements can be met. The liquidity risk is further mitigated by the availability of standby or unutilised banking facilities for contingency purposes. As at 31 December 2006, the Group's total banking facilities amounted to HK\$550 million (2005: HK\$476 million), of which HK\$237 million (2005: HK\$211 million) were not utilised.

### (c) Foreign exchange risk

Foreign exchange risk is the risk of loss arising from adverse movements in foreign exchange rates relating to transactions denominated in foreign currencies. The foreign exchange risk to which the Group is exposed primarily relates to sales and purchases that are denominated in a currency other than the functional currency of the entity in concern and such risk originates mainly from the currency of United States dollars. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollars and United States dollars is controlled within a narrow range. As at 31 December 2006, there was no outstanding forward foreign exchange contract to which the Group is a party. It is recognised that permanent changes in foreign exchange rates may have an impact on the consolidated results.

# Notes to Financial Statements

31 December 2006

## **39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** *(continued)*

### **(d) Interest rate risk**

The Group is exposed to interest rate risk as the Group has significant liabilities including bilateral term loans and short-term bank loans that are interest-bearing. To mitigate interest rate risk, the Group had entered into interest rate swap contracts in 2003 that expired in March 2006.

### **(e) Fair values of financial assets and financial liabilities**

All financial assets and financial liabilities are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005. There was no off-balance-sheet arrangement that has or is likely to have a material adverse effect, either currently or in future, on the Group's financial condition, revenue or expenses, results of operations, liquidity, capital expenditure or resources.

## **40. POST BALANCE SHEET EVENT**

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law on the Group cannot be reasonably estimated at this stage.

## **41. COMPARATIVE AMOUNTS**

During the current year, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

## **42. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 20 April 2007.

# Five Year Financial Summary

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

	<b>Year ended 31 December 2006 HK\$'000</b>	Year ended 31 December 2005 HK\$'000	Year ended 31 December 2004 HK\$'000	Year ended 31 December 2003 HK\$'000	Nine months ended 31 December 2002 HK\$'000
<b>RESULTS</b>					
REVENUE	497,502	371,989	399,640	406,137	233,739
Cost of sales	(359,597)	(264,935)	(271,723)	(272,580)	(162,426)
Gross profit	137,905	107,054	127,917	133,557	71,313
Other income and gains	1,655	7,010	2,815	5,462	1,768
Selling and distribution costs	(23,850)	(12,273)	(11,495)	(18,776)	(10,051)
Administrative expenses	(53,549)	(50,243)	(57,512)	(48,157)	(23,127)
Other expenses	(6,844)	(7,511)	(22,277)	(12,781)	(6,601)
Finance costs	(20,603)	(12,058)	(9,790)	(10,142)	(5,069)
PROFIT BEFORE TAX	34,714	31,979	29,658	49,163	28,233
Tax	(1,580)	(1,130)	(1,706)	(5,281)	(2,003)
PROFIT FOR THE YEAR	33,134	30,849	27,952	43,882	26,230
Attributable to:					
Equity holders of the parent	33,315	31,560	28,160	43,398	25,580
Minority interests	(181)	(711)	(208)	484	650
	33,134	30,849	27,952	43,882	26,230

# Five Year Financial Summary

## ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
TOTAL ASSETS	<b>489,302</b>	453,290	429,547	402,442	329,597
TOTAL LIABILITIES	<b>(288,941)</b>	(267,300)	(258,351)	(211,449)	(157,824)
MINORITY INTERESTS	<b>(2,567)</b>	(2,672)	(10,697)	(10,905)	(12,006)
	<b>197,794</b>	183,318	160,499	180,088	159,767