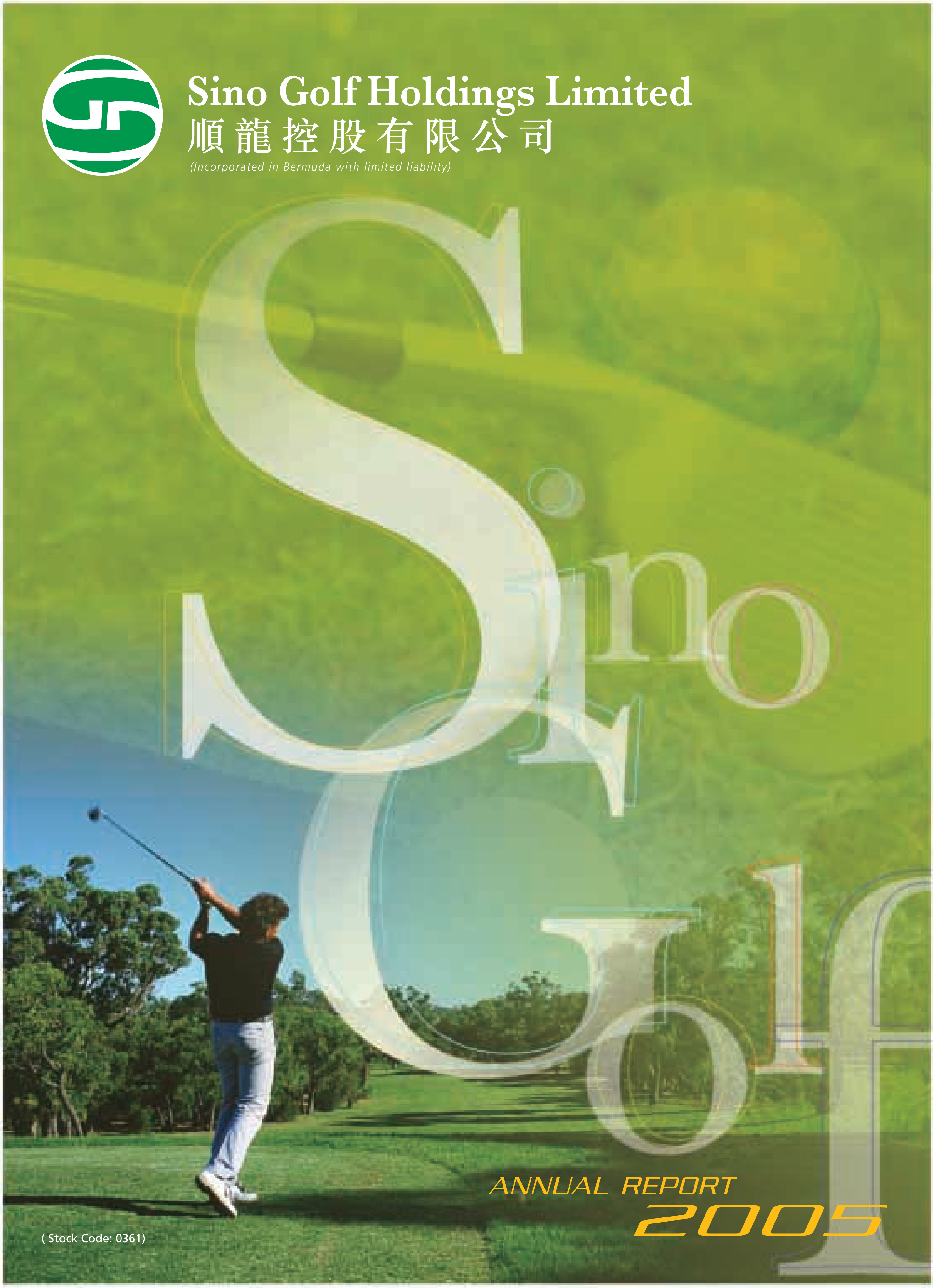
Sino Golf Holdings Limited
順龍控股有限公司

(Incorporated in Bermuda with limited liability)



ANNUAL REPORT 2005

(Stock Code: 0361)

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Corporate Information

EXECUTIVE DIRECTORS

CHU Chun Man, Augustine
(Chairman and member of Remuneration Committee)
Takanori MATSUURA
CHU Yuk Man, Simon
(Member of Remuneration Committee)
CHANG Hua Jung

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

CHOI Ying, Kammy

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

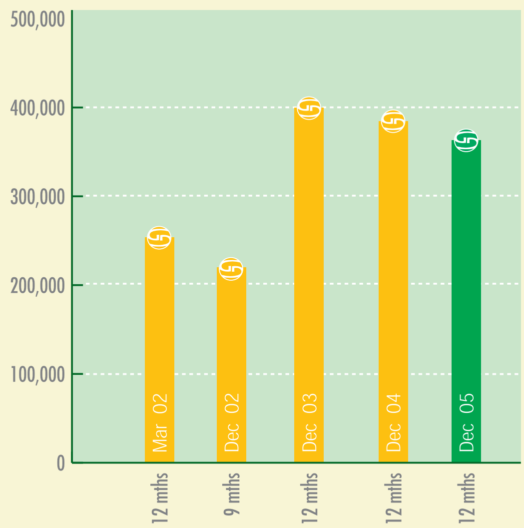
Room 1901-1913
19th Floor, Delta House
3 On Yiu Street
Shatin
New Territories
Hong Kong

Corporate Structure

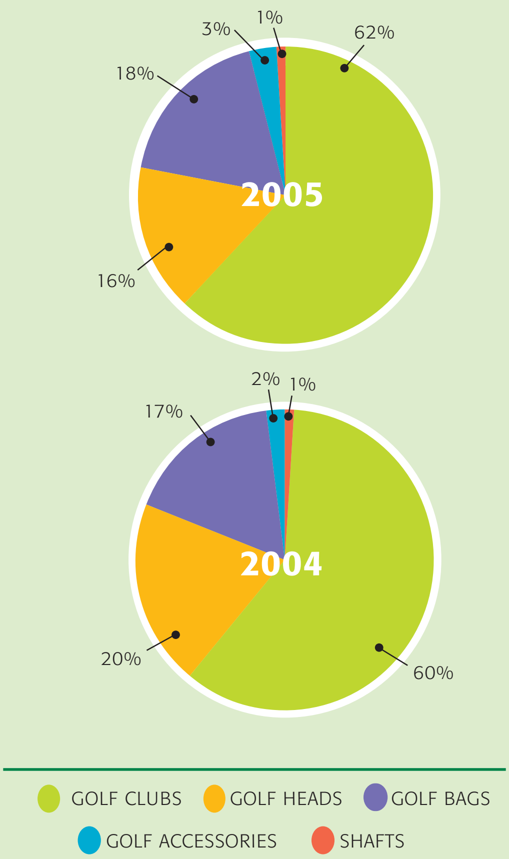
- **SINO GOLF HOLDINGS LIMITED**
  - **Sino Golf (BVI) Company Limited(100%)**
    - Sino Golf Manufacturing Company Limited(100%)
      - Xiamen Sino Talent Golf Manufacturing Co., Ltd (100%)
      - Guangzhou Sino Concept Golf Manufacturing Co., Ltd (100%)
      - Sino Golf Leisure Company Limited(100%)
      - 增城市順龍高爾夫球製品有限公司 (Zengcheng Sino Golf) (100%)
      - CTB Golf (HK) Limited(100%)
        - 東莞騏衡運動用品製造有限公司 (100%)
      - Linyi Sinoeia Golf Co., Ltd (100%)
    - Sino Golf Comerical Offshore De Macau Limitada (100%)
    - Sino Golf Sourcing Company Limited (51%)
      - 上海順龍商務咨詢有限公司 (100%)
    - Sino U. S. Holding Company, L.L.C. (100%)
      - Sino CTB Company, L.L.C. (100%)
        - Sino Golf (USA), Inc. (100%)

Financial Highlights

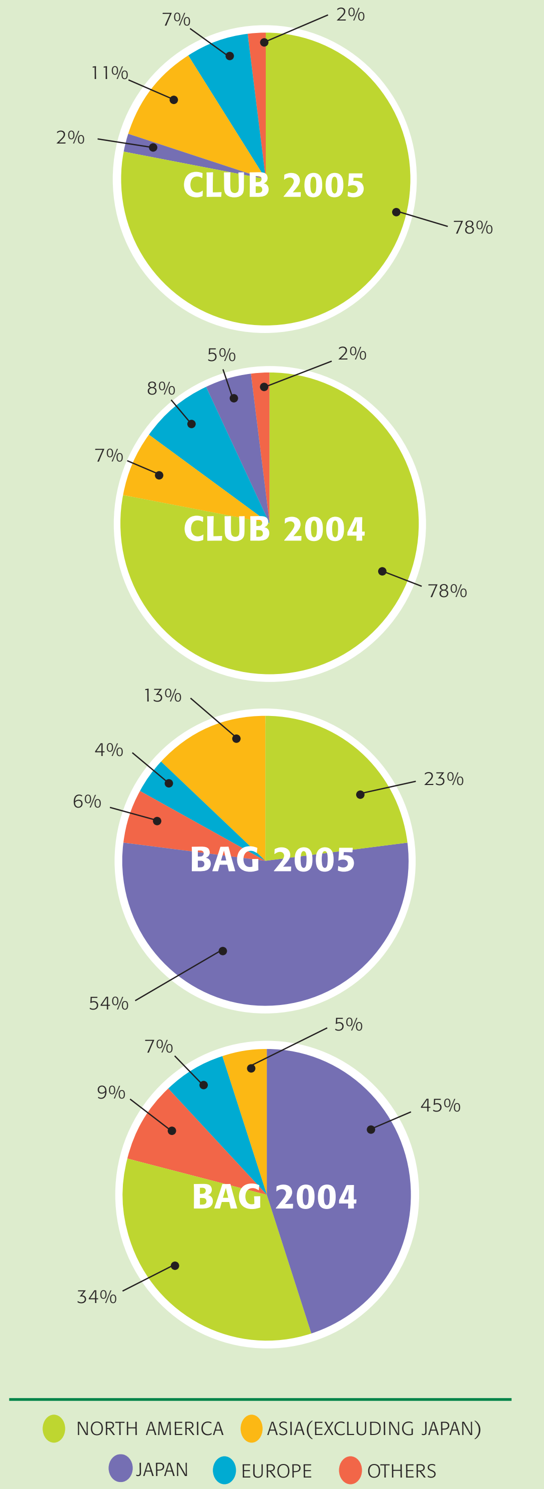
TURNOVER



TURNOVER BY PRODUCT



TURNOVER BY GEOGRAPHICAL AREA



CHAIRMAN'S STATEMENT

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Chairman's Statement

On behalf of the Board of Directors (the "Board") of Sino Golf Holdings Limited (the "Company"), it is my pleasure to report to shareholders the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2005.

Chu Chun Man, Augustine
Chairman

RESULTS AND DIVIDENDS

Consolidated turnover and net profit attributable to equity holders for the year amounted to HK$367,257,000 (2004: HK$393,945,000) and HK$31,560,000 (2004: HK$28,160,000 as restated) respectively. Earnings per share was HK$10.4 cents for the year.

The directors recommend the payment of a final dividend of HK4 cents per share, which is subject to the approval by shareholders at the forthcoming annual general meeting. Together with the interim dividend of HK3 cents per share declared and paid, the total annual dividend of HK7.0 cents (2004: HK6.3 cents) per share represents a payout ratio of 67.3% (2004: 67.7%).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 17 May 2006 to Wednesday, 24 May 2006 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, 16 May 2006 in order to qualify for the final dividend proposed which will be payable on or about 26 May 2006.

Chairman's Statement

BUSINESS REVIEW

Overview

Despite the challenges faced by most industrial companies in 2005, our Group made considerable success in the enhancement of customer portfolio towards the high end. Inspired by the events of 2004 and to sustain profitable growth over the long term, the Group has conducted an extensive and thorough review of its client portfolio to resign from less performing customers while focusing on the procurement of prominent name-brand customers. The business re-engineering process is inevitably painful, but is critical to our continued success.

During the year, we successfully established new business contacts with some leading golf companies, a few of which have started placing trial orders with us. Although business generated from these name-brand customers was still modest in size, these new relationship have great potential for further development. The apparent recovery of business during the second half of 2005 came mainly from the growth and resumption of sales to existing customers.

Golf equipment sales for the year amounted to HK$301,046,000 representing 82% of the annual turnover, while golf bags and accessories sales accounted for the remaining 18% or HK$66,211,000. The golf equipment and golf bags segments achieved segmental profits of approximately HK$41,514,000 and HK$1,775,000 respectively. Both business segments have demonstrated improvement over the preceding year.

Golf Equipment Business

Same as prior years, the golf equipment segment continues to represent the largest business segment accounting for approximately 82% of the Group's turnover for the year. Sales of golf equipment decreased by about 8.1% to approximately HK$301,046,000 on an annual basis. Notwithstanding that a more prominent drop in segment sales of about 22.7% was recorded during the first six months of 2005, an obvious rebound had been achieved during the second half of the year, thus narrowing the overall decline in segment sales to about 8.1%.

Of the total golf equipment sales, golf clubs sales accounted for about 75.2% or HK$226,518,000, while component sales including club heads, shafts and accessories took up the remaining 24.8% or HK$74,528,000. There has been no material fluctuation in the proportion of product mix throughout the years.

During the year, the successful launch of the hybrid iron sets by the Group's largest customer has made it one of the best selling hybrid iron sets in the United States at off course golf specialty retailers. The Group benefited from the sales success and strengthened its position as the primary supplier of golf clubs to this customer. As an up-and-coming name-brand in golf products, the customer has been enjoying uninterrupted and expediting growth in sales of the hybrid iron sets. The Group is confident of the ongoing business success with and growth from this customer.

Chairman's Statement

At the end of 2004, the Group adopted measures to enhance its customer profile with a view to better managing the long-term exposure and risk. Such measures, which included the tightening of credit controls and adoption of more stringent trade terms, have resulted in a short term slow down in sales activities of the golf equipment segment due to rescheduling and/or reduction of shipments to certain customers. This has to some extent affected the level of sales achieved during the first half of 2005. Segment sales and results therefore dropped by about 22.7% and 18.6% respectively during the first six months of 2005 compared to the corresponding preceding period.

To secure recoverability of trade debts, the Group has also arranged factoring and insurance coverage for shipments to major customers. With the contribution from orders of the new customers and the restoration of sales level to existing clients, a rebound had been achieved during the second half of 2005, which successfully reduced the decrease in annual segment sales to approximately 8.1%. Overall, the segment results for the year has instead improved by about 4.7% to approximately HK$41,514,000 compared to that of the preceding year.

The Group's persistent investments in research and development have successfully enhanced our industry profile and recognition. Our capability to produce sophisticated high-end golf clubs of almost any kind has strengthened our competitive advantage and our ability to react swiftly to the rapid market changes, and also reaffirms the Group's position in the golf industry.

During the year, both the major raw materials prices and production costs both escalated. The prices of titanium and graphite sheets have soared by considerable double-digit percentages and the energy and fuel costs also increased due to supply shortages. The Group effectively managed and combated the impact of price hikes through improvement of productivity and selectively stocking up key raw materials to optimize product costs. To the extent possible, the sales prices of new product models have been adjusted to reflect the increase in materials costs. Notwithstanding that, the availability of graphite sheets has become more volatile in 2006 when the market supply is further restricted.

In October 2005, the U.S. Bankruptcy Court confirmed the reorganisation plan of Huffy Corporation, which was voted and approved by its creditors in September 2005. The debts owed by Huffy Corporation to its unsecured creditors prior to its filing of bankruptcy protection would be discharged in exchange for a proportionate share by the unsecured creditors of (i) a US$9 million promissory note carrying interest at 10% per annum; and (ii) common stock of US$14 million representing 70% ownership in Huffy Corporation to be issued under the reorganization plan. Based on the information contained in the reorganization plan of Huffy Corporation and given the amount of provision already made by the Group against the debts owed by Huffy Corporation, we consider that no further provision of any material amount would be necessary in respect of the debts owed to the Group by Huffy Corporation prior to its filing of bankruptcy protection. Sales to Huffy Corporation during the year amounted to approximately HK$26,764,000, payment of which was timely settled and covered with export insurance.

Golf Bags Business

Sales of the golf bag segment amounted to approximately 66,211,000, taking up approximately 18.0% of the Group's turnover versus 16.9% in 2004. Of the total segment sales, golf bag sales amounted to approximately HK$55,119,000 or 83.2%, while accessory sales including boston bag sales accounted for the remaining 16.8% or HK$11,092,000. The product mix was stable over the years.

Chairman's Statement

Adversely affected by the late commencement of operations of the new golf bag facility in 2004, the golf bag segment has recorded a drop of about 32.2% in sales during the first six months of 2005 compared to the corresponding preceding period. However, with the resumption of sales from the business foregone in 2004 and business development, a strong rebound was accomplished during the second half of 2005 which rebutted the declining trend and lifted the annual segment sales to nearly the same level as that of 2004. Segment sales dropped only marginally by less than 0.5% in 2005 and the Group has successfully turned around the segment from a loss of HK$302,000 in 2004 to a segment profit of HK$1,775,000 in 2005.

The golf bag segment can broadly be classified into the Japan and Non-Japan lines, accounting for approximately 53.7% and 46.3% respectively of total segment sales. As a result of dedicated efforts to develop the high-end golf bags business sector, contribution of the higher-margin Japan line products increased over the sales of the Non-Japan line, which represents mostly golf bags of American and European styles. With the continued support of the Japanese partner, sales of the Japan line increased and accounted for the majority of the rebound in golf bags in the second half of 2005. The new golf bag facility, which is compliant with the Standard of Engagement ("SOE") requirement, has gained strong recognition in the Japanese market. It is anticipated that the Japan line of golf bags will continue to expand with growing momentum in the ensuing year.

During the year, major materials prices for golf bags production like PVC, PU and nylon fluctuated within moderate ranges while the energy and fuel costs were pushed up due to supply shortages. To mitigate the impact of price hikes, the Group has embarked on programs to enhance productivity and reduce wastages. With the increase in contributions from the Japan-line with higher average margin, the performance of the golf bag segment is expected to improve continually to alleviate the impact brought about by the costs increase.

Geographical Segments

The Group's geographical spread continued to be stable. North America remains the largest geographical segment generating approximately 67.6% of the Group's annual turnover. Other geographical segments including Europe, Japan and other countries in turn accounted for about 6.8%, 11.2% and 14.4% of the Group's annual turnover respectively.

Sales to the North American market aggregated to approximately HK$248,108,000 comprising primarily of golf clubs sales with a minor portion of golf bags. Possessing the largest golf market in the world, the North America provides opportunities for both mass merchandise and branded golf products. It is the Group's objective to pursue premium brands that offer higher margins and to gradually phase out, lower margin mass merchandise lines. As the majority of the Group's customers are American based, the North American segment will continue to dominate and contribute a substantial portion of the Group's revenue.

Sales to the Japan market amounted to approximately HK$41,215,000, of which golf bags accounted for the majority of sales. Based on historic track record, there is great potential for the Group to expand sale of golf equipment in the Japan market. Although the Japanese segment is still modest in size, it presents good potential for development. Being the largest golf market in Asia, Japan represents a market that warrants the Group's continued efforts to persistently explore and penetrate into. Benefited by the continuing increase in sale of Japan-line golf bags, the Japan market is expected to grow and contribute better margins for the Group.

Chairman's Statement

Other geographical segments comprise Europe and other countries, of which sales to Europe decreased slightly from 7.7% of the annual turnover in 2004 to approximately 6.8% in 2005, while sales to other countries increased from 9.8% of the annual turnover in 2004 to approximately 14.4% in 2005 mainly due to increase in Asian shipments by some customers. It is anticipated that both of these geographical segments will maintain relatively stable.

PROSPECTS AND RISK FACTORS

Prospects

The golf industry is becoming ever more competitive nowadays than past years. It is the Group's mission to provide high quality one-stop services to its customers with value added options. With a successful transformation and enhancement of the customer profile, the Group is well equipped for continuing growth and development. The establishment of businesses with big names provides huge opportunities for expansion and help enhance the Group's industry recognition. The Group is also devoted to persistently invest in research and development to strengthen its competitive advantage in product innovations and materials exploitation.

Despite mounting pressures caused by materials price hikes, the golf industry still benefits from a general recovery of the global economy. Entering 2006, orders for golf equipment and golf bags placed with the Group have shown significant increase in monetary terms. Total shipments during the first quarter of 2006 have exceeded HK$113 million, comprising golf equipment and golf bag sales of approximately HK$87 million and HK$26 million respectively. The golf bag business has accomplished substantial growth as the Japan-line products continue to expand with strong momentum. The golf club business, on the other hand, also demonstrates remarkable growth during the first quarter of 2006 due partly to selling price adjustments and partly to the increase in order quantities. Based on the orders on hand, sales in the second quarter of 2006 will remain strong and it is anticipated that sales of the Group in the first half of 2006 are likely to considerably exceed that of the corresponding period in 2005. The expected increase in sales amounts has been attributable to the combined effect of price adjustments, mainly of golf equipment, that compensate the surge in materials costs, and the increase in order quantities. Given the volatility of the sales growth in the first half of 2006, it would be premature to make any forecast of sales for the second half of 2006 at current stage. In view of market uncertainties, the directors are cautions but remain confident that the Group should achieve reasonably well performance in 2006.

To sustain long-term growth, the Group will enhance its competitiveness through continued improvements in product quality, materials innovation and design capabilities to ensure that customer needs are best served and prioritized. We shall be well equipped to establish closer links with the leading golf companies of substantial business potential. While attaching emphasis on the continued development of the North American market, the Group is devoted to further exploring and developing the Japanese market especially in the golf equipment segment where the historical sales were relatively low. With expected synergies to be derived from its golf club sale network, the Group also plans to actively develop the golf bag business in the North America market.

Risk Factors

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

Chairman's Statement

Trade Status between China and the United States

As the Group exports majority of its products to the United States, the trade status and relations between China and the United States may fundamentally affect our Group's performance if the persistent imbalance of trade between China and the United States is not properly resolved by both governments and ultimately results in trade disputes or imposition of trade sanctions against the imports from China. Any levy of additional duties or import charges will significantly curtail the competitiveness of the Group's products in the United States market. Besides, the pressure of Renminbi appreciation is another factor that may affect the competitive advantage of the goods exported from China.

Interest Rates Movements

The Group employs banking facilities to finance its operations, which bears interests at floating rates. Movements in interest rates would therefore affect the finance cost to be incurred by the Group. The successive increase in interest rates during 2005 has resulted in a net increase in interest payments by the Group. Any further increase in interest rates will add burden to the finance cost of the Group. Although the Group may enter into interest swaps to hedge interest payments, there is no assurance that the interest swaps will result in any savings for the Group.

Concentration of Key Customers

During 2005, one customer individually represented over 40% of the golf equipment sales or over 35% of the Group's annual turnover. The five largest customers in aggregate accounted for approximately 66% of the Group's turnover for the year. Although the Group endeavors to explore and develop new high profile customers, there is no assurance that the existing key customers would continue to expand and contribute additional sales to support the growth expected of the Group before the new customer sales pick up a representative portion of the Group's turnover. It is inevitable that matters that cause material adverse effect on the key customers would also adversely affect the Group.

Material Cost and Source of Supply

The golf industry is facing challenges from a trend of rising materials costs, especially those of titanium plates and graphite sheets which are major materials for golf equipment manufacturing. To mitigate the impact, most manufacturers have adjusted to the extent possible the selling prices of new golf equipment models to reflect the increase in materials costs. It is worth noting that the selling price adjustments on new product models, unlike the increase in order quantities, would not generate additional gross profits for the Group. The increase fundamentally only reflects the higher costs to be shift to the customers. A lower gross profit margin will result as the more or less fixed gross profit is compared against the increased sales price.

The supply of graphite sheets has become even more volatile in 2006 due to further restrictions in the market supply. To ensure smooth production, there is an increased tendency for the OEM manufacturers opt to for direct components purchase such as graphite shafts, or to purchase materials and components from sources specified by the customers. Although we are unable to make an accurate assessment at this stage, the changes in the purchasing pattern would inevitably undermine the gross profit margins achievable for golf equipment sales in 2006.

In addition to above risk factors, the Group may also be subject to other risks and uncertainties that arise when conditions change from time to time. The management would continue to keep alert of the risks and adopt appropriate measures to manage the Group's exposure.

Chairman's Statement

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend my gratitude to everyone on the Board, the management and all employees for their devotion, hard work and loyalty, without which the Group could not have achieved its goals and mission with great success.

Chu Chun Man, Augustine
Chairman

Hong Kong
21 April 2006

MANAGEMENT DISCUSSION AND ANALYSIS

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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 2005 decreased by 6.8% to approximately HK$367,257,000 (2004: HK$393,945,000) but net profit attributable to equity holders increased instead by 12.1% to HK$31,560,000 (2004: HK$28,160,000 as restated). The decrease in turnover was primarily due to the lower sales recorded in the first half of 2005 as a result of the Group's customer portfolio restructuring and the relocation of golf bag production to the new facilities, which were substantially offset by a strong rebound achieved during the second half of the year.

The gross profit for the year decreased to approximately HK$107,054,000 from HK$127,917,000 as restated of the preceding year. The effect of raw material price surges coupled with an increase in components purchase by the Group, which was partly offset by the sales price adjustments and the savings derived from enhanced productivity, has brought the gross profit margin for 2005 down to 29.2% from 32.5% as restated for 2004. Components purchase by the Group normally carry little or no margins in finished goods in contrast to self-produced components in which reasonable margins are incorporated. The relative increase in components purchase therefore resulted in lower gross profit margin given other factors remaining unchanged.

Other income for the year increased to approximately HK$7,010,000 from HK$2,815,000 as restated in 2004. It is mainly attributable to the gain on disposal of a subsidiary of approximately HK$2,581,000 and the increase in interest income and other reimbursements received.

Administrative expenses for the year decreased to approximately HK$50,243,000 from HK$57,512,000 as restated in 2004 primarily due to the drop in depreciation charge as certain fixed assets have been fully depreciated. Selling and distribution costs, consisting mainly of commissions and freight charges, increased to approximately HK$12,273,000 for the year from HK$11,495,000 in 2004 mainly due to the increase in commissions which was partially offset by a decrease in freights incurred. Other operating expenses for the year decreased to approximately HK$7,511,000 from HK$22,277,000 in 2004 as a result of the cessation of goodwill amortization and the decrease in directors remuneration and bad debt provisions.

Finance costs, net of a gain of approximately HK$2,060,000 derived from interest rate swap transactions, increased to approximately HK$12,058,000 for the year from HK$9,790,000 in 2004 primarily due to the successive increase in interest rates during the year.

With the concerted effort of the Board and management, profit attributable to equity holders for 2005 advanced to approximately HK$31,560,000, up 12.1% from that of 2004.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group follows prudent principle to formulate treasury policies and continually relies on internally generated funds and banking facilities to finance its operations. To mitigate 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 limits. The Group has entered into interest rate swap contracts in 2003 (expiring in March 2006) to hedge the HIBOR interest payments of certain bank loans at fixed rates. The changes in the fair value of the interest rate swap contracts, which represent a gain of approximately HK$2 million, have been net off to the finance costs for the year.

Cash and cash equivalents as at 31 December 2005 amounted to approximately HK$79.1 million (2004: HK$84.1 million) and were denominated mostly in United States dollars and Hong Kong dollars. The decrease in cash and cash equivalents was primarily the result of appropriating funds to procure raw materials mainly titanium plates and graphite sheets to meet the increased production needs as well as to optimize product cost amidst material price surges. The inventory level thus increased to HK$124.0 million (2004: HK$101.7 million).

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. As at 31 December 2005, borrowings (excluding finance lease payable) aggregated to approximately HK$175.8 million (2004: HK$169.4 million), of which approximately HK$138.8 million comprising import and export loans of about HK$26.6 million (2004: HK$6.2 million) and terms loans of about HK$112.2 million (2004: HK$68.9 million) is repayable within one year. The level of bank borrowings increased mainly due to higher utilization of import and export facilities. Gearing ratio, defined as total bank borrowings and finance lease payable less cash and cash equivalents of approximately HK$96.6 million divided by the shareholders' equity of approximately HK$186.0 million, was 51.9% as at 31 December 2005 (2004: 49.9% as restated). The gearing ratio did not show material fluctuation under the Group's effective treasury practices.

Through adoption of prudent treasury practices, the Group strives to maintain a financial position supportive of its growth and development needs. As at 31 December 2005, the net asset value of the Group amounted to approximately HK$186.0 million (2004: HK$171.2 million as restated). Current and quick ratios as at 31 December 2005 were approximately 1.17 (2004: 1.59) and 0.63 (2004: 0.95) respectively. Both ratios decreased significantly mainly due to the reclassification of long-term portion of the bank loans into short-term portion. The increase in inventory level also brought the quick ratio down to a lower level. The current and quick ratios have been restored to higher levels when certain bank facilities were refinanced in the first quarter of 2006 on long-term basis.

DISPOSAL OF A SUBSIDIARY

Pursuant to an agreement dated 31 December 2004 and a supplemental agreement dated 9 April 2005 (the "Agreements"), Sino Golf Manufacturing Company Ltd.("SGMCL"), an indirect wholly-owned subsidiary of the Company, disposed all of its interest in a 62.5% owned subsidiary, 順德市順興隆高爾夫球製品有限公司 ("SHL"), to Global Sourcing and Distribution Limited (the "Purchaser") for a consideration of HK$14.9 million, resulting in a gain on disposal of approximately HK$2.6 million. The consideration was to be settled as to approximately HK$9.97 million upon completion and approximately HK$4.93 million one year after the completion. Sale proceeds from the disposal provided additional working capital for the Group.

SHL is engaged in producing golf equipment using forging technology and was managed, except for accounting and finance matters, by its minority shareholder. The disposal decision is consistent with the Group's policy to establish and run its own forging facility and to centralize the production management to avoid duplication of resources. As the Purchaser is beneficially owned by the associates of the beneficial owner of the minority shareholder in SHL, the disposal constitutes a connected and discloseable transaction under Chapter 14A and Chapter 14 of the Listing Rules. The

Management Discussion and Analysis

Agreements and the transaction contemplated under the Agreements had been approved by the independent shareholders of the Company in a special general meeting held on 27 May 2005 and the transaction was completed in accordance with the terms of the Agreements. There was no material effect to the Group's consolidated income as a result of the disposal of interest in SHL.

SHORTFALL OF PROFIT GUARANTEE ON A SUBSIDIARY

Pursuant to an agreement dated 22 December 2003 entered into between SGMCL and Mr. Chen Chien Hsiang (the "Agreement"), SGMCL acquired from Mr. Chen Chien Hsiang ("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 2005 was less than the Guaranteed Profit, SGMCL is entitled to a receivable of approximately HK$905,000 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.

ACQUISITION OF ADDITONAL INTEREST IN A SUBSIDIARY

On 19 July 2005, SGMCL, entered into an agreement (the "2nd Agreement") with Mr. Chen (the "Vendor") to purchase from the Vendor the remaining 37.5% of the ordinary share capital of CTB not yet owned at that time by SGMCL for a consideration of HK$2,625,000. As the Vendor is a substantial shareholder of CTB, which is an indirect subsidiary of the Company, the acquisition constitutes a connected and discloseable transaction under Chapter 14A and Chapter 14 of the Listing Rules.

CTB is principally engaged in the manufacturing and trading of golf bags and has been owned as to 62.5% by SGMCL prior to entering into the 2nd Agreement. In consideration of the anticipated growth of golf bags business and the enhanced production capacity of the new facility, it is in the interests of the Group and its shareholders as a whole to gain a full control over the golf bag business of CTB. Upon completion of the transaction, CTB has become a wholly owned subsidiary of SGMCL. The transaction has given rise to a goodwill of approximately HK$803,000 which is subject to annual review for impairment. The acquisition of additional interest in CTB has no material impact on earnings per share and the assets and liabilities of Company.

CONTINUING CONNECTED TRANSACTIONS

Only 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, who is a director of the Company, owns 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$5,688,000 which had 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

Management Discussion and Analysis

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 favourable 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 have received the approval of the Board; (ii) the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group; (iii) the Continuing Connected Transactions have been carried out in accordance with the terms of the Supply Agreement; and (iv) the Continuing Connected Transactions have not exceeded the annual cap of HK$30,000,000.

NEW GOLF CLUB FACILITY UNDER CONSTRUCTION

As at 31 December 2005, the Group has invested in aggregate HK$30.1 million in respect of the new golf club facility project in Shandong Province, the P.R.C., which comprised land premium of approximately HK$14.8 million and progress payments on construction of approximately HK$15.3 million. It is estimated that further construction cost of approximately HK$25 million will be incurred in 2006 which will be financed by internal funding.

The construction of the new golf club facility will be completed by end of the third quarter of 2006. Trial production is anticipated to commence during the last quarter of 2006 and mass production is planned in the early part of 2007. The new golf club facility will provide additional capacity to cope with the growing needs of golf clubs from both existing and new customers. Taking advantage of cheaper labor and overheads in Shandong Province, it is expected that the Group will achieve further cost savings when the new golf club factory commences production in 2007.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

The currency of Renminbi has appreciated by about 2.1% effective from 21 July 2005 and was unpegged with the United States dollars and changed to peg with a basket of currencies. This however has no material effect on the Group, as the Renminbi expenditures do not account for a significant portion of the Group's total costs and expenses.

EMPLOYEE AND REMUNERATION POLICIES

The Group employed a total of approximately 2,800 employees in Hong Kong, the P.R.C. and the United States as at 31 December 2005. It is the Group's policy to maintain harmonious relations with its employees through provision of competitive remuneration packages and training programs. The employees were remunerated based on their performance, experience and expertise as well as the industry practices. The remuneration packages are reviewed annually to assure fairness and appropriateness and discretionary bonuses may be awarded based on the performance and contributions of individual employees.

Biographical Details of Directors and Management

EXECUTIVE DIRECTORS

CHU Chun Man, Augustine ("Augustine Chu"), aged 48, 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 22 years of experience in golf equipment manufacturing industry. Prior to establishing the Group, Augustine Chu was a senior management of a Taiwanese golf equipment manufacturer for about 3 years.

Takanori MATSUURA ("Matsuura"), aged 70, is one of the founders of the Group and has over 39 years of experience in the golf equipment manufacturing industry. Matsuura is responsible for the strategic and business development of the Group, particularly in the Japanese market. He graduated with a bachelor degree in commerce from Chu-o University and a master degree in economics from Takushoku University and Chu-o in Japan. In addition, Matsuura is a member of The Institute of Internal Auditors.

CHU Yuk Man, Simon ("Simon Chu"), aged 50, is the brother of Augustine Chu. He has over 8 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 44, graduated from an industrial institution in Taiwan. Mr. Chang has over 23 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 77, has over 43 years of experience in trading business in Hong Kong. He is the chairman of Union International (HK) Company Limited. Mr. Choy is the charter president of Hong Kong Kwun Tong Industries and Commerce Association Limited and the executive committee member of the Chinese Manufacturers' Association of Hong Kong.

Mr. Choy is also an independent non-executive director of Ocean Grand Holdings Limited (stock code 1220) and Yanion International Holdings Limited (stock code 82), both listed on the Main Board of the Stock Exchange and an independent non-executive director of Shine Software (Holdings) Limited (stock code 8270) which listed on the Growth Enterprise Market of the Stock Exchange.

CHIU Lai Kuen, aged 45, is the Senior Vice President of DVN (Holdings) Limited, responsible for business development and operations. Before joining DVN, Ms. Chiu worked for Caltex where she was directly responsible for setting up the infrastructure of their Greater China operations. Ms. Chiu brings considerable expertise in information technology, media and corporate governance.

Biographical Details of Directors and Management

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

TSE Ying Man, aged 49, is a Taiwanese. He is the chairman of Approach Golf International Co., Ltd, which is a golf processing factory. Mr. Tse has over 31 years of experience in golf manufacturing industry and possesses rich knowledge in the manufacturing processes of golf club as well as a considerable familiarity with the related market and materials.

SENIOR MANAGEMENT

CO Man Kwong, Rochester, aged 43, is the operations director of the Group and responsible for the financing activity, investors' relation, operations management and strategic planning of the Group. Mr. Co joined the Group in September 2002. Prior to that, he has worked in an international accounting firm for over 6 years before joining the commercial field for more than 11 years. Mr. Co graduated from the Hong Kong Polytechnic University and is a fellow member of the Association of Chartered Certified Accountants, the United Kingdom, and HKICPA.

CHOI Ying, Kammy, aged 37, is the financial controller of the Group and responsible for the overall financial planning and management of the Group. Ms. Choi joined the Group in December 1998. Prior to joining the Group, Ms. Choi has worked in an international accounting firm for over 5 years. Ms. Choi graduated with a bachelor degree in business administration from the University of Baptist. In addition, she is a member of the Association of Chartered Certified Accountants, the United Kingdom and HKICPA.

LEE May Yee, aged 36, is the senior marketing manager of the Group. Ms. Lee has over 13 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 42, 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 15 years of experience in the golf manufacturing industry.

XIE Zi Peng, aged 38, 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.

Biographical Details of Directors and Management

CHOU Wen Lai, aged 42, is the assistant general manager of the Group's research and development department. He joined the Group in June 2003. Mr. Chou graduated with a bachelor degree in science from the Feng-Chia University in Taiwan and a master degree in business administration from the National Kaoshiung First University of Science and Technology in Taiwan. Prior to joining the Group in June 2003. Mr. Chou has over 13 years of experience in steelmaking. He also has over 5 years of experience in golf manufacturing industry.

HUNG Yi Chuan, aged 43, is the assistant general manager of the Group's production department. He joined the Group in February 2000 and is currently in-charge of the overall production of one of the subsidiaries. Mr. Hung has more than 18 years experience in golf manufacturing industry.

REPORT OF THE DIRECTORS





perfect **swing** • perfect **tools**

Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 48 to 118.

An interim dividend of HK3.0 cents per ordinary share was paid on 1 November 2005.

The directors recommend the payment of a final dividend of HK4.0 cents per ordinary share in respect of the year to shareholders on the register of members on 24 May 2006. 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 119 to 120. 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.

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.

Report of the Directors

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.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves and retained profits available for cash distribution and/or distribution in specie amounted to HK$28,749,000. In accordance with the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus may be distributed in certain circumstances. In addition, the Company's share premium account, in the amount of HK$57,270,000 may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$1,139,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 66% (2004: 56%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 35% (2004: 31%). 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.

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

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

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, Chu Yuk Man, Simon and Choy Tak Ho will retire by rotation at the forthcoming annual general meeting. In order to put in place good governance practice, Chu Chun Man, Augustine, chairman of the board, offers himself to retire along with Chu Yuk Man, Simon and Choy Tak Ho at the forthcoming annual general meeting.

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 18 to 20 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

Report of the Directors

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

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

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

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

Report of the Directors

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

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

The interests of the directors in the share options of the Company are separately disclosed in note 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 2005, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 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, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 31 to the financial statements.

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

At 31 December 2005, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of share options held
CM Investment Company Limited		Directly beneficially owned	171,543,775	56.76%	–
A & S Company Limited	*(a)*	Through a controlled corporation	171,543,775	56.76%	–
Webb David Michael		Directly beneficially owned	2,022,000	0.67%	–
Webb David Michael	*(b)*	Through a controlled corporation	13,132,000	4.35%	–
			15,154,000	5.02%	
Hung Tze Nga, Cathy	*(c)*	Through spouse	171,544,038	56.77%	3,000,000
Hung Tze Nga, Cathy		Directly beneficially owned	1,000,000	0.33%	–
			172,544,038	57.1%	

Notes:

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

(b) The interest disclosed includes the shares owned by Preferable Situation Assets Limited. Preferable Situation Assets Limited is held directly as to 100% by Webb David Michael who reported the interest in shares owned by Preferable Situation Assets Limited as a deemed interest.

(c) Hung Tze Nga, Cathy is the spouse of Chu Chun Man, Augustine. Accordingly, Hung Tze Nga, Cathy is deemed to be interested in shares and share options owned by Chu Chun Man, Augustine.

Report of the Directors

Save as disclosed above, as at 31 December 2005, 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 37 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 an arm's length basis, on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (iv) with the approval of the board of directors; and (v) without exceeding the annual cap of HK$30,000,000.

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.

COMPLIANCE WITH CHAPTER 13 OF THE LISTING RULES

As at 31 December 2005, the Company had loan facilities, which were subject to, inter alias, 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 tenders according to the respective terms and conditions thereof. The details of the loan facilities are as follows:

Amounts outstanding as at 31 December 2005	**Final maturity of the loan facilities**
HK$12 million	February 2007
HK$18.4 million	September 2007

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 39 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
21 April 2006

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 2005, 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
• At least four board meetings a year.	✓	• The Board met eight times during the year. • Details of Directors' attendance records in 2005: **Attendance** **Executive Directors** CHU Chun Man, Augustine *(Chairman)* 8/8 Takanori MATSUURA 3/8 CHU Yuk Man, Simon 7/8 CHANG Hua Jung 3/8 **Independent non-executive Directors** TSE Ying Man 5/8 CHOY Tak Ho 7/8 CHIU Lai Kuen, Susanna 5/8

Corporate Governance Report

Code provisions	Comply?	Governance Practices for Sino Golf
• All directors be given an opportunity to include matters in the agenda for regular board meetings.	✓	• Directors are consulted to include any matter in the agenda for regular Board meetings.
• Notice of at least 14 days be given of a regular board meeting.	✓	• 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.
• Access to advice and services of the company secretary.	✓	• 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.
• Minutes of meetings kept by company secretary and open for inspection. • Draft and final minutes sent to all Directors for comments within a reasonable time.	✓	• 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.
• Agreed procedure for Directors to seek independent professional advice at the Company's expense.	✓	• Sino Golf's corporate governance guidelines provide for Directors taking independent professional advice at the Company's expense.
• 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.	✓	• There is a prescribed list of matters reserved for full Board decision, which includes material transactions with connected persons. • The Company's Bye Laws provide for voting and quorum requirements conforming with Code requirements (Bye Laws 114 – 116).

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
• Roles of chairman and chief executive officer should be separate, clearly established and set out in writing.	✘	• 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. • 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. However, the Company will consider appointing a "Chief Executive Officer" on or before the 2007 annual general meeting.
• The Chairman should ensure all directors be briefed on issues arising at the board meetings. • The chairman should ensure directors to receive adequate information in a timely manner.	✓	• 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. • The Company aims to continually improve on the quality and timeliness of the dissemination of information to Directors.

Corporate Governance Report

Code provisions	Comply?	Governance Practices for Sino Golf
Various recommended roles for Chairman including: • Drawing up and approving board agenda.	✓	• The agenda of Board meetings is finalised by the Chairman in consultation with executive Directors and Company Secretary after taking into consideration any matters proposed by the independent non-executive Directors.
• Establishment of ensuring good corporate governance practices and procedures. • Encourage directors to make a full and active contribution to board affairs. • Facilitate the effective contribution of non-executive directors and ensure constructive relations between executive and non-executive directors.	✓	• The chairman plays a key role in driving corporate governance development in the Company. • An independent board committee comprising of non-executive directors will be formed, whenever necessary, to give recommendations to independent shareholders and board. • An independent financial adviser will be appointed to give recommendations to the Independent Board Committee and independent shareholders where necessary.

Corporate Governance Report

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 20 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.

Code provisions	Comply?	Governance Practices for Sino Golf
• Identify the independent non-executive directors in all corporate communications.	✓	• 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.
Recommended Best Practice		
• Independent non-executive directors should represent at least one-third of the board.	✓	• The Board comprises three independent non-executive Directors representing more than one third of the full Board.
• Maintain on the Company's website an updated list of its directors identifying their role and function and independence	✓	• An updated list of the executive directors and independent non-executive directors is maintained on the Company's website. • Biographies of Directors, including clear designation of their roles and responsibilities, are published in the annual report.

Corporate Governance Report

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)

- 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
• Non-executive directors should be appointed for a specific term, subject to re-election. • Every director should be subject to rotation at least once every three years. • All directors appointed to fill a casual vacancy should be subject to election at the first and subsequent general meeting.	✓ with deviation	• The independent Non-executive directors have not been appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye Laws. It is the intention of the Board to establish specific terms of appointment on or before the 2007 annual general meeting. • Every director is subject to rotation at least once every three years with the exception of the Chairman of the Board, who is not subject to retirement by rotation in accordance with the Company's Bye Law 87(1). • All directors appointed to fill a casual vacancy are subject to retirement and re-election at the Company's annual general meeting in accordance with the Company's Bye Law 86(2). • The Company in practice has complied with and adopted the Code Provisions A.4.1 and A.4.2 of the CG Code. According to the current corporate governance practices of the Company, all directors of the Company submit themselves for re-election once every three years and any new director appointed to fill a causal vacancy submits himself/herself for re-election by shareholders at the first general meeting after appointment.

Corporate Governance Report

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 clause 87(1) of the Company's bye-laws, one-third of the Directors for the time being shall be subject to retirement by rotation, with the exception of the Chairman of the Board, at every annual general meeting of the Company. In order to put in place good governance practice, Mr. Chu Chun Man, Augustine, Chairman of the Board, shall offer himself to retire along with Messrs. Chu Yuk Man, Simon and Choy Tak Ho and being eligible, all retiring directors will offer themselves for re-election at the next forth coming annual general meeting pursuant to clause 87(2).

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

The Company's circular dated 28 April 2006 contains detailed information of the directors standing for re-election.

Corporate Governance Report

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
• Every newly appointed director should receive a comprehensive, formal and tailored induction to ensure that he has a proper understanding of the business, his responsibilities under the Listing Rules, applicable regulatory requirements, business and governance policies of the issuer.	✓	• 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. • Non-executive Directors are regularly updated with management's strategic plans, lines of business, financial objectives, plans and actions. • The Company Secretary is responsible for keeping all Directors updated on Listing Rules and other statutory requirements.
• Functions of non-executive directors should include: • bringing an independent judgment at the board meeting; • taking the lead where potential conflicts of interests arise; • serving on committees if invited; • scrutinising the issuer's performance and monitoring the reporting of performance.	✓	• 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. 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.
• Directors should ensure that they can give sufficient time and attention to the affairs of the issuer.		• There is satisfactory attendance for Board and Board Committee meetings in 2005.

Corporate Governance Report

Code provisions	Comply?	Governance Practices for Sino Golf
• Directors must comply with their obligations under the Model Code set out in Appendix 10.	✓	• 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 2005. • 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. • No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

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
• Board papers should be sent to all directors at least three days before the date of board/committee meeting.	✓	• Board papers are sent to all Directors at least 3 days before the date of board/committee meeting.
• Each director should have separate and independent access to senior management.	✓	• Senior management is from time to time brought into formal and informal contact with the Board at board meetings and other events.
• Directors are entitled to have access to board papers; steps must be taken to respond properly and fully to director queries.	✓	• Board papers and minutes are available for inspection by Directors and Committee Members.

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
• 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.	✓	• 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.
• 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.	✓	• 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.
• The remuneration committee should be provided with sufficient resources to discharge its duties.	✓	• Independent professional advice will be sought to supplement internal resources where necessary.
Recommended Best Practice		
• A significant proportion of executive directors' remuneration should be linked to corporate and individual performance.	✓	• The directors' remuneration is determined by the Company in general meeting. It is delegated to the Board of Directors by the shareholders at the AGM. The emolument is determined with reference to the directors' duties, responsibilities, performance and the results of the Group.

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, 2005 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 2005:

Executive Directors	**Attendance**
CHU Chun Man, Augustine	1/1
CHU Yuk Man, Simon	1/1
Independent non-executive Directors	
TSE Ying Man *(Chairman)*	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
• Management should provide explanation and information to enable the board to make informed assessment of relevant matters.	✓	• Directors are regularly kept informed and updated with management's strategic plans, lines of business, financial objectives, plans and actions.
• The directors should acknowledge of their responsibility for preparing the accounts; there should be a statement by the auditors regarding their reporting responsibilities in the auditors' report.	✓	• A Statement of Director Responsibilities for Financial Statements is set out in this Annual Report on page 47. • 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 47.
• 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.	✓	• The Board aims to present a comprehensive, balanced and understandable assessment of the Group's position and prospects in all shareholder communications.

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 2005 amounted to HK$1,150,000 and HK$95,000 respectively.

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
• Minutes be kept by a duly appointed secretary; and should be sent to all committee members within a reasonable time.	✓	• Draft minutes prepared by the Company Secretary are sent to members within 14 days of each meeting.
• A formal partner of the existing auditors should not sit on the Audit Committee.	✓	• None of the three Audit Committee members are former partners of the external auditors.
• The terms of reference of audit committee (containing the minimum prescribed duties) be made available on request and on the Company's website.	✓	• Full terms of reference are available on request and on the Company's website.
• 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.	✓	• Audit Committee recommended to the Board (which in turn endorsed the view) that, subject to shareholders' approval at the forthcoming AGM, Ernst & Young be reappointed as the external auditors for 2006.
• The audit committee should be provided with sufficient resources to discharge its duties.	✓	• There is an agreed procedure for Audit Committee members to take independent professional advice at Company's expense.

Corporate Governance Report

Recommended Beet Practice	Comply?	Governance Practices for Sino Golf
• Terms of reference include: – Review arrangements by which employees of the issuer may, in confidence, raise concerns about possible improprieties. – Oversee the issuer's relation with the external auditor.	✓	• The arrangement is included in the Company's Code of Conduct – Employees/Directors. • The Audit Committee oversees the relationship of management with the external auditors.

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 two meetings during the year ended 31 December, 2005 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, 2005 has been reviewed by the Audit Committee.

Details of attendance records of Audit Committee Meetings in 2005:–

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

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
• Board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the board.	✓	• Matters reserved for the Board's decision include: – Long-term objectives and strategies of the Group; – Material change in or extension of group activities into new business areas; – Preliminary announcements of interim and final results; – Dividends; – Material banking facilities; – Material acquisitions and disposals of assets and/or business; – Annual assessment of the effectiveness of the internal controls; – Appointment of members to the Board; and – Other matters of significance, which the management submits for the Board's consideration and decision.
• Formalize the functions reserved to the board and those delegated to management	✓	
Recommended Best Practice		
• Issuers should have formal letters of appointment for directors setting out the key terms and conditions relative to their appointment.	✓	• A formal appointment letter, setting out the key terms and conditions relative to their appointment, will be prepared for each newly appointed Director.

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
• Clear terms of reference to enable proper discharge of committee functions.	✓	• The Board has established two Board Committees (i.e. the audit committee and the remuneration committee) with specific terms of reference.
• The terms of reference should require committees to report their decisions to the board.	✓	• Board Committees present their respective reports to the Board after each meeting, which reports address their work and findings.

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
• A separate resolution be proposed by the chairman for each substantially separate issue.	✓	• Separate resolutions are proposed at the meeting on each substantially separate issue, including the election of individual directors.
• 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.	✓	• Both the Chairman of the Board and the Chairman of the Independent Board Committee, who was also a member of the Audit Committee, were present in the 2005 Annual General Meeting to answer questions raised by the shareholders.

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
• The general meeting circulars should disclose the procedures and rights of shareholders to demand a poll. • Ensure that votes cast are properly counted and recorded. • Chairman of meeting should adequately explain the poll procedures at the commencement of the meeting.	✓	• Procedures for demanding a poll were set out in the circular accompanying the AGM Notice. These procedures were also explained during the AGM proceedings. • A representative of the Share Registrars of the Company was appointed as scrutineer. • 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.

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

To the members
Sino Golf Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 48 to 118 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
21 April 2006

Consolidated Income Statement

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
REVENUE	5	**371,989**	399,640
Cost of sales		**(264,935)**	(271,723)
Gross profit		**107,054**	127,917
Other income and gain	5	**7,010**	2,815
Selling and distribution costs		**(12,273)**	(11,495)
Administrative expenses		**(50,243)**	(57,512)
Other expenses, net		**(7,511)**	(22,277)
Finance costs	7	**(12,058)**	(9,790)
PROFIT BEFORE TAX	6	**31,979**	29,658
Tax	10	**(1,130)**	(1,706)
PROFIT FOR THE YEAR		**30,849**	27,952
Attributable to:			
Equity holders of the parent	11	**31,560**	28,160
Minority interests		**(711)**	(208)
		30,849	27,952
DIVIDENDS	12		
Interim		**9,066**	19,039
Proposed final		**12,088**	–
		21,154	19,039
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	13	**10.4 cents**	9.3 cents

Consolidated Balance Sheet

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**140,379**	133,422
Prepaid land lease payments	15	**20,736**	17,444
Goodwill	16	**25,723**	24,920
Total non-current assets		**186,838**	175,786
CURRENT ASSETS			
Inventories	18	**123,970**	101,684
Prepaid land lease payments	15	**459**	389
Trade and bills receivables	19	**27,099**	45,033
Prepayments, deposits and other receivables	20	**35,052**	21,006
Derivative financial instruments	22	**172**	–
Tax recoverable		**559**	1,599
Cash and cash equivalents	23	**79,141**	84,050
Total current assets		**266,452**	253,761
CURRENT LIABILITIES			
Trade and bills payables	24	**45,644**	55,613
Other payables and accruals	25	**42,387**	28,650
Interest-bearing bank and other borrowings	27	**138,860**	75,231
Total current liabilities		**226,891**	159,494
NET CURRENT ASSETS		**39,561**	94,267
TOTAL ASSETS LESS CURRENT LIABILITIES		**226,399**	270,053
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**36,950**	94,233
Deferred tax liabilities	29	**3,459**	4,624
Total non-current liabilities		**40,409**	98,857
Net assets		**185,990**	171,196
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	30	**30,220**	30,220
Reserves	32(a)	**141,010**	130,279
Proposed final dividend	12	**12,088**	–
		183,318	160,499
Minority interests		**2,672**	10,697
Total equity		**185,990**	171,196

Chu Chun Man, Augustine
Director

Chu Yuk Man, Simon
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

		Attributable to equity holders of the parent										
	Notes	Issued share capital HK$'000 *(note 30)*	Share premium account HK$'000	Contributed surplus HK$'000 *(note 32(a))*	Asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Other reserves HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2004												
As previously reported		30,220	57,270	10,564	28,035	1,796	50	26,197	–	154,132	10,905	165,037
Prior year adjustments	*2.4(b)*	–	–	–	(2,993)	–	–	239	–	(2,754)	–	(2,754)
As restated		30,220	57,270	10,564	25,042	1,796	50	26,436	–	151,378	10,905	162,283
Profit for the year and total income and expense for the year (restated)		–	–	–	–	–	–	28,160	–	28,160	(208)	27,952
Interim 2004 dividend	*12*	–	–	–	–	–	–	(19,039)	–	(19,039)	–	(19,039)
At 31 December 2004		30,220	57,270	10,564	25,042	1,796	50	35,557	–	160,499	10,697	171,196
At 1 January 2005												
As previously reported		30,220	57,270	10,564	28,035	1,796	50	35,250	–	163,185	10,697	173,882
Prior year adjustments	*2.4(b)*	–	–	–	(2,993)	–	–	307	–	(2,686)	–	(2,686)
Opening adjustments	*2.4(b)*	–	–	–	–	–	–	(1,888)	–	(1,888)	–	(1,888)
As restated		30,220	57,270	10,564	25,042	1,796	50	33,669	–	158,611	10,697	169,308
Exchange realignment		–	–	–	–	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
Interim 2005 dividend	*12*	–	–	–	–	–	–	(9,066)	–	(9,066)	–	(9,066)
Proposed final 2005 dividend	*12*	–	–	–	–	–	–	(12,088)	12,088	–	–	–
At 31 December 2005		**30,220**	**57,270**	**10,564**	**24,843**	**4,125**	**133**	**44,075**	**12,088**	**183,318**	**2,672**	**185,990**

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**31,979**	29,658
Adjustments for:			
Interest expenses	7	**11,964**	7,986
Interest income	6	**(748)**	(107)
Fair value gain on interest rate swaps	6	**(2,060)**	–
Depreciation	6	**15,095**	18,512
Recognition of prepaid land lease payments	6	**161**	188
Amortisation of goodwill	6	**–**	2,997
Loss on disposal of items of property, plant and equipment	6	**–**	1,260
Write-off of items of property, plant and equipment	6	**385**	–
Equity-settled share option expense	6	**83**	–
Write-off of obsolete inventories, net	6	**5,379**	2,196
Provision for bad and doubtful debts	6	**352**	9,495
Provision for bad debts written back	6	**–**	(1,692)
Gain on disposal of a subsidiary	6	**(2,581)**	–
Operating profit before working capital changes		**60,009**	70,493
Increase in inventories		**(31,065)**	(35,534)
Decrease in trade and bills receivables		**11,111**	9,024
Increase in prepayments, deposits and other receivables		**(9,800)**	(1,672)
Increase/(decrease) in trade and bills payables		**(5,947)**	14,637
Increase in other payables and accruals		**14,743**	8,436
Cash generated from operations		**39,051**	65,384
Interest received		**748**	107
Tax paid in the PRC		**(81)**	(446)
Hong Kong profits tax paid		**(1,157)**	(5,490)
Net cash inflow from operating activities		**38,561**	59,555
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	**(31,041)**	(25,426)
Proceeds from disposal of items of property, plant and equipment		**–**	576
Additions of prepaid land lease payments	15	**(4,641)**	(10,063)
Acquisition of additional equity interest in a subsidiary		**(2,625)**	(7,900)
Disposal of a subsidiary		**9,405**	–
Net cash outflow from investing activities		**(28,902)**	(42,813)

Consolidated Cash Flow Statement

Year ended 31 December 2005

	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	**40,371**	173,000
Repayment of bank loans	**(33,938)**	(143,708)
Interest paid	**(11,959)**	(7,981)
Dividends paid	**(9,066)**	(47,748)
Interest element of finance lease	**(5)**	(5)
Capital element of finance lease	**(87)**	(87)
Net cash outflow from financing activities	**(14,684)**	(26,529)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(5,025)**	(9,787)
Cash and cash equivalents at beginning of year	**84,050**	93,837
Effect on foreign exchange rate changes, net	**116**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	**79,141**	84,050
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**79,141**	84,050

Balance Sheet

31 December 2005

	Notes	**2005 HK$'000**	2004 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*17*	**114,424**	101,257
CURRENT ASSETS			
Prepayments, deposits and other receivables	*20*	**1,784**	1,784
Cash and cash equivalents		**38**	36
Total current assets		**1,822**	1,820
CURRENT LIABILITIES			
Other payables and accruals	*25*	**7**	9
NET CURRENT ASSETS		**1,815**	1,811
Net assets		**116,239**	103,068
EQUITY			
Issued capital	*30*	**30,220**	30,220
Reserves	*32(b)*	**73,931**	72,848
Proposed final dividend	*12*	**12,088**	–
Total equity		**116,239**	103,068

Chu Chun Man, Augustine
Director

Chu Yuk Man, Simon
Director

Notes to Financial Statements

31 December 2005

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:

- the manufacturing and trading of golf equipment and related components and parts; and

- the manufacturing and trading of golf bags, other accessories, and related components and parts.

In the opinion of the directors, the parent of the Group is CM Investment Company Limited, which is incorporated in the British Virgin Islands, and the ultimate holding company of the Group 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 as further explained below and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars (HK$) 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 2005. 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 in the results and net assets of the Company's subsidiaries.

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Notes to Financial Statements

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

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 33, 37, 38 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 21 has had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. 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.

The effects of the above change are summarised in note 2.4 to the financial statements. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

Notes to Financial Statements

31 December 2005

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

(b) HKAS 32 and HKAS 39 – Financial Instruments

Derivative financial instruments – Interest rate swaps

The adoption of HKAS 32 and HKAS 39 has resulted in a change of accounting policy for recognition, measurement and disclosure of the interest rate swap contracts entered into by the Group. In prior periods, these contracts were recognised on a cash basis.

Upon the adoption of HKAS 39, such kind of derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Gains or losses arising from the changes in fair value are recognised in the income statement. Such derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

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

(c) HKFRS 2 – Share-based Payment *(Continued)*

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and at 31 December 2004. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

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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. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

The 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 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

Notes to Financial Statements

31 December 2005

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

The HKAS 19 Amendment, HKAS 21 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 do not apply to the activities of the Group. HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 December 2005 and 1 March 2006, respectively.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting		
At 1 January 2005	**HKAS 17#**	**HKAS 39***	
Effect of new policies	**Prepaid land**	**Interest rate**	
(Increase/(decrease))	**lease payments**	**swaps**	**Total**
	HK$'000	HK$'000	HK$'000
Assets			
Property, plant and equipment	(20,806)	–	(20,806)
Prepaid land lease payments	17,833	–	17,833
			(2,973)
Liabilities/equity			
Derivative financial instruments	–	1,888	1,888
Deferred tax liabilities	(287)	–	(287)
Asset revaluation reserve	(2,993)	–	(2,993)
Retained profits	307	(1,888)	(1,581)
			(2,973)

* *Adjustments taken effect prospectively from 1 January 2005*

\# *Adjustments/presentation taken effect retrospectively*

Notes to Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect on the consolidated balance sheet *(Continued)*

	Effect of adopting				
	HKAS 17	**HKAS 39**	**HKFRS 2**	**HKFRS 3**	
At 31 December 2005			**Equity-settled**	**Discontinuation**	
Effect of new policies	**Prepaid land**	**Interest rate**	**share option**	**of amortisation**	
(Increase/(decrease))	**lease payments**	**swaps**	**arrangements**	**of goodwill**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Property, plant and equipment	(24,098)	–	–	–	(24,098)
Prepaid land lease payments	21,195	–	–	–	21,195
Goodwill	–	–	–	3,680	3,680
Derivative financial instruments	–	172	–	–	172
					949
Liabilities/equity					
Deferred tax liabilities	(287)	–	–	–	(287)
Asset revaluation reserve	(2,993)	–	–	–	(2,993)
Other reserves	–	–	83	–	83
Retained profits	377	172	(83)	3,680	4,146
					949

Notes to Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

	Effect of adopting		
	HKAS 17	**HKAS 39**	
Effect of new policies	**Prepaid land**	**Interest rate**	
(Increase/(decrease))	**lease payments**	**swaps**	**Total**
	HK$'000	HK$'000	HK$'000
1 January 2004			
Asset revaluation reserve	(2,993)	–	(2,993)
Retained profits	239	–	239
			(2,754)
1 January 2005			
Asset revaluation reserve	(2,993)	–	(2,993)
Retained profits	307	(1,888)	(1,581)
			(4,574)

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31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting				
	HKAS 17	HKAS 39	HKFRS 2	HKFRS 3	
			Equity-settled	Discontinuation	
	Prepaid land	Interest rate	share option	of amortisation	
Effect of new policies	**lease payments**	**swaps**	**arrangements**	**of goodwill**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005					
Decrease in finance costs	–	2,060	–	–	2,060
Decrease in administrative expenses	70	–	–	–	70
Decrease/(increase) in other expenses	–	–	(83)	3,680	3,597
Total increase/(decrease) in profit	70	2,060	(83)	3,680	5,727
Increase/(decrease) in basic earnings per share	0.02 cents	0.68 cents	(0.03 cents)	1.22 cents	1.89 cents

	Effect of adopting
	HKAS 17
	Prepaid land
Effect of new policies	**lease payments**
	HK$'000
Year ended 31 December 2004	
Decrease in administrative expenses	68
Total increase in profit	68
Increase in basic earnings per share	0.02 cents

Notes to Financial Statements

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2.5 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
- 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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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 assets

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 2005

2.5 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 an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) 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 (d) or (e).

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 2005

2.5 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% – 5%
Leasehold improvements	20%
Plant and machinery	10% – 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 shorter of the lease terms and 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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

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.

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 (applicable to the year ended 31 December 2005)

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss and loans and receivables. 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 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, i.e., the date that the Group commits to purchase 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.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are including the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

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 carried at amortised cost using the effective interest method. 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.

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31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005)

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 profit or loss.

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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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 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.

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.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

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 profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

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 net profit or loss for the year.

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.

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31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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.

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.

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31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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;

(d) patent income, on an accrual basis in accordance with the substance of the relevant agreements; and

(e) other income, on an accrual basis.

Employee benefits

Share-based payment transactions

The Company operates share option schemes 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 2005

2.5 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 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 on 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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

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.

The employees of the Group's subsidiaries which operate in the mainland of the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The assets of the schemes are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the participating employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was 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.

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 ESTIMATES

In the process of applying the Group's accounting policies, management has made the following estimations, which have the most significant effect on the amounts recognised in the financial statements.

Estimation uncertainty

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 2005 was HK$25,723,000 (2004: HK$24,920,000). More details are given in note 16 to the financial statements.

Notes to Financial Statements

31 December 2005

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Provision for 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 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 the 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 the manufacturing and trading of golf equipment and related components and parts; and

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

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

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

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group

	Golf equipment		Golf bag		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)						(Restated)
Segment revenue:								
Sales to external customers	**301,046**	327,425	**66,211**	66,520	**–**	–	**367,257**	393,945
Intersegment revenue	**4,217**	520	**6,242**	17,259	**(10,459)**	(17,779)	**–**	–
Other revenue	**9,124**	5,789	**1,870**	2,614	**–**	–	**10,994**	8,403
Total	**314,387**	333,734	**74,323**	86,393	**(10,459)**	(17,779)	**378,251**	402,348
Segment results	**41,514**	39,643	**1,775**	(302)			**43,289**	39,341
Interest income							**748**	107
Finance costs							**(12,058)**	(9,790)
Profit before tax							**31,979**	29,658
Tax							**(1,130)**	(1,706)
Profit for the year							**30,849**	27,952

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Group

	Golf equipment		Golf bag		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Assets and liabilities:								
Segment assets	**339,533**	324,450	**53,558**	41,111	**(19,501)**	(21,663)	**373,590**	343,898
Unallocated assets							**79,700**	85,649
Total assets							**453,290**	429,547
Segment liabilities	**80,360**	62,522	**27,172**	43,404	**(19,501)**	(21,663)	**88,031**	84,263
Unallocated liabilities							**179,269**	174,088
Total liabilities							**267,300**	258,351
Other segment information:								
Depreciation	**13,617**	17,183	**1,478**	1,329	**–**	–	**15,095**	18,512
Amortisation of goodwill	**–**	1,372	**–**	1,625	**–**	–	**–**	2,997
Provision for bad and doubtful debts	**352**	9,495	**–**	–	**–**	–	**352**	9,495
Capital expenditure	**33,516**	33,173	**2,969**	7,471	**–**	–	**36,485**	40,644

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

Group

	North America		Europe		Asia (excluding Japan)		Japan		Others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:												
Sales to external customers	**248,108**	274,713	**25,018**	30,281	**43,344**	25,158	**41,215**	50,365	**9,572**	13,428	**367,257**	393,945

	Hong Kong		PRC		Unallocated		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
				(Restated)						(Restated)
Other segment information:										
Segment assets	**354,753**	327,982	**258,425**	229,295	**18,846**	13,777	**(258,434)**	(227,156)	**373,590**	343,898
Unallocated assets									**79,700**	85,649
Total assets									**453,290**	429,547
Capital expenditure	**3,501**	316	**32,984**	40,328	**–**	–	**–**	–	**36,485**	40,644

Notes to Financial Statements

31 December 2005

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:

	Group	
	2005	2004
	HK$'000	HK$'000
Revenue		
Turnover:		
Sales of goods	**367,257**	393,945
Gross rental income	**2,030**	1,897
Testing income	**1,771**	2,306
Tooling charges	**931**	1,492
	371,989	399,640
Other income		
Compensation income	**1,170**	–
Commission income	**112**	842
Bank interest income	**736**	85
Interest income for loans receivable	**12**	22
Patent income	**859**	783
Others	**1,540**	1,083
	4,429	2,815
Gain		
Gain on disposal of a subsidiary *(note 33)*	**2,581**	–
Other income and gain	**7,010**	2,815

Notes to Financial Statements

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6. PROFIT BEFORE TAX

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

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold		**191,735**	202,014
Depreciation	*14*	**15,095**	18,512
Recognition of prepaid land lease payments	*15*	**161**	188
Minimum lease payments under operating leases:			
Land and buildings		**6,479**	6,232
Motor vehicles		**66**	132
Amortisation of goodwill*	*16*	**–**	2,997
Auditor's remuneration			
Current year		**1,150**	950
Underprovision in prior year		**9**	20
		1,159	970
Employee benefits expense (including directors' remuneration - *note 8*):			
Wages and salaries		**57,974**	67,301
Equity-settled share option expense		**83**	–
Retirement benefits scheme contributions**		**2,305**	2,246
		60,362	69,547
Provision for bad and doubtful debts		**352**	9,495
Foreign exchange differences, net		**47**	1,953
Loss on disposal of items of property, plant and equipment		**–**	1,260
Write-off of items of property, plant and equipment	*14*	**385**	–
Write-off of obsolete inventories, net		**5,379**	2,196
Gain on disposal of a subsidiary	33	**(2,581)**	–
Rental income		**(2,030)**	(1,897)
Bank interest income		**(736)**	(85)
Interest income for loans receivable		**(12)**	(22)
Bad debts recovery		**–**	(45)
Provision for bad debts written back		**–**	(1,692)
Fair value gain on interest rate swaps	22	**(2,060)**	–

* *The amortisation of goodwill is included in "Other expenses, net" on the face of the consolidated income statement.*

** *At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits schemes in future years (2004: Nil).*

Notes to Financial Statements

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7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Fair value gain on interest rate swaps *(note 22)*	**(2,060)**	–
Interest on bank loans and overdrafts	**11,959**	7,981
Interest on finance leases	**5**	5
Bank charges	**2,154**	1,804
Total finance costs	**12,058**	9,790

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	
	2005	2004
	HK$'000	HK$'000
Fees	**210**	542
Other emoluments:		
Salaries	**3,854**	3,854
Bonuses	**620**	1,180
Housing benefits	**1,440**	1,440
Retirement benefits scheme contributions	**24**	24
	5,938	6,498
	6,148	7,040

Notes to Financial Statements

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8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

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

	2005 HK$'000	2004 HK$'000
Choy Tak Ho	**120**	120
Tse Ying Man	**50**	–
Chiu Lai Kuen, Susanna	**40**	–
Carl Thomas McManis	**–**	422
	210	542

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors

	Salaries HK$'000	Bonuses HK$'000	Housing benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total remuneration HK$'000
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**
2004					
Chu Chun Man, Augustine	1,560	800	840	12	3,212
Chu Yuk Man, Simon	1,200	300	600	12	2,112
Takanori Matsuura	374	–	–	–	374
Chang Hua Jung	720	80	–	–	800
	3,854	1,180	1,440	24	6,498

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: two) executive directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2004: three) non-director, highest paid employees for the year are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,134**	2,463
Performance related bonuses	**350**	506
Employee share option benefits	**45**	–
Retirement benefits scheme contributions	**24**	24
	3,553	2,993

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

	Number of employees	
	2005	2004
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**3**	1
	3	3

During the year, no emoluments were paid by the Group to any of the three (2004: three) non-director, highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

During the year, share options were granted to non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of grant and was included in the above non-director, highest paid employees' remuneration disclosures.

Notes to Financial Statements

31 December 2005

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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	
	2005	2004
	HK$'000	HK$'000
Current - Hong Kong		
Charge for the year	**1,814**	1,885
Overprovision in prior years	**–**	(42)
Current - Elsewhere	**481**	(137)
Deferred *(note 29)*	**(1,165)**	–
Tax charge for the year	**1,130**	1,706

A reconciliation of the tax expense applicable to profit before tax using the Group's applicable tax rate to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

Group	**2005**		**2004**	
	HK$'000	**%**	HK$'000 (Restated)	%
Profit before tax	**31,979**		29,658	
Tax at the applicable tax rate	**7,675**	**24.0**	7,119	24.0
Higher/(lower) tax rate for specific provinces or local authority	**113**	**0.4**	(2,425)	(8.2)
Adjustments in respect of current tax of prior years	**–**	**–**	(516)	(1.7)
Income not subject to tax	**(8,875)**	**(27.8)**	(4,997)	(16.8)
Expenses not deductible for tax	**2,082**	**6.5**	2,575	8.7
Tax losses carried forward to future years	**305**	**0.9**	594	2.0
Tax losses utilised from prior years	**(170)**	**(0.5)**	(644)	(2.2)
Tax charge at the Group's effective rate	**1,130**	**3.5**	1,706	5.8

Notes to Financial Statements

31 December 2005

10. TAX *(Continued)*

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

In accordance with the approval 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 an exemption from the PRC state CIT for the first two profitable financial years of their operation and thereafter 50% relief from the state CIT for the following three financial years (the "Tax Relief"). Upon expiry of the Tax Relief, the state CIT rate of 24% is applicable to them. The two years' tax exemption periods for these companies have not yet commenced during the year.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$22,154,000 (2004: HK$19,094,000 (note 32(b)).

12. DIVIDENDS

	2005 **HK$'000**	2004 HK$'000
Interim – HK3.0 cents (2004: HK6.3 cents) per ordinary share	**9,066**	19,039
Proposed final – HK4.0 cents (2004: Nil) per ordinary share	**12,088**	–
	21,154	19,039

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

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

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of HK$31,560,000 (2004 (as restated): HK$28,160,000) and, the weighted average number of 302,200,000 (2004: 302,200,000) ordinary shares in issue during the year.

The diluted earnings per share amounts for the years ended 31 December 2005 and 31 December 2004 have not been shown as there was no dilutive effect on the basic earnings per share amounts for these years. The outstanding share options of the Company would not result in the issue of ordinary shares for less than the fair values as their exercise prices were above the average market price of the Company's shares during these years.

Notes to Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005							
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 2005

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

	Land and buildings HK$'000 (Restated)	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 December 2004							
At 1 January 2004:							
Cost or valuation	92,186	4,200	96,377	5,715	5,481	342	204,301
Accumulated depreciation	(11,455)	(1,515)	(56,350)	(3,711)	(2,926)	–	(75,957)
Net carrying amount	80,731	2,685	40,027	2,004	2,555	342	128,344
At 1 January 2004, net of accumulated depreciation	80,731	2,685	40,027	2,004	2,555	342	128,344
Additions	6,066	3,276	14,619	520	247	698	25,426
Disposals	–	(831)	(986)	–	(19)	–	(1,836)
Transfers	258	–	–	–	–	(258)	–
Depreciation provided during the year	(2,426)	(750)	(13,830)	(669)	(837)	–	(18,512)
At 31 December 2004, net of accumulated depreciation	84,629	4,380	39,830	1,855	1,946	782	133,422
At 31 December 2004:							
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
Analysis of cost or valuation:							
At cost	6,324	5,586	109,029	6,177	5,701	782	133,599
At 31 December 2003 valuation	92,186	–	–	–	–	–	92,186
	98,510	5,586	109,029	6,177	5,701	782	225,785

Notes to Financial Statements

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Notes:

(a) At 31 December 2005, certain of the Group's land and buildings were revalued individually as at 31 December 2003 by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK$76,310,000 (2004 (as restated): HK$80,730,000) based on their existing use. Such land and buildings were not revalued at 31 December 2005. In the opinion of the directors, there was no significant change in the valuations of these land and buildings from their carrying amounts as at 31 December 2005. As at the balance sheet date, such land and buildings had an aggregate carrying amount of HK$71,708,000 (2004 (as restated): HK$78,315,000) in the financial statements.

(b) Had the revalued land and buildings been carried in the financial statements, at historical cost less accumulated depreciation, their carrying amounts as at the balance sheet date would have been HK$48,266,000 (2004 (as restated): HK$53,170,000) in the financial statements.

(c) The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles at 31 December 2005, amounted to HK$139,000 (2004: HK$222,000).

(d) The gross amount and accumulated depreciation of the property, plant and equipment under operating leases are HK$2,015,000 and HK$963,000, respectively.

Notes to Financial Statements

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15. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 2.2(a))*	**17,833**	7,958
As restated	**17,833**	7,958
Additions	**4,641**	10,063
Disposal of a subsidiary *(note 33)*	**(1,293)**	–
Recognised during the year	**(161)**	(188)
Exchange realignment	**175**	–
Carrying amount at 31 December	**21,195**	17,833
Current portion	**(459)**	(389)
Non-current portion	**20,736**	17,444

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

	2005	2004
	HK$'000	HK$'000
Long term leases	**247**	253
Medium term leases	**20,948**	17,580
	21,195	17,833

As at 31 December 2005, the Group did not have title to a price of land with carrying value of HK$3,397,000 (2004: HK$3,333,000). According to the land use right agreement, the Group has the right to use the land for 40 years up to 2044. It is the Group's intention to apply for the title certificate upon the completion of the factory building.

Notes to Financial Statements

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16. GOODWILL

	Group	
	2005	2004
	HK$'000	HK$'000
At 1 January:		
Cost as previously reported	34,111	28,956
Effect of adopting HKFRS 3 *(note 2.2(d))*	(9,191)	–
Cost as restated	24,920	28,956
Accumulated amortisation as previously reported	(9,191)	(6,194)
Effect of adopting HKFRS 3 *(note 2.2(d))*	9,191	–
Accumulated amortisation as restated	–	(6,194)
Net carrying amount	24,920	22,762
Cost at 1 January, net of accumulated amortisation	24,920	22,762
Acquisition of minority interests	803	5,155
Amortisation provided during the year	–	(2,997)
Carrying amount at 31 December	25,723	24,920
At 31 December:		
Cost	25,723	34,111
Accumulated amortisation	–	(9,191)
Net carrying amount	25,723	24,920

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimate useful life of 8 to 15 years.

Notes to Financial Statements

31 December 2005

16. GOODWILL *(Continued)*

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.

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 the cash flow projections is 11.3%.

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 11.3%.

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

	Golf equipment		**Golf bag**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount of goodwill	**12,389**	12,389	**13,334**	12,531	**25,723**	24,920

Key assumptions were used in the value in use calculation of the golf equipment and golf bag cash-generating units for 31 December 2005. 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.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**15,717**	15,717
Due from subsidiaries	**98,707**	85,540
	114,424	101,257

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Equity interest attributable to the Company Direct	Indirect	Principal activities
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/ HK$111,700,000	–	100%	Manufacturing and trading of golf equipment and accessories
Guangzhou Sino Concept Golf Manufacturing Co., Ltd.*	PRC	HK$30,000,000	–	100%	Manufacturing and trading of golf equipment and accessories

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Equity interest attributable to the Company Direct	Indirect	Principal activities
CTB Golf (HK) Limited ("CTB")	Hong Kong	HK$10,000,000 (ordinary) HK$2,730,000 (preference)	–	100% *(Note b)*	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/ HK$25,000,000	–	100%	Manufacturing and trading of golf bags
Xiamen Sino Talent Golf Manufacturing Co., Ltd.*	PRC	US$4,000,000/ US$6,600,000	–	100%	Manufacturing and trading of golf equipment
Linyi Sinoeia Golf Co., Ltd.*	PRC	HK$37,082,105/ HK$98,000,000	–	100%	Factory in construction
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% *(Note c)*	Trading of golf bags

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Equity interest attributable to the Company Direct	Indirect	Principal activities
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% *(Note c)*	Investment holding and provision of trading services
上海順龍商務資訊有限公司*	PRC	US$140,000	–	51% *(Note c)*	Provision of consulting and trading services

* *wholly-foreign owned enterprises under the PRC law.*

Notes:

(a) The non-voting deferred shares practically carry no rights to dividends or receive notice of or attend or vote at any general meeting of the company or to participate in any distribution on winding-up.

(b) During the year, the Group acquired the remaining 37.5% interest in CTB from the minority owner at a consideration of approximately HK$2.6 million. The acquisition has given rise to a goodwill of approximately HK$803,000.

(c) These companies were newly set up by the Group in the current year.

Notes to Financial Statements

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18. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**48,718**	43,399
Work in progress	**30,810**	23,509
Finished goods	**44,442**	34,776
	123,970	101,684

19. TRADE AND BILLS 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 generally ranges from 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 and bills receivables as at the balance sheet date, based on the date of recognition of sale and net of provisions, is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**18,407**	13,650
4 to 6 months	**2,169**	9,593
7 to 12 months	**3,187**	20,400
Over 1 year	**3,336**	1,390
	27,099	45,033

Included in the Group's trade and bills receivables as at the balance sheet date was an amount of HK$528,000 (2004: HK$1,751,000) due from Nikko Bussan Co., Ltd. ("Nikko Bussan (Japan)") arising from transactions carried out in the ordinary course of business of the Group. Takanori Matsuura, a director of the Company, has a beneficial interest in Nikko Bussan (Japan). The balance with Nikko Bussan (Japan) is unsecured, interest-free and is repayable within a credit period similar to those offered by the Group to its major customers.

Notes to Financial Statements

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20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**9,941**	5,135	**–**	–
Deposits and other debtors	**24,248**	14,642	**1,784**	1,784
Loans to directors *(note 21)*	**863**	1,229	**–**	–
	35,052	21,006	**1,784**	1,784

21. LOANS TO DIRECTORS

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

Group

Name	**31 December 2005**	**Maximum amount outstanding during the year**	**1 January 2005**
	HK$'000	HK$'000	HK$'000
Chu Yuk Man, Simon	687	750	750
Chang Hua Jung	176	479	479
	863		1,229

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

Except for an amount of HK$15,000 within the loan granted to Chang Hua Jung, which bears interest at a rate of 1.5% per annum and is repayable before January 2006, the remaining balances of the loan granted to Chang Hua Jung of HK$101,000 and HK$60,000 are interest-free and are repayable before August 2007 and July 2010, respectively.

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22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2005	2004
	HK$'000	HK$'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. Changes in the fair value of non-hedging interest rate swaps amounting to HK$2,060,000 were charged to the income statement during the year (2004: Nil).

23. CASH AND CASH EQUIVALENTS

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$8,448,000 (2004: HK$4,263,000). 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 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 goods received date, is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**40,419**	47,875
4 to 6 months	**3,379**	5,921
7 to 12 months	**1,307**	990
Over 1 year	**539**	827
	45,644	55,613

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

Notes to Financial Statements

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25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals and other liabilities	**42,387**	28,452	**7**	9
Due to related parties *(note 26)*	**–**	198	**–**	–
	42,387	28,650	**7**	9

Other payables are non-interest-bearing and have no fixed terms of repayment.

26. DUE TO RELATED PARTIES

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

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000
Current				
Finance lease payables *(note 28)*	3.88	2006	**84**	88
Bank loans - unsecured	0.83-7.25	2006	**138,776**	75,143
			138,860	75,231
Non-current				
Finance lease payables *(note 28)*	3.88		**–**	83
Bank loans - unsecured	0.83-5.57	2007	**36,950**	94,150
			36,950	94,233
			175,810	169,464

Notes to Financial Statements

31 December 2005

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

	Group	
	2005	2004
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**138,776**	75,143
In the second year	**36,950**	57,200
In the third to fifth years, inclusive	**–**	36,950
	175,726	169,293
Other borrowings repayable:		
Within one year	**84**	88
In the second year	**–**	83
	84	171
	175,810	169,464
Represented by		
Hong Kong dollars	**152,716**	165,886
United States dollars	**23,094**	3,578
	175,810	169,464

Notes:

(a) All the bank and other borrowings of the Group bear interest at floating interest rates.

(b) 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.

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28. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles for its golf equipment manufacturing and trading business. These leases are classified as finance leases and have remaining lease terms of 11 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 2005 HK$'000	Minimum lease payments 2004 HK$'000	**Present value of minimum lease payments 2005 HK$'000**	Present value of minimum lease payments 2004 HK$'000
Amounts payable:				
Within one year	**86**	91	**84**	88
In the second year	**–**	83	**–**	83
Total minimum finance lease payments	**86**	174	**84**	171
Future finance charges	**(2)**	(3)		
Total net finance lease payables	**84**	171		
Portion classified as current liabilities *(note 27)*	**(84)**	(88)		
Non-current portion *(note 27)*	**–**	83		

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

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31 December 2005

29. DEFERRED TAX

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

	Accelerated tax depreciation HK$'000	Revaluation of land and buildings HK$'000	Others HK$'000	Total HK$'000
At 1 January 2004, 31 December 2004 and 1 January 2005 (restated)	1,695	2,401	528	4,624
Deferred tax credited to the income statement during the year *(note 10)*	(619)	(18)	(528)	(1,165)
Deferred tax liabilities at 31 December 2005	**1,076**	**2,383**	**–**	**3,459**

The unused tax losses include an amount of approximately HK$1,041,663 (2004: HK$1,694,000) for the year arising in the PRC which is due to expire within one to five years and an amount of approximately HK$830,000 (2004: HK$1,015,000) arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these unused tax losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: 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.

30. SHARE CAPITAL

Shares

	2005 **HK$'000**	2004 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid:		
302,200,000 ordinary shares of HK$0.1 each	**30,220**	30,220

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30. SHARE CAPITAL *(Continued)*

Share options

Details of the Company's share option schemes and the share options issued under a new share option scheme (the "New Share Option Scheme") are included in note 31 to the financial statements.

31. SHARE OPTION SCHEMES

On 7 August 2002, the share option scheme of the Company adopted on 5 December 2000 (the "Old Share Option Scheme") was terminated and the New Share Option Scheme was adopted to comply with the new amendments of the Listing Rules regarding share option schemes of a company. As a result of these amendments, the Company may no longer grant further options under the Old Share Option Scheme. However, all options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect. There were no options outstanding under the Old Share Option Scheme as at 31 December 2005.

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

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

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

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31. SHARE OPTION SCHEMES *(Continued)*

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

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

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

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

Name or category of participant	Number of share options At 1 January 2005	Granted during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	Price of Company's shares at grant date of options*** HK$
Directors							
Chu Chun Man, Augustine	3,000,000	–	**3,000,000**	24 December 2003	29 December 2003 to 31 December 2006	1.51	–
Chu Yuk Man, Simon	3,000,000	–	**3,000,000**	24 December 2003	29 December 2003 to 31 December 2006	1.51	–
Takanori Matsuura	3,000,000	–	**3,000,000**	24 December 2003	29 December 2003 to 31 December 2006	1.51	–
Other employees							
In aggregate	–	1,100,000	**1,100,000**	9 June 2005	4 July 2005 to 8 June 2007	0.83	0.82
Others							
In aggregate	8,280,000	–	**8,280,000**	24 December 2003	29 December 2003 to 31 December 2006	1.51	–
	17,280,000	1,100,000	**18,380,000**				

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31. SHARE OPTION SCHEMES *(Continued)*

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

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

*** 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 the grant of the options.

The fair value of the share options granted during the year was approximate to HK$83,000.

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 2005:

Volatility (%)	10.29
Risk-free interest rate (%)	3.00
Life of option (year)	2.00
Stock asset price (HK$)	0.83
Option strike price (HK$)	0.83

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

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 18,380,000 share options outstanding under the New Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 18,380,000 additional ordinary shares of the Company and additional share capital of HK$1,838,000 and share premium of HK$25,168,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 18,380,000 share options outstanding under the New Share Option Scheme, which represented approximately 6.08% of the Company's shares in issue as at that date.

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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 50 of the financial statements.

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.

(b) Company

	Share premium account	**Contributed surplus**	**Share option reserve**	**Retained profits**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004	57,270	15,516	–	7	72,793
Profit for the year	–	–	–	19,094	19,094
Interim 2004 dividend (*note 12*)	–	–	–	(19,039)	(19,039)
At 31 December 2004 and 1 January 2005	57,270	15,516	–	62	72,848
Equity-settled share option expenses (*note 31*)	–	–	83	–	83
Profit for the year	–	–	–	22,154	22,154
Interim 2005 dividend (*note 12*)	–	–	–	(9,066)	(9,066)
Proposed final 2005 dividend (*note 12*)	–	–	–	(12,088)	(12,088)
At 31 December 2005	**57,270**	**15,516**	**83**	**1,062**	**73,931**

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.

Notes to Financial Statements

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33. DISPOSAL OF A SUBSIDIARY

	Notes	**2005 HK$'000**	2004 HK$'000
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, deposit and other receivables		**2,957**	–
Amounts due from group companies		**3,722**	–
Cash and bank balances		**567**	–
Trade payables		**(4,022)**	–
Other payables and accruals		**(3,298)**	–
Amounts 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:

	2005 HK$'000	2004 HK$'000
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 2005

33. DISPOSAL OF A SUBSIDIARY *(Continued)*

During the year, 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.

34. CONTINGENT LIABILITIES

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees for bank loans in favour of the subsidiaries	**–**	–	**175,726**	163,000
Guarantees for finance lease arrangements in favour of a subsidiary	**–**	–	**84**	171
	–	–	**175,810**	163,171

(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$2,140,000 (2004: HK$1,764,000) as at 31 December 2005, as further explained under the heading "Employee benefits" in note 2.5 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.

Notes to Financial Statements

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35. OPERATING LEASE ARRANGMENTS

(a) As lessor

The Group leases its plant and machinery (note 14 to the financial statements) and sub-leases certain office properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 4 years. The terms of the leases generally also require the tenants to pay security deposits.

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

	2005	2004
	HK$'000	HK$'000
Within one year	**1,907**	532
In the second to fifth years, inclusive	**3,611**	–
	5,518	532

(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 14 years.

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

	2005	2004
	HK$'000	HK$'000
		(Restated)
Within one year	**5,461**	7,016
In the second to fifth years, inclusive	**9,666**	20,967
After five years	**2,992**	6,678
	18,119	34,661

Notes to Financial Statements

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36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group had the following capital commitments at the balance sheet date:

	2005 HK$'000	2004 HK$'000
Contracted, but not provided for:		
Land and buildings	9,893	1,563
Plant and machinery	925	500
	10,818	2,063
Authorised, but not contracted for:		
Land and buildings	6,375	–
Capital contribution into subsidiaries	98,679	76,170
	105,054	76,170
	115,872	78,233

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

Notes to Financial Statements

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37. 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:

	Notes	2005 HK$'000	2004 HK$'000
Purchases of raw materials from Nikko Bussan (Japan)	*(i)*	**9**	85
Sales of finished goods to Nikko Bussan (Japan)	*(ii)*	**4,327**	18,553
Rental expenses paid to Progolf Manufacturing Company Limited ("Progolf") and Oriental Leader Limited	*(iii)*	**1,440**	1,440
Management income received from Progolf and Oriental Leader Limited	*(iv)*	**–**	15
Rental income from Sino Sporting Company Limited ("Sino Sporting")	*(v)*	**520**	399
Rental expense paid to Sino Sporting	*(v)*	**66**	132
Management income received from Sino Sporting	*(iv)*	**–**	10
Commission income received from Nikko Bussan (Japan)	*(vi)*	**–**	842

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

Notes to Financial Statements

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37. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(i) Takanori Matsuura, a director of the Company, has a beneficial interest in Nikko Bussan (Japan). The purchase prices of raw materials were determined between the Group and Nikko Bussan (Japan) on a cost-plus basis.

(ii) The selling prices of finished goods were based on the agreement between the parties.

(iii) Chu Chun Man, Augustine, a director of the Company, has a beneficial interest in Progolf, and Chu Yuk Man, Simon, 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) The management income was based on the expense such as rental expenses and staff salaries utilised by the related parties.

(v) Chu Chun Man, Augustine, Takanori Matsuura and Chu Yuk Man, Simon, the directors of the Company, have beneficial interests in Sino Sporting. The rental rates were based on the agreements between the parties.

(vi) The amount represented sales commission received from Nikko Bussan (Japan) for refering customers. The commission rate is determined at a mutually-agreed rate between the Group and Nikko Bussan (Japan).

(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) Outstanding balances with other related parties.

	Due from related parties		**Due to related parties**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Nikko Bussan (Japan)	**528**	1,751	–	–
Sino Sporting	**–**	–	**–**	11
Progolf and Oriental Leader Limited	**–**	–	**–**	120
Su Han Jian - *note*	**–**	–	**–**	198

Note: Su Han Jian was the then minority owner of an ex-subsidiary, Shun Xing Long.

Notes to Financial Statements

31 December 2005

37. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel of the Group

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

Included in sales of finished goods to Nikko Bussan (Japan) in item (a)(ii) above, an amount of HK$5,688,000 (2004: HK$18,553,000) also represents a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, finance leases, 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 risk 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 2005

38. 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 a sufficient credit stance and proven track record are exempted from the down payment requirement. Through factoring and related agreements, the Group assigns the majority of its trade receivables to banks and transfers the credit risk of the debtors' failure to make payments to banks. There was no material credit loss sustained on trade receivables in 2005 and, except as disclosed in last year's annual report, in 2004.

As at 31 December 2005, the Group's maximum exposure to credit risk was represented by the carrying amount of the financial assets in the consolidated balance sheet.

(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 amounts and maturities of assets and 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 are repaid and known funding requirements could be met. The liquidity risk is further mitigated by the availability of standby or unutilised banking facilities for contingency purposes. As at 31 December 2005, the Group's total banking facilities amounted to HK$476 million (2004: HK$468 million), of which HK$211 million (2004: HK$238 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 operations of the entities in concern and such risk originates mainly from the currency of the United States dollar. The Group does not hedge its foreign currency risk, as the rate of exchange between the Hong Kong dollar and United States dollar is controlled within a narrow range. As at 31 December 2005, 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 of the Group.

Notes to Financial Statements

31 December 2005

38. 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 the interest rate risk, the Group entered into interest rate swap contracts in 2003 that would expire in March 2006. As at 1 January 2005 and 31 December 2005, the interest rate swap contracts were accounted for in the Group's balance sheet as derivative financial instruments and amounted to approximately HK$1,888,000 under financial liabilities and approximately HK$172,000 under financial assets respectively, resulting in a gain of approximately HK$2,060,000 recognised for the year as disclosed in note 6 to the financial statements.

(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 2005 and 2004. There was no off-balance sheet arrangement that has or is likely to have a material effect, either currently or in future, on the Group's financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or resources.

39. POST BALANCE SHEET EVENT

On 6 March 2006, SGMCL, an indirect wholly-owned subsidiary of the Company, entered into a two-year loan agreement for HK$40,000,000 with an existing bank to replace a short term revolving loan facility of the same amount with that bank.

40. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2006.

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. The amounts for each year/period in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policies, as detailed in note 2.2 to the financial statements.

	Year ended 31 December 2005 HK$'000	Year ended 31 December 2004 HK$'000 (Restated)	Year ended 31 December 2003 HK$'000 (Restated)	Nine months ended 31 December 2002 HK$'000 (Restated)	Year ended 31 March 2002 HK$'000 (Restated)
RESULTS					
REVENUE	**371,989**	399,640	406,137	233,739	253,642
Cost of sales	**(264,935)**	(271,723)	(272,580)	(162,426)	(177,194)
Gross profit	**107,054**	127,917	133,557	71,313	76,448
Other income and gains	**7,010**	2,815	5,462	1,768	5,143
Selling and distribution costs	**(12,273)**	(11,495)	(18,776)	(10,051)	(11,361)
Administrative expenses	**(50,243)**	(57,512)	(48,157)	(23,127)	(16,816)
Other expenses, net	**(7,511)**	(22,277)	(12,781)	(6,601)	(11,213)
Finance costs	**(12,058)**	(9,790)	(10,142)	(5,069)	(7,121)
PROFIT BEFORE TAX	**31,979**	29,658	49,163	28,233	35,080
Tax	**(1,130)**	(1,706)	(5,281)	(2,003)	(3,219)
PROFIT FOR THE YEAR	**30,849**	27,952	43,882	26,230	31,861
Attributable to:					
Equity holders of the parent	**31,560**	28,160	43,398	25,580	30,521
Minority interests	**(711)**	(208)	484	650	1,340
	30,849	27,952	43,882	26,230	31,861

Five Year Financial Summary

ASSETS, LIABILITIES AND MINORITY INTERESTS

					As at
		As at 31 December			31 March
	2005	2004	2003	2002	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
TOTAL ASSETS	**453,290**	429,547	402,442	329,597	334,831
TOTAL LIABILITIES	**(267,300)**	(258,351)	(211,449)	(157,824)	(147,205)
MINORITY INTERESTS	**(2,672)**	(10,697)	(10,905)	(12,006)	(10,235)
	183,318	160,499	180,088	159,767	177,391