



# Sino Golf

## Holdings Limited

Incorporated in Bermuda with limited liability



Annual Report 2003



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# Corporate Information

## EXECUTIVE DIRECTORS

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Choy Tak Ho  
Carl Thomas McManis

## COMPANY SECRETARY

Choi Ying, Kammy

## AUDITORS

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

## PRINCIPAL BANKERS

Standard Chartered Bank  
Bank SinoPac  
DBS Bank (Hong Kong) Limited  
UFJ Bank Limited  
Nanyang Commercial Bank Limited

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke  
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL PLACE OF BUSINESS

19th Floor, Delta House  
3 On Yiu Street  
Shatin  
New Territories  
Hong Kong

*Mr. Zhu Wan Li and Mr. Yasumori, Muta resigned as the independent non-executive directors of the Company on 1 May 2003 and 1 January 2004, respectively.*

*Also Mr. Carl Thomas McManis resigned as a non-executive director and was appointed as an independent non-executive director of the Company on 1 January 2004.*



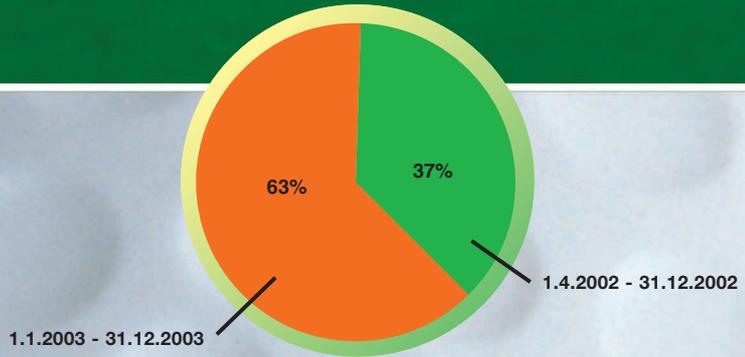
# Corporate Structure



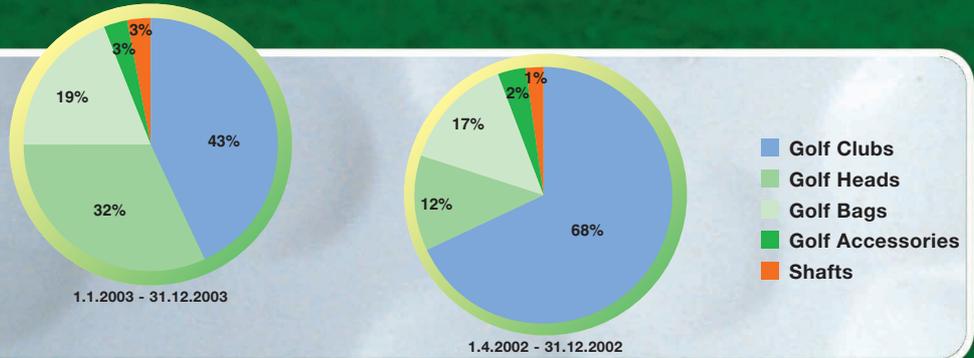
Note: The Group and an independent third party have contributed 92.1% and 7.9% respectively, of the registered capital of Zengcheng Sino Golf. According to the supplemental agreements dated 25 August 2000 and 1 September 2000, the Group is entitled to all the rights of profits, responsible for the losses, and entitled to all the rights of management and control of Zengcheng Sino Golf.

# Financial Highlights

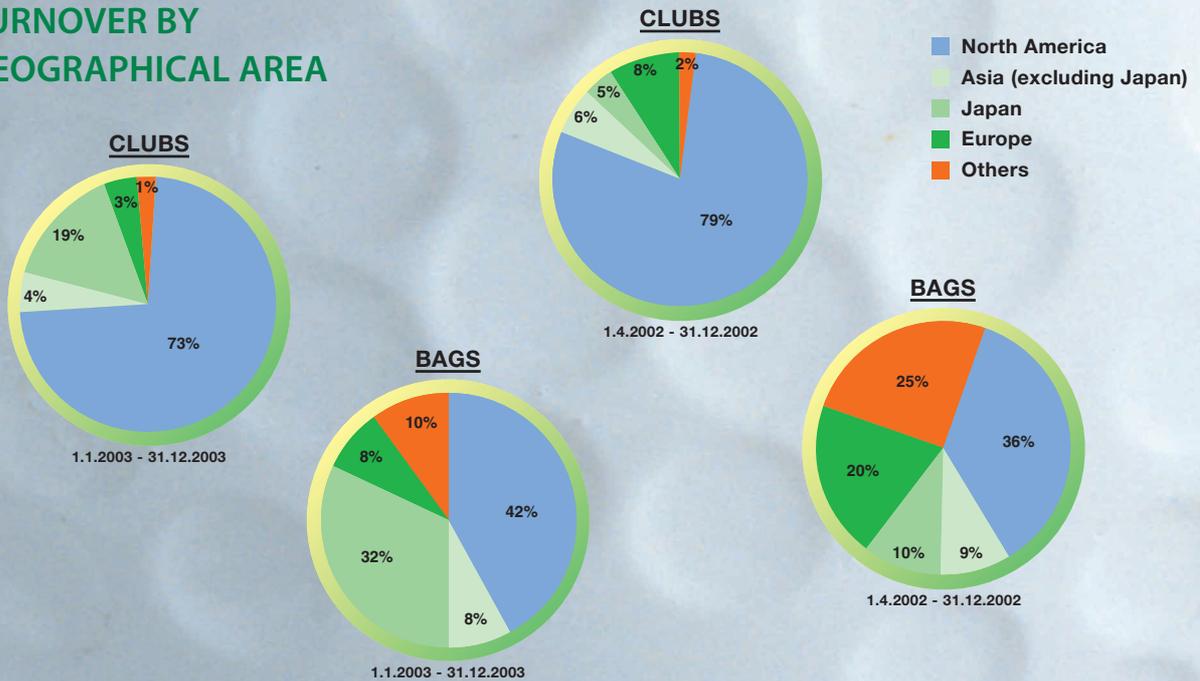
## TURNOVER



## TURNOVER BY PRODUCT



## TURNOVER BY GEOGRAPHICAL AREA



On behalf of the Board of Directors (the "Board") of Sino Golf Holdings Limited (the "Company"), I am pleased to report the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2003.

### **CHANGE OF FINANCIAL YEAR END DATE**

Due to the change of accounting year end date from 31 March to December in last period, to standardise the reporting dates of all subsidiaries within the Group, the last period's financial statements are prepared for the nine months ended 31 December 2002. The comparative amounts for the financial statements and the related notes, which are prepared for the nine months ended 31 December 2002, are not comparable with the amounts presented for the current year.

### **RESULTS AND DIVIDENDS**

Consolidated turnover and net profit from ordinary activities attributable to shareholders for the year amounted to HK\$400,708,000 and HK\$43,324,000, respectively. Earnings per share was HK14.34 cents for the year.

The directors recommend a final dividend of HK9.5 cents per share, which is subject to the approval by shareholders at the forthcoming annual general meeting. Together with the interim dividend of HK4.8 cents per share, a total dividend of HK14.3 cents per share would have been payable in respect of the year.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of member of the Company will be closed from Thursday, 20 May 2004 to Tuesday, 25 May, 2004 both days inclusive, during which period no transfer of shares will be effected. All share transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 pm on Wednesday, 19 May 2004 in order to qualify for the final dividend mentioned above.



# Chairman's Statement

## **BUSINESS REVIEW, DEVELOPMENTS AND PROSPECTS**

With a steady recovery of the global economy, the Group has been able to achieve remarkable growth during the year of 2003. This has been accomplished with the benefit of continued outsourcing of golf club equipment manufacturing from the developed markets such as North America and Europe as well as the synergy brought about by the network of the golf club segment, which has led to a consistent surge in the golf bag sales. The enhanced recognition of the Group's products in the market place further reinforced and contributed to the significant increase in the Group's business volume. Overall, the Group's performance for the year has gained satisfactory improvement over that of the preceding financial period.

Sales of golf clubs and accessories amounted to HK\$322,193,000, accounting for 80.4% of total turnover for the year, while the remaining 19.6% or HK\$78,515,000 represents sales of golf bags.

Golf clubs and accessories business continued to represent the largest segment generating most of the Group's revenue and profitability and is expected to grow consistently for the ensuing year. Market recognition of the Group's products has been much enhanced following our Group's persistent investments in research and development and product testing programs in recent years. Our capability to produce and sell proportionately more high end products such as titanium wood heads has helped improving the overall margin made by the Group. The gross profit margin for the year has increased to 32.0% from 29.5% for the nine months ended 31 December 2002.

Since its acquisition by the Group in October 2001, the golf bag business has been growing steadily. With the benefit of synergy realised through the extensive business network of our Group, the golf bag segment has successfully secured additional orders in addition to the Group's own customer portfolio. It is anticipated that the golf bag sales will continue to grow persistently and increase in its proportion as part of the Group's total turnover. In order to facilitate and satisfy the anticipated increase in demand for the golf bags, a new factory has been under construction in the PRC which is planned to commence operation in May 2004. The new factory possesses a production capacity of about 1,000,000 bags per annum which represented more than doubles of the existing capacity. Upon commencement of the new factory operation, the golf bag margin will further be improved due to a better economy of scale and less subcontracting work granted to outsiders.

The negative contribution of the golf bag segment for the year has been attributed to (i) the set up costs incurred in relation to the fulfillment and assembly operation in the United States; and (ii) the impact sustained as a result of the cessation of quota requirement on golf bags imported into the United States. The quota relaxation has resulted in the assembly operation of flats (i.e. semi-finished bags) in the United States becoming non-competitive and costly as compared to directly importing complete golf bags into the United States. In response to the change in the quota system and to mitigate the impact on profitability, the management has taken action to terminate the assembly operation in the United States immediately after the existing flats have been processed and delivered to the customers. It is the Group's strategy to modify and maintain the role of the U.S. operation as a marketing and fulfillment unit for servicing customers and promoting sales. The management is confident that the golf bag segment will contribute to the Group's profitability under normal circumstances.

Geographically, North America continues to be the largest geographical segment from which 67.1% of the Group's turnover for the year was generated. Europe, Japan and other countries accounted for 3.7%, 21.3% and 7.9% of total turnover respectively. Percentage sales for the Japan market have increased substantially by approximately 15.5% to 21.3% during the year. Among the various geographical regions, Japan is the market possessing much potential for our Group's development as relatively little effort has been devoted in prior years to explore this largest market in Asia. The management has resolved and taken steps to further develop this market by actively exploring customers and promoting



## Chairman's Statement

sales. During the year, a reputable golf bag design house in Japan has strengthened its association with our Group. It is believed that the closer tie with the new business partner will bring tremendous opportunities in golf bags to our Group through its extensive customers network in Japan. As a result of the enormous growth of the Japan market, percentage sales for North America and Europe declined by approximately 4.8% and 6.1% to 67.1% and 3.7% respectively. There is no significant change to the percentage sales for other countries.

Throughout the years, the Group has successfully strengthened and broadened its customer base by continuously taking on new customers with good potential and supporting the existing customers to increase their market share through product innovations. Our ability and commitment to provide high quality products and value added services has enhanced the Group's competitive advantage and allows us to compete favorably in the market. It is particularly encouraging when some major customers increased their ordering of golf clubs significantly for delivery during the first half of 2004.

Based on the current order book status and market conditions, the directors are reasonably optimistic and confident that our Group shall continue to achieve satisfactory growth for the ensuing year.

### **MATERIAL ACQUISITION OF SUBSIDIARIES**

In January 2003, the Group acquired the entire equity interest in Xiamen Sino Talent Golf Manufacturing Co., Ltd., a company mainly engaged in the manufacturing of golf equipment, from an independent third party for a consideration of HK\$7.8 million. The acquisition has given rise to a goodwill of approximately HK\$7.4 million which is amortised in accordance with the Group's accounting policies. Such acquisition strengthen our Group's existing production capacity.

In March and June 2003, the Group further acquired from the minority shareholders the additional equity interests of 20% and 29% respectively, in Sino CTB Company L.L.C. ("Sino CTB"), a company of manufacturing of golf bags, for an aggregate cash consideration of US\$100,001. The acquisition has given rise to an aggregate goodwill of approximately US\$293,000 which is amortised in accordance with the Group's accounting policies. On completion of the acquisition, Sino CTB became a wholly-owned subsidiary of the Group.

In December 2003, the Group further acquired from a minority shareholder an additional equity interest of 11.5% in CTB Golf (HK) Limited ("CTB HK"), a company of manufacturing of golf bags, for a consideration of HK\$9.8 million subject to certain refund provisions from the minority shareholder if the profitability of the subsidiary does not meet the guaranteed targets for a period of five years commencing on 1 January 2004. The acquisition has given rise to a goodwill of approximately of HK\$8.4 million which is amortised in accordance with the Group's accounting policies. On completion of the acquisition, the Group's equity interest in CTB HK has been increased to 62.5%.

### **ACKNOWLEDGEMENT**

On behalf of the Board, I would like to extend my sincere thanks to our valuable customers for their trust and support and to our staff for their commitment and loyalty. I must also express my gratitude to our shareholders for their contribution. Without them, our Group could never have become one of the best golf equipment manufacturers in the world. We sincerely undertake to continue to strive for excellence and further development of the Group.

**Chu Chun Man, Augustine**

*Chairman*

Hong Kong,  
21 April 2004

# Management Discussion and Analysis

## FINANCIAL RESULTS

Consolidated turnover of the Group for the year ended 31 December 2003 amounted to HK\$400,708,000 (nine months ended 31 December 2002: HK\$230,497,000). Net profit from ordinary activities attributable to shareholders was HK\$43,324,000 (nine months ended 31 December 2002: HK\$25,525,000).

## LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to rely on internally generated funds as well as banking facilities granted by its principal bankers and other financial institutions to finance its operations. In March 2003, a three-year syndicated loan of HK\$105 million was concluded which help strengthen and rationalise the Group's liquidity and finance structure. Part of the proceeds from the syndicated loan has been utilised for repaying some short-term loans and trade finances. Besides, the Group has entered into interest rate swap contracts to hedge interest cost over the loan period. Subsequent to the balance sheet date, the syndicated loan has been successfully re-financed at lower interest rates.

As at 31 December 2003, cash and bank balance amounted to approximately HK\$ 93.8 million (2002: HK\$44.7 million). Guided by a prudent treasury practice, the Group usually maintains a high level of cash to ensure smooth and efficient operation and to enable timely seizure of investment opportunities. The significant increase in cash and bank balance has been attributed to (i) surplus funds made available from the syndicated loan completed in March 2003 ; and (ii) improved inventory management leading to a lower stock level.

The Group has in aggregate banking facilities approximating HK\$354.9 million comprising the syndicated loan; import and export facilities; overdrafts and term loans. As at 31 December 2003, total borrowings from banks and financial institutions amounted to HK\$140.3 million, of which HK\$35.1 million is repayable within one year. The Group's gearing ratio, defined as total bank borrowings and finance lease payable less cash and bank balances of approximately HK\$46.5 million divided by the shareholders' equity of approximately HK\$182.8 million, was 25.4% (2002: 34.8% as restated). As a result of improved treasury management, the gearing ratio of the Group has been consistently reduced.

The Group has been able to maintain a strong and healthy financial position through adoption of prudent and effective treasury policies. As at 31 December 2003, the net assets of the Group amounted to approximately HK\$182.8 million (2002: HK\$162.8 million as restated). Current ratio and quick ratio of the Group were 2.39 (2002: 1.38) and 1.72 (2002: 0.85) as at 31 December 2003 respectively. Both ratios have shown significant improvement after completion of the syndicated loan of HK\$105 million during the year.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

## EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2003, the Group employed a total of approximately 3200 staff in Hong Kong, the PRC and the United States. The employees were remunerated having regard to their performance, experience and expertise as well as the industry practices. Their remunerations are reviewed annually and discretionary bonuses are granted based on the performance and contribution of individual employees.



# Biographical Details of Directors and Management

## EXECUTIVE DIRECTORS

**CHU Chun Man, Augustine (“Augustine Chu”)**, aged 46, 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. He has over 20 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 68, is one of the founders of the Group and has over 37 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 48, is the brother of Augustine Chu. He has over 6 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 42, graduated from an industrial institution in Taiwan. Mr. Chang has over 21 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

**Carl Thomas McMANIS**, aged 77, is one of the consultants of the Group and is responsible for the customer relation functions in the United States market as well as the product development of the Group. Mr. McManis has over 38 years of experience in the golf industry in the United States. He has become an international sports consultant for many major golf companies in the United States since 1981. Mr. McManis graduated with a bachelor degree in science from Nebraska State Teachers College and he joined the Group in December 1996.

**CHOY Tak Ho**, aged 75, has over 41 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.

# Biographical Details of Directors and Management

## SENIOR MANAGEMENT

**CO Man Kwong, Rochester**, aged 41, 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 in 1984 and is a fellow member of the Association of Chartered Certified Accountants, the United Kingdom, and the Hong Kong Society of Accountants.

**CHOI Ying, Kammy**, aged 35, 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 an associate member of the Hong Kong Society of Accountants.

**HE Xin Hong**, aged 40, 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 13 years of experience in the golf manufacturing industry.

**XIE Zi Peng**, aged 36, is the internal audit manager of the Group. Mr. Xie graduated with a master degree in international economics 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.

**LEE May Yee**, aged 34, is the senior marketing manager of the Group. Ms. Lee has over 11 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.

**CHENG Tai Kwong, Henricus**, aged 49, is the senior manager of the Group. Mr. Cheng joined the Group in July 2003 and is currently in charge of the overall production re-engineering and materials purchasing. Mr. Cheng graduated with a master degree in engineering from the University of Calgary, Alberta, Canada. In addition, he obtained the status of Chartered Engineer from IMechE, UK and professional engineer from APEGGA, Canada. Mr. Cheng has over 15 years of experience in project management and plant operation.

**CHOU Wen Lai**, aged 40, 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 3 years of experience in golf manufacturing industry.

**HUNG Yi Chuan**, aged 41, 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 16 years experience in golf manufacturing industry.



# 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 2003.

## PRINCIPAL ACTIVITIES

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

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 70.

An interim dividend of HK4.8 cents per ordinary share was paid on 2 October 2003.

The directors recommend the payment of a final dividend of HK9.5 cents per ordinary share, amounting to HK\$28,709,000 in aggregate, in respect of the year, to shareholders whose names appear on the register of members of the Company on Wednesday, 19 May 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.

## FIVE YEARS' FINANCIAL SUMMARY

A five years' summary of the published results and assets, liabilities and minority interests of the Group, as extracted from the Company's annual report and the audited financial statements, and restated as appropriate, is set out on pages 71 and 72. This summary does not form part of the audited financial statements.

## FIXED ASSETS

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

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 27 and 28 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 29 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

## **DISTRIBUTABLE RESERVES**

At 31 December 2003, the Company's contributed surplus and retained profits accounts available for cash distribution and/or distribution in specie amounted to HK\$44,232,000 of which HK\$28,709,000 has been proposed as a final dividend for the year. In accordance with the Bermuda Companies Act 1981 (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 CONTRIBUTION**

During the year, the Group made charitable contributions totalling HK\$1,148,000.

## **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for approximately 56% (nine months ended 31 December 2002: 61%) of the Group's total turnover for the year and sales to the largest customer included therein amounted to approximately 16% (nine months ended 31 December 2002: 25%).

Purchases from the Group's five largest suppliers accounted for approximately 27% (nine months ended 31 December 2002: 25%) of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 7% (nine months ended 31 December 2002: 6%).

Nikko Bussan Co., Ltd., a company in which Takanori Matsuura, an executive director of the Company, has beneficial interests, is one of the Group's five largest customers for the year ended 31 December 2003.

Save as disclosed above, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

## DIRECTORS

The directors of the Company during the year were:

### **Executive directors:**

CHU Chun Man, Augustine

Takanori MATSUURA

CHU Yuk Man, Simon

CHANG Hua Jung

### **Non-executive director:**

Carl Thomas McMANIS

### **Independent non-executive directors:**

Yasumori MUTA

CHOY Tak Ho

ZHU Wan Li

(resigned on 1 May 2003)

Subsequent to the balance sheet date, on 1 January 2004, Mr. Yasumori Muta resigned as an independent non-executive director of the Company. Also, on 1 January 2004, Mr. Carl Thomas McManis resigned as a non-executive director and was appointed as an independent non-executive director of the Company.

In accordance with clause 86(2) of the Company's bye-laws, Carl Thomas McManis, the newly appointed director of the Company will retire at the Company's forthcoming annual general meeting.

In addition, in accordance with article 87 of the Company's bye-laws, Chu Yuk Man, Simon and Chang Hua Jung will retire by rotation at the forthcoming annual general meeting.

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

## 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 9 to 10 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

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

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

# Report of the Directors

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 to the financial statements, no director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding companies or any of its subsidiaries or fellow subsidiaries was a party during the year.

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

At 31 December 2003, 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 Companies (the "Model Code"), were as follows:

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

Name of directors	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation#		
<b>Executive directors:</b>					
CHU Chun Man, Augustine	263	1,000,000	181,543,775	182,544,038	60.41%
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	181,543,775	184,792,468	

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

### (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%
Carl Thomas McMANIS	Sino Golf Manufacturing Company Limited	Company's subsidiary	Non-voting deferred shares	6,200	Directly beneficially owned	0.16%

# The shares of the Company are held by CM Investment Company Limited, a company incorporated in the British Virgin Islands, of which, approximately 67.47% of its issued share capital are owned by A & S Company Limited, approximately 26.32% of its issued share capital are owned by Takanori Matsuura, approximately 4.18% of its issued share capital are owned by Chu Chun Man, Augustine and approximately 1.21% of its issued share capital are owned by Chu Yuk Man, Simon. A & S Company Limited is a company incorporated in the British Virgin Islands and owned as to approximately 64.00% by Chu Chun Man, Augustine, approximately 21.71% by Chu Yuk Man, Simon and 14.29% by another family member. The interests of Chu Chun Man, Augustine, Takanori Matsuura and Chu Yuk Man, Simon, in the 181,543,775 shares of the Company therefore duplicate each other.



# Report of the Directors

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

The interests of the directors in the share options of the Company are separately disclosed in note 28 to the financial statements.

In addition to the above, a director has non-beneficial personal equity interests 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, 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.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Save as disclosed in the share option scheme disclosures in note 28 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, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## **SHARE OPTION SCHEME**

Concerning the share options granted during the year to the directors and others, as detailed in note 28, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because the directors are of the view that the theoretical value of the share options generally depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical basis and speculative assumptions. Accordingly, the directors believe that any calculation of the value of options will not be meaningful and may be misleading to shareholders in these circumstances.

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

At 31 December 2003, 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	Note	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	181,543,775	60.07	—
A & S Company Limited	(a)	Through a controlled corporation	181,543,775	60.07	—

#### Note:

- (a) The interests disclosed include the shares owned by CM Investment Company Limited. CM Investment Company Limited is held directly as to 67.47% by A & S Company Limited. Accordingly, A & S Company Limited is deemed to be interested in shares owned by CM Investment Company Limited.

Save as disclosed above, 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.

## CONNECTED TRANSACTIONS

Details of the connected transactions undertaken by the Group during the year are set out in note 33 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the aforesaid connected transactions entered into by the Group were (i) in the ordinary course of the Group's business either on normal commercial terms, or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; (ii) in accordance with the terms of the relevant agreements governing the transactions; and (iii) within the prescribed limits as set out in the waiver letters in respect of connected transactions granted by the Stock Exchange.



# Report of the Directors

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's bye-laws.

## AUDIT COMMITTEE

The Company has an audit committee, which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors of the Company.

## 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 2004

## **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 20 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

## **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of 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 2003 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 2004

# Consolidated Profit and Loss Account

Year ended 31 December 2003

	<i>Notes</i>	<b>Year ended 31 December 2003 HK\$'000</b>	Nine months ended 31 December 2002 HK\$'000
TURNOVER	5	<b>400,708</b>	230,497
Cost of sales		<b>(272,580)</b>	(162,426)
Gross profit		<b>128,128</b>	68,071
Other revenue, net		<b>10,891</b>	5,010
Selling and distribution costs		<b>(18,776)</b>	(10,051)
Administrative expenses		<b>(48,231)</b>	(23,182)
Other operating expenses, net		<b>(12,781)</b>	(6,601)
PROFIT FROM OPERATING ACTIVITIES	6	<b>59,231</b>	33,247
Finance costs	7	<b>(10,142)</b>	(5,069)
PROFIT BEFORE TAX		<b>49,089</b>	28,178
Tax	10	<b>(5,281)</b>	(2,003)
PROFIT BEFORE MINORITY INTERESTS		<b>43,808</b>	26,175
Minority interests		<b>(484)</b>	(650)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<b>43,324</b>	25,525
DIVIDENDS	12	<b>43,215</b>	25,385
EARNINGS PER SHARE — Basic	13	<b>HK14.34 cents</b>	HK8.45 cents

# Consolidated Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	<b>139,343</b>	104,861
Goodwill	15	<b>22,762</b>	6,861
Other receivables	19	—	21,485
		<b>162,105</b>	133,207
<b>CURRENT ASSETS</b>			
Inventories	17	<b>68,346</b>	77,036
Trade and bills receivable	18	<b>61,860</b>	54,684
Deposits, prepayments and other receivables	19	<b>19,334</b>	23,320
Cash and cash equivalents	20	<b>93,837</b>	44,715
		<b>243,377</b>	199,755
<b>CURRENT LIABILITIES</b>			
Trade and bills payable	21	<b>40,976</b>	32,226
Tax payable		<b>2,631</b>	659
Other payables and accruals	22	<b>22,959</b>	19,512
Bank borrowings	24	<b>35,001</b>	91,663
Finance lease payables	25	<b>87</b>	1,157
		<b>101,654</b>	145,217
<b>NET CURRENT ASSETS</b>		<b>141,723</b>	54,538
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>303,828</b>	187,745
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings	24	<b>105,000</b>	8,250
Finance lease payables	25	<b>171</b>	258
Deferred tax	26	<b>4,911</b>	4,408
		<b>110,082</b>	12,916
<b>MINORITY INTERESTS</b>		<b>10,905</b>	12,006
		<b>182,841</b>	162,823

# Consolidated Balance Sheet

31 December 2003



	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i> (Restated)
<b>CAPITAL AND RESERVES</b>			
Issued capital	27	<b>30,220</b>	30,220
Reserves	29	<b>123,912</b>	120,817
Proposed final dividend	12	<b>28,709</b>	11,786
		<b>182,841</b>	162,823

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

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

# Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2003

	<i>Notes</i>	<b>Year ended 31 December 2003 HK\$'000</b>	Nine months ended 31 December 2002 HK\$'000 (Restated)
Total equity — at beginning of year/period		<b>165,536</b>	183,215
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	26, 29	<b>(2,713)</b>	(2,713)
As restated		<b>162,823</b>	180,502
Surplus on revaluation	14, 29	<b>3,404</b>	—
Deferred tax liabilities arising from revaluation	26, 29	<b>(503)</b>	—
Exchange differences on translation of the financial statements of foreign entities	29	<b>85</b>	615
Net gains not recognised in the profit and loss account		<b>2,986</b>	615
Net profit from ordinary activities attributable to shareholders	29	<b>43,324</b>	25,525
Dividends	12, 29	<b>(26,292)</b>	(43,819)
Total equity — at end of year/period		<b>182,841</b>	162,823

# Consolidated Cash Flow Statement

Year ended 31 December 2003

	<i>Notes</i>	<b>Year ended 31 December 2003 HK\$'000</b>	Nine months ended 31 December 2002 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>49,089</b>	28,178
Adjustments for:			
Interest expenses	7	<b>6,681</b>	3,872
Interest income	6	<b>(330)</b>	(278)
Depreciation	6	<b>15,905</b>	9,678
Amortisation of goodwill	6	<b>2,216</b>	811
Impairment of goodwill	6	<b>23</b>	—
Gain on disposal of fixed assets	6	<b>(94)</b>	(3)
Loss on partial disposal of a subsidiary	6	<b>—</b>	148
Provision for bad and doubtful debts	6	<b>2,268</b>	412
Operating profit before working capital changes		<b>75,758</b>	42,818
Decrease/(increase) in inventories		<b>8,690</b>	(14,267)
Increase in trade and bills receivable		<b>(9,444)</b>	(14,706)
Decrease/(increase) in deposits, prepayments and other receivables		<b>17,633</b>	(7,251)
Increase/(decrease) in trade and bills payable		<b>7,532</b>	(4,094)
Decrease in other payables and accruals		<b>(18,575)</b>	(2,841)
Effect on foreign exchange rate changes, net		<b>85</b>	131
Cash generated/(used) in operations		<b>81,679</b>	(210)
Interest received		<b>330</b>	278
Tax paid in the PRC		<b>(86)</b>	(10)
Hong Kong profits tax paid		<b>(3,223)</b>	—
Net cash inflow from operating activities		<b>78,700</b>	58
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets		<b>(20,746)</b>	(9,754)
Proceeds from disposal of fixed assets		<b>321</b>	162
Acquisition of additional equity interest in subsidiaries		<b>(10,580)</b>	—
Acquisition of a subsidiary	30	<b>23</b>	(2,550)
Net cash outflow from investing activities		<b>(30,982)</b>	(12,142)

# Consolidated Cash Flow Statement

Year ended 31 December 2003

	<i>Note</i>	<b>Year ended 31 December 2003 HK\$'000</b>	Nine months ended 31 December 2002 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank loans		<b>115,000</b>	47,910
Repayment of bank loans		<b>(71,563)</b>	(32,222)
Loan from related companies		—	2,500
Interest paid		<b>(6,648)</b>	(3,810)
Dividends paid		<b>(26,292)</b>	(43,770)
Dividends paid to minority shareholders		<b>(4,454)</b>	—
Interest element of finance lease		<b>(33)</b>	(62)
Capital element of finance lease		<b>(1,157)</b>	(944)
Capital contribution from minority interests		<b>2,730</b>	1,913
<b>Net cash inflow/(outflow) from financing activities</b>		<b>7,583</b>	(28,485)
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year/period		<b>38,536</b>	78,997
Effect of foreign exchange rate changes, net		—	108
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>		<b>93,837</b>	38,536
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		<b>93,837</b>	44,715
Bank overdrafts	24	—	(6,179)
		<b>93,837</b>	38,536

# Balance Sheet of the Company

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>NON-CURRENT ASSET</b>			
Interests in subsidiaries	16	<b>131,572</b>	115,146
<b>CURRENT ASSETS</b>			
Deposits, prepayments and other receivables	19	<b>225</b>	220
Cash and cash equivalents		<b>68</b>	132
		<b>293</b>	352
<b>CURRENT LIABILITIES</b>			
Other payables and accruals	22	<b>143</b>	655
<b>NET CURRENT ASSETS/(LIABILITIES)</b>			
		<b>150</b>	(303)
		<b>131,722</b>	114,843
<b>CAPITAL AND RESERVES</b>			
Issued capital	27	<b>30,220</b>	30,220
Reserves	29	<b>72,793</b>	72,837
Proposed final dividend	12	<b>28,709</b>	11,786
		<b>131,722</b>	114,843

**Chu Chun Man, Augustine**

Director

**Chu Yuk Man, Simon**

Director



# Notes to Financial Statements

31 December 2003

## 1. CORPORATE INFORMATION

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

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

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

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

## 2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax liability has been recognised on the revaluation of the Group's land and buildings.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 26 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in notes 3 and 26 to the financial statements.



# Notes to Financial Statements

31 December 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets, as further explained below.

Due to the change of the accounting year end date from 31 March to 31 December in the prior period, to standardise the reporting dates of all subsidiaries within the Group, the prior period's financial statements are prepared for the nine months ended 31 December 2002. The comparative amounts for the consolidated profit and loss account, consolidated summary statement of changes in equity, consolidated cash flow statement and the related notes, which are prepared for the nine months ended 31 December 2002, are not comparable with the amounts presented for the current year.

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

### **Subsidiaries**

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

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received or receivable.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

### **Joint venture companies**

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Joint venture companies (continued)

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

A joint venture company is treated as:

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

#### Goodwill

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

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

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

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

# Notes to Financial Statements

31 December 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of assets

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

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Fixed assets and depreciation

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Fixed assets and depreciation (continued)

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

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

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

#### Construction in progress

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

#### Leased assets

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

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

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

# Notes to Financial Statements

31 December 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

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

### Cash and cash equivalents

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

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

### Income tax

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### Revenue recognition

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

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

# Notes to Financial Statements

31 December 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

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

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

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

### Share option scheme

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

### Employment Ordinance long service payments

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

#### **Related parties**

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

#### **Dividends**

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

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



# Notes to Financial Statements

31 December 2003

## 4. SEGMENT INFORMATION

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

The Group's operating businesses can be divided into golf equipment segment and golf bag segment which are structured and managed separately and are subject to risks and returns that are different from each other. 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 2003

## 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.

	Golf equipment		Golf bag		Eliminations		Consolidated	
	Nine months		Nine months		Nine months		Nine months	
	Year ended	ended	Year ended	ended	Year ended	ended	Year ended	ended
	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	322,193	191,350	78,515	39,147	—	—	400,708	230,497
Intersegment revenue	3,221	—	10,417	10,075	(13,638)	(10,075)	—	—
Other revenue	10,239	4,712	322	20	—	—	10,561	4,732
<b>Total</b>	<b>335,653</b>	<b>196,062</b>	<b>89,254</b>	<b>49,242</b>	<b>(13,638)</b>	<b>(10,075)</b>	<b>411,269</b>	<b>235,229</b>
Segment results	62,678	32,732	(3,777)	385			58,901	33,117
Interest income							330	278
Loss on partial disposal of a subsidiary							—	(148)
Profit from operating activities							59,231	33,247
Finance costs							(10,142)	(5,069)
Profit before tax							49,089	28,178
Tax							(5,281)	(2,003)
Profit before minority interests							43,808	26,175
Minority interests							(484)	(650)
Net profit from ordinary activities attributable to shareholders							43,324	25,525

# Notes to Financial Statements

31 December 2003

## 4. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

	Golf equipment		Golf bag		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)			(Restated)	
Segment assets	<b>293,863</b>	251,084	<b>29,949</b>	44,537	<b>(12,167)</b>	(7,374)	<b>311,645</b>	288,247
Unallocated assets							<b>93,837</b>	44,715
Total assets							<b>405,482</b>	332,962
Segment liabilities	<b>46,051</b>	19,850	<b>30,051</b>	39,262	<b>(12,167)</b>	(7,374)	<b>63,935</b>	51,738
Unallocated liabilities							<b>147,801</b>	106,395
Total liabilities							<b>211,736</b>	158,133
Other segment information:								
Depreciation	<b>14,926</b>	9,007	<b>979</b>	671	—	—	<b>15,905</b>	9,678
Amortisation of goodwill	<b>1,372</b>	333	<b>844</b>	478	—	—	<b>2,216</b>	811
Impairment of goodwill	<b>23</b>	—	—	—	—	—	<b>23</b>	—
Provision for bad and doubtful debts	<b>942</b>	412	<b>1,326</b>	—	—	—	<b>2,268</b>	412
Capital expenditure	<b>46,628</b>	8,552	<b>582</b>	1,550	—	—	<b>47,210</b>	10,102
Surplus on revaluation recognised directly in equity	<b>3,404</b>	—	—	—	—	—	<b>3,404</b>	—



# Notes to Financial Statements

31 December 2003

## 5. TURNOVER

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

## 6. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	<b>Year ended 31 December 2003 HK\$'000</b>	Nine months ended 31 December 2002 HK\$'000
Cost of inventories sold		<b>251,473</b>	152,444
Depreciation	14	<b>15,905</b>	9,678
Minimum lease payments under operating leases:			
Land and buildings		<b>4,511</b>	2,395
Motor vehicles		<b>132</b>	22
Amortisation of goodwill*	15	<b>2,216</b>	811
Impairment of goodwill*	15	<b>23</b>	—
Auditor's remuneration			
Current year		<b>850</b>	700
Underprovision in prior year		<b>150</b>	—
		<b>1,000</b>	700
Staff costs (including directors' remuneration — note 8):			
Wages and salaries		<b>63,164</b>	34,492
Retirement benefits scheme contributions		<b>1,652</b>	1,045
		<b>64,816</b>	35,537
Provision for bad and doubtful debts		<b>2,268</b>	412
Loss on partial disposal of a subsidiary		—	148
Exchange losses/(gains), net		<b>1,197</b>	(692)
Gain on disposal of fixed assets		<b>(94)</b>	(3)
Net rental income		<b>(396)</b>	(100)
Interest income		<b>(330)</b>	(278)
Patent income		<b>(2,535)</b>	—

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

# Notes to Financial Statements

31 December 2003

## 7. FINANCE COSTS

	Group	
	Year ended 31 December 2003 HK\$'000	Nine months ended 31 December 2002 HK\$'000
Interest on bank loans and overdrafts	6,648	3,810
Interest on finance leases	33	62
Total interest expenses	6,681	3,872
Bank charges	3,461	1,197
Total finance costs	<b>10,142</b>	5,069

## 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	
	Year ended 31 December 2003 HK\$'000	Nine months ended 31 December 2002 HK\$'000
Fees:		
Executive directors	—	—
Non-executive director	88	38
Independent non-executive directors	257	165
	<b>345</b>	203
Other emoluments:		
Executive directors:		
Salaries	3,854	2,891
Bonuses	820	—
Housing benefits	1,440	1,080
Retirement benefits scheme contributions	24	18
	<b>6,138</b>	3,989
Non-executive director:		
Consultancy fee	617	407
	<b>7,100</b>	4,599

# Notes to Financial Statements

31 December 2003

## 8. DIRECTORS' REMUNERATION (continued)

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

	Number of directors	
	Year ended 31 December 2003	Nine months ended 31 December 2002
Nil to HK\$1,000,000	<b>6</b>	6
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	—
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	—
	<b>8</b>	8

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

During the year ended 31 December 2003 and the nine months ended 31 December 2002, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

During the year, 9,000,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 28 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

# Notes to Financial Statements

31 December 2003

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (nine months ended 31 December 2002: three) executive directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (nine months ended 31 December 2002: two) non-director, highest paid employees for the year are as follows:

	<b>Year ended 31 December 2003 HK\$'000</b>	<b>Group</b> Nine months ended 31 December 2002 HK\$'000
Salaries, bonuses, allowances and benefits in kind	<b>2,003</b>	1,210
Retirement benefits scheme contributions	<b>24</b>	9
	<b>2,027</b>	1,219

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

	<b>Year ended 31 December 2003</b>	Nine months ended 31 December 2002
Nil to HK\$1,000,000	<b>1</b>	2
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	—
	<b>2</b>	2

During the year, no emoluments were paid by the Group to any of the two (nine months ended 31 December 2002: two) non-director, highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

# Notes to Financial Statements

31 December 2003

## 10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (nine months ended 31 December 2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. 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.

	<b>Group</b>	
	<b>Year ended</b>	Nine
	<b>31 December</b>	months ended
	<b>2003</b>	31 December
	<b>HK\$'000</b>	2002
		<i>HK\$'000</i>
Current — Hong Kong		
Charge for the year	<b>4,670</b>	2,241
Underprovision/(overprovision) in prior year	<b>145</b>	(438)
Current — Elsewhere	<b>466</b>	200
Tax charge for the year/period	<b>5,281</b>	2,003

# Notes to Financial Statements

31 December 2003

## 10. TAX (continued)

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

Group — 2003	Hong Kong		PRC		Overseas		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<b>47,630</b>		<b>8,713</b>		<b>(7,254)</b>		<b>49,089</b>	
Tax at the applicable tax rate	<b>8,335</b>	<b>17.5</b>	<b>2,875</b>	<b>33.0</b>	<b>(641)</b>	<b>8.8</b>	<b>10,569</b>	<b>21.5</b>
Lower tax rate for specific provinces or local authority	—	—	<b>(224)</b>	<b>(2.6)</b>	—	—	<b>(224)</b>	<b>(0.5)</b>
Adjustments in respect of current tax of prior period	<b>145</b>	<b>0.3</b>	—	—	—	—	<b>145</b>	<b>0.3</b>
Income not subject to tax	<b>(5,142)</b>	<b>(10.8)</b>	<b>(1,507)</b>	<b>(17.3)</b>	—	—	<b>(6,649)</b>	<b>(13.5)</b>
Expenses not deductible for tax	<b>1,207</b>	<b>2.5</b>	<b>233</b>	<b>2.7</b>	—	—	<b>1,440</b>	<b>2.9</b>
Tax losses carried forward to future years	<b>270</b>	<b>0.6</b>	<b>135</b>	<b>1.5</b>	<b>641</b>	<b>(8.8)</b>	<b>1,046</b>	<b>2.1</b>
Tax losses utilised from prior periods	—	—	<b>(1,046)</b>	<b>(12.0)</b>	—	—	<b>(1,046)</b>	<b>(2.1)</b>
Tax charge at the Group's effective rate	<b>4,815</b>	<b>10.1</b>	<b>466</b>	<b>5.3</b>	—	—	<b>5,281</b>	<b>10.7</b>
Group — 2002								
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	25,734		7,848		(5,404)		28,178	
Tax at the applicable tax rate	4,117	16.0	2,590	33.0	(478)	8.8	6,229	22.1
Lower tax rate for specific provinces or local authority	—	—	(1,247)	(15.9)	—	—	(1,247)	(4.4)
Adjustments in respect of current tax of prior year	(438)	(1.7)	—	—	—	—	(438)	(1.6)
Income not subject to tax	(5,020)	(19.5)	(2,029)	(25.8)	—	—	(7,049)	(25.0)
Expenses not deductible for tax	2,770	10.8	277	3.5	—	—	3,047	10.8
Tax losses carried forward to future years	374	1.4	1,467	18.7	478	(8.8)	2,319	8.2
Tax losses utilised from prior year	—	—	(858)	(10.9)	—	—	(858)	(3.0)
Tax charge at the Group's effective rate	1,803	7.0	200	2.6	—	—	2,003	7.1



# Notes to Financial Statements

31 December 2003

## 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 33% on the taxable income as reported in their statutory accounts, which are prepared in accordance with PRC Accounting Regulations.

In accordance with the approval document issued by the Tax Bureau of the PRC, 順德市順興隆高爾夫球製品有限公司, a 62.5% owned subsidiary of the Company established in the PRC, is entitled to an exemption from the PRC state and local CIT for the first two profitable financial years of its operation and thereafter a 50% and 100% relief from the state and local CIT, respectively, for the following three financial years (the "Tax Holiday"). Upon expiry of the Tax Holiday, the usual PRC CIT of 33%, comprising a state CIT of 30% and a local CIT of 3%, is applicable to it. The two years' tax exemption periods for 順德市順興隆高爾夫球製品有限公司 has commenced in the financial year ended 31 December 2003 under local jurisdiction.

In accordance with the approval documents issued by the Tax Bureau of the PRC, Guangzhou Sino Concept Manufacturing Co., Ltd and Xiamen Sino Talent Golf Manufacturing Co., Ltd, are wholly-foreign owned subsidiaries of the Company established in the PRC, are also entitled to an exemption from the PRC state CIT for the first two profitable financial years of their operation and thereafter a 50% relief from the state CIT for the following three financial years (the "Tax Relief"). Upon expiry of the Tax Relief, the usual PRC CIT of 33% comprising a state CIT of 30% and a local CIT of 3%, is applicable to them. The two years' tax exemption periods for Guangzhou Sino Concept Manufacturing Co., Ltd and Xiamen Sino Talent Golf Manufacturing Co., Ltd have not yet commenced during the year.

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

## 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$43,171,000 (nine months ended 31 December 2002: HK\$25,258,000).

# Notes to Financial Statements

31 December 2003

## 12. DIVIDENDS

	<b>Year ended 31 December 2003 HK\$'000</b>	Nine months ended 31 December 2002 HK\$'000
Interim — HK4.8 cents (nine months ended 31 December 2002: HK4.5 cents) per ordinary share	<b>14,506</b>	13,599
Proposed final — HK9.5 cents (nine months ended 31 December 2002: HK3.9 cents) per ordinary share	<b>28,709</b>	11,786
	<b>43,215</b>	25,385

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

## 13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$43,324,000 (nine months ended 31 December 2002: HK\$25,525,000) and the weighted average of 302,200,000 (2002: 302,200,000) ordinary shares in issue during the year.

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

Diluted earnings per share for the nine months ended 31 December 2002 has not been calculated as no diluting events existed during that period.

# Notes to Financial Statements

31 December 2003

## 14. FIXED ASSETS

### Group

	Land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:							
At 1 January 2003	76,667	3,397	75,754	4,842	4,361	913	165,934
Additions	4,642	803	12,850	809	1,368	274	20,746
Acquisition of a subsidiary							
— note 30	18,288	—	8,002	125	49	—	26,464
Disposals	—	—	(229)	(61)	(297)	—	(587)
Surplus on revaluation							
— note 29	3,404	—	—	—	—	—	3,404
Transfer from construction in progress	845	—	—	—	—	(845)	—
<b>At 31 December 2003</b>	<b>103,846</b>	<b>4,200</b>	<b>96,377</b>	<b>5,715</b>	<b>5,481</b>	<b>342</b>	<b>215,961</b>
Analysis of cost or valuation:							
At cost	—	4,200	96,377	5,715	5,481	342	112,115
At 31 December 2003 valuation	103,846	—	—	—	—	—	103,846
	103,846	4,200	96,377	5,715	5,481	342	215,961
Accumulated depreciation:							
At 1 January 2003	9,587	821	45,279	3,038	2,348	—	61,073
Provided for the year	2,529	694	11,116	691	875	—	15,905
Disposals	—	—	(45)	(18)	(297)	—	(360)
<b>At 31 December 2003</b>	<b>12,116</b>	<b>1,515</b>	<b>56,350</b>	<b>3,711</b>	<b>2,926</b>	<b>—</b>	<b>76,618</b>
Net book value:							
<b>At 31 December 2003</b>	<b>91,730</b>	<b>2,685</b>	<b>40,027</b>	<b>2,004</b>	<b>2,555</b>	<b>342</b>	<b>139,343</b>
At 31 December 2002	67,080	2,576	30,475	1,804	2,013	913	104,861

# Notes to Financial Statements

31 December 2003

## 14. FIXED ASSETS (continued)

Notes:

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

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Long term leases	<b>852</b>	592
Medium term leases	<b>102,994</b>	76,075
	<b>103,846</b>	76,667

- (b) The Group's land and buildings were revalued individually at the balance sheet date by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$91,730,000 based on their existing use. A revaluation surplus of HK\$3,404,000 resulting from the above valuations have been credited to the fixed asset revaluation reserve.
- (c) Had the revalued land and buildings been carried in the financial statements at historical cost less accumulated depreciation, their carrying amounts as at the balance sheet date would have been HK\$62,843,000 (2002: HK\$21,455,000).
- (d) The net book value of the fixed assets held under finance leases included in the total amount of plant and machinery and motor vehicles as at the balance sheet date, amounted to nil (2002: HK\$2,741,000) and HK\$306,000 (2002: HK\$389,000), respectively.
- (e) No land and buildings or plant and machinery were pledged to secure the bank loans granted to a subsidiary of the Company (2002: HK\$11,923,000) as at the balance sheet date.
- (f) The gross amount and accumulated depreciation of the fixed assets under operating leases are HK\$575,000 and HK\$105,000, respectively.

# Notes to Financial Statements

31 December 2003

## 15. GOODWILL

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

<b>Group</b>	<i>HK\$'000</i>
<hr/>	
Cost:	
At 1 January 2003	10,816
Additions	18,140
<hr/>	
<b>At 31 December 2003</b>	<b>28,956</b>
<hr/>	
Accumulated amortisation and impairment:	
At 1 January 2003	3,955
Amortisation provided during the year	2,216
Impairment provided during the year	23
<hr/>	
<b>At 31 December 2003</b>	<b>6,194</b>
<hr/>	
Net book value:	
<b>At 31 December 2003</b>	<b>22,762</b>
	<hr/> <hr/>
At 31 December 2002	6,861
	<hr/> <hr/>

# Notes to Financial Statements

31 December 2003

## 16. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	<i>HK\$'000</i>
Unlisted shares, at cost	<b>15,717</b>	15,717
Due from subsidiaries	<b>115,855</b>	99,429
	<b>131,572</b>	115,146

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

Particulars of the subsidiaries are as follows:

<b>Company name</b>	<b>Place of incorporation/ registration and operations</b>	<b>Issued and paid-up capital/ registered capital</b>	<b>Equity interest attributable to the Company</b>		<b>Principal activities</b>
			<b>Direct</b>	<b>Indirect</b>	
Sino Golf (BVI) Company Limited	British Virgin Islands	US\$101	100%	—	Investment holding
Sino Golf Manufacturing Company Limited	Hong Kong	HK\$2 (ordinary) HK\$3,842,700 (non-voting deferred) (Note a)	—	100%	Investment holding and trading of golf equipment and accessories
增城市順龍高爾夫球製品有限公司* ("Zengcheng Sino Golf")	PRC	HK\$92,652,763/ HK\$100,000,000	—	(Note b)	Manufacturing and trading of golf equipment and accessories

# Notes to Financial Statements

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## 16. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Sino Concept Golf Manufacturing Co., Ltd.**	PRC	HK\$30,000,000	—	100%	Manufacturing and trading of golf equipment and accessories
順德市順興隆高爾夫球 製品有限公司***	PRC	US\$1,380,000	—	62.5%	Manufacturing and trading of golf equipment
CTB Golf (HK) Limited ("CTB HK")	Hong Kong/ PRC	HK\$10,000,000 (ordinary) HK\$2,730,000 (preference)	—	62.5% (Note c)	Manufacturing and trading of golf bags
Xiamen Sino Talent Golf Manufacturing Co., Ltd. ("Xiamen Sino")**	PRC	US\$4,000,000/ US\$6,600,000	—	100% (Note d)	Manufacturing and trading of golf equipment
Sino U.S. Holding Company, L.L.C.	USA	US\$100	—	100%	Investment holding
Sino Golf Leisure Company Limited ("Leisure")	Hong Kong	HK\$1,000,000	—	100% (Note c)	Golf leisure promotion
Sino CTB Company, L.L.C. ("Sino CTB")	USA	US\$500,000	—	100% (Note e)	Manufacturing and trading of golf bags

\* a Sino-foreign co-operative joint venture under the PRC Law.

\*\* wholly-foreign owned enterprises under the PRC Law.

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

## 16. INTERESTS IN SUBSIDIARIES (continued)

*Notes:*

- (a) The non-voting deferred shares practically carry no rights to dividends or receive notice of or attend or vote at any general meeting of the company or to participate in any distribution on winding up.
- (b) Zengcheng Sino Golf is established in the PRC on 19 April 1993 with a tenure of 15 years.

The registered capital of Zengcheng Sino Golf increased by HK\$19,000,000 to HK\$100,000,000 of which HK\$92,653,000 has been paid during the year. Since then the registered capital of Zengcheng Sino Golf shared by the Group and the PRC joint venture partner (the "PRC Partner") is 92.1% and 7.9%, respectively.

According to the agreements entered into between both parties, the Group agreed to make certain annual payments to the PRC Partner commencing on 20 August 1999 for the remaining tenure of Zengcheng Sino Golf, and the PRC Partner in return agreed to give up all of the rights to the profits, the management and the control of Zengcheng Sino Golf commencing on 20 August 1999 for the remaining tenure of Zengcheng Sino Golf. It also agreed to give up its interest in the assets of Zengcheng Sino Golf at the end of the joint venture period, other than certain land and buildings in which the PRC Partner will share a 20% value.

In view of the above, the directors of the Company are of the opinion that the Company has full control of the operations of Zengcheng Sino Golf and full entitlement to its profits. The unamortised carrying amount of the 20% value of the land and buildings to be shared by the PRC Partner as at 31 December 2003 amounted to approximately HK\$2,200,000 (2002: HK\$2,731,000) which is amortised over the remaining joint venture period in the consolidated profit and loss account.

- (c) During the year, the Group acquired additional 11.5% and 15% equity interests in CTB HK and Leisure from minority shareholders for cash considerations of HK\$9.8 million and HK\$1,502, respectively. The acquisition was completed in December 2003 and July 2003, respectively. The acquisitions have given rise to goodwill of approximately HK\$8.4 million which is amortised in accordance with the Group's accounting policies.
- (d) In January 2003, the Group acquired the entire equity interest in Xiamen Sino from an independent third party for a consideration of HK\$7.8 million. The acquisition has given rise to a goodwill of approximately HK\$7.4 million which is amortised in accordance with the Group's accounting policies.
- (e) In March and June 2003, the Group acquired from the minority shareholders the additional equity interests of 20% and 29%, respectively, in Sino CTB for aggregate cash consideration of US\$100,001 (equivalent to HK\$780,000). The acquisition has given rise to an aggregate goodwill of approximately US\$293,000 (equivalent to HK\$2,287,000) which is amortised in accordance with the Group's accounting policies. On completion of the acquisition, Sino CTB became a wholly-owned subsidiary of the Group.

# Notes to Financial Statements

31 December 2003

## 17. INVENTORIES

	<b>Group</b>	
	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Raw materials	<b>31,292</b>	23,797
Work in progress	<b>15,877</b>	26,413
Finished goods	<b>21,177</b>	26,826
	<b>68,346</b>	77,036

No inventories were carried at net realisable value at the balance sheet date (2002: HK\$6,692,000).

## 18. TRADE AND BILLS RECEIVABLE

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

	<b>Group</b>	
	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Within 3 months	<b>49,359</b>	47,875
4 to 6 months	<b>2,181</b>	581
7 to 12 months	<b>8,951</b>	5,918
Over 1 year	<b>1,369</b>	310
	<b>61,860</b>	54,684

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

Included in the Group's trade and bills receivable as at the balance sheet date is an amount of HK\$3,149,000 due from (2002: HK\$21,000 due to) 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 beneficial interest in Nikko Bussan (Japan). The balance with Nikko Bussan (Japan) is unsecured, interest-free and is repayable within similar credit periods offered by the Group to its major customers.

# Notes to Financial Statements

31 December 2003

## 19. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Prepayments	2,115	1,060	—	—
Deposits and other debtors	17,219	43,745	225	220
	19,334	44,805	225	220
Amount classified as current assets	(19,334)	(23,320)	(225)	(220)
Long term balance	—	21,485	—	—

## 20. CASH AND BANK EQUIVALENTS

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$13,728,000 (2002: HK\$6,135,000). The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for currencies through banks authorised to conduct foreign exchange business.

## 21. TRADE AND BILLS PAYABLE

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

	2003 HK\$'000	2002 HK\$'000
Within 3 months	36,118	25,737
4 to 6 months	2,404	2,682
7 to 12 months	1,425	3,120
Over 1 year	1,029	687
	40,976	32,226

No balance included in the Group's trade and bills payable are trade payables due to Nikko Bussan (Japan) arising from transactions carried out in the ordinary course of business of the Group (2002: HK\$33,000).

# Notes to Financial Statements

31 December 2003

## 22. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accruals and other liabilities	<b>22,761</b>	13,343	<b>143</b>	655
Due to related parties				
— note 23	<b>198</b>	6,169	—	—
	<b>22,959</b>	19,512	<b>143</b>	655

## 23. DUE TO RELATED PARTIES

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

## 24. BANK BORROWINGS

	Group	
	2003 HK\$'000	2002 HK\$'000
Bank overdrafts	—	6,179
Bank loans	<b>140,001</b>	93,734
	<b>140,001</b>	99,913
Secured	—	9,434
Unsecured	<b>140,001</b>	90,479
	<b>140,001</b>	99,913
Amounts repayable:		
Within one year or on demand	<b>35,001</b>	91,663
In the second year	<b>50,000</b>	8,250
In the third to fifth years, inclusive	<b>55,000</b>	—
	<b>140,001</b>	99,913
Portion classified as current liabilities	<b>(35,001)</b>	(91,663)
Long term portion	<b>105,000</b>	8,250

The Group's long term portion of bank loans was wholly repaid before March 2004.

# Notes to Financial Statements

31 December 2003

## 25. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles and plant and machinery for its golf equipment manufacturing and trading business. These leases are classified as finance leases and have remaining lease terms of 35 months.

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

	<b>Minimum lease payments 2003 HK\$'000</b>	Minimum lease payments 2002 HK\$'000	<b>Present value of minimum lease payments 2003 HK\$'000</b>	Present value of minimum lease payments 2002 HK\$'000
Amounts payable:				
Within one year	<b>91</b>	1,274	<b>87</b>	1,157
In the second year	<b>91</b>	93	<b>87</b>	87
In the third to fifth years, inclusive	<b>84</b>	178	<b>84</b>	171
Total minimum finance lease payments	<b>266</b>	1,545	<b>258</b>	1,415
Future finance charges	<b>(8)</b>	(130)		
Total net finance lease payables	<b>258</b>	1,415		
Portion classified as current liabilities	<b>(87)</b>	(1,157)		
Long term portion	<b>171</b>	258		

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

# Notes to Financial Statements

31 December 2003

## 26. DEFERRED TAX

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

	<b>Accelerated tax depreciation HK\$'000</b>	<b>Revaluation of land and buildings HK\$'000</b>	<b>Others HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2003				
As previously reported	1,695	—	—	1,695
Prior year adjustment: SSAP 12 — restatement of deferred tax	—	2,185	528	2,713
As restated	1,695	2,185	528	4,408
Deferred tax debited to equity during the year	—	503	—	503
<b>At 31 December 2003</b>	<b>1,695</b>	<b>2,688</b>	<b>528</b>	<b>4,911</b>
At 1 April 2002				
As previously reported	1,695	—	—	1,695
Prior year adjustment: SSAP 12 — restatement of deferred tax	—	2,185	528	2,713
As restated	1,695	2,185	528	4,408
At 31 December 2002	1,695	2,185	528	4,408

# Notes to Financial Statements

31 December 2003

## 26. DEFERRED TAX (continued)

The unused tax losses include an amount of approximately HK\$1,862,000 (2002: HK\$4,130,000) arising in the PRC which is due to expire within two to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the unused losses and other deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: 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.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liabilities as at 31 December 2003 and 2002 by approximately HK\$503,000 and HK\$2,713,000, respectively. As a consequence, the consolidated retained profits at 1 January 2003 and 1 April 2002 have been reduced by approximately HK\$528,000 and the consolidated fixed asset revaluation reserve at 1 January 2003 and 1 April 2002 have been reduced by approximately HK\$2,185,000, as detailed in the note 29 to the financial statements.

## 27. SHARE CAPITAL

### Shares

	<b>Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	<b>HK\$'000</b>
Authorised:		
1,000,000,000 ordinary shares of HK\$0.1 each	<b>100,000</b>	100,000
Issued and fully paid:		
302,200,000 ordinary shares of HK\$0.1 each	<b>30,220</b>	30,220

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.



# Notes to Financial Statements

31 December 2003

## 28. SHARE OPTION SCHEME

On 7 August 2002, the share option scheme of the Company adopted on 5 December 2000 (the “Old Share Option Scheme”) was terminated and a new share option scheme (the “New Share Option Scheme”) was adopted to comply with the new amendments of the Listing Rules regarding share option schemes of a company. As a result of these amendments, the Company may no longer grant further options under the Old Share Option Scheme. However, all options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect. There were no options outstanding under the Old Share Option Scheme as at 31 December 2003.

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

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

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

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

# Notes to Financial Statements

31 December 2003

## 28. SHARE OPTION SCHEME (continued)

The exercise price of the share options is determinable by the directors of the Company, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the daily quotations 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 quotations sheet 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 shares options			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\$
	At 1 January 2003	Granted during the year	At 31 December 2003				
<b>Directors</b>							
Chu Chun Man, Augustine	—	3,000,000	3,000,000	24 December 2003	29 December 2003 to 31 December 2006	1.51	1.48
Chu Yuk Man, Simon	—	3,000,000	3,000,000	24 December 2003	29 December 2003 to 31 December 2006	1.51	1.48
Takanori Matsuura	—	3,000,000	3,000,000	24 December 2003	29 December 2003 to 31 December 2006	1.51	1.48
<b>Others</b>							
In aggregate	—	10,000,000	10,000,000	11 September 2003	1 October 2003 to 30 September 2004	1.60	1.58
In aggregate	—	8,280,000	8,280,000	24 December 2003	29 December 2003 to 31 December 2006	1.51	1.48
	—	27,280,000	27,280,000				

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

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

# Notes to Financial Statements

31 December 2003

## 28. SHARE OPTION SCHEME (continued)

The price of the Company's shares disclosed as at the date of the 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.

At the balance sheet date, the Company had 27,280,000 share options outstanding under the New Share Option Scheme, which represented approximately 9% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 27,280,000 additional ordinary shares of the Company and additional share capital of HK\$2,728,000 and share premium of HK\$39,365,000 (before issue expenses).

## 29. RESERVES

### Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Fixed asset revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2002:							
As previously reported	57,270	10,564	27,319	1,096	50	26,476	122,775
Prior year adjustment:							
SSAP 12 — restatement of deferred tax	—	—	(2,185)	—	—	(528)	(2,713)
As restated	57,270	10,564	25,134	1,096	50	25,948	120,062
Exchange realignment	—	—	—	615	—	—	615
Net profit for the period	—	—	—	—	—	25,525	25,525
Interim dividend — note 12	—	—	—	—	—	(13,599)	(13,599)
Proposed final dividend — note 12	—	—	—	—	—	(11,786)	(11,786)
At 31 December 2002 and 1 January 2003							
	57,270	10,564	25,134	1,711	50	26,088	120,817

# Notes to Financial Statements

31 December 2003

## 29. RESERVES (continued)

### Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Fixed asset revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 31 December 2002 and 1 January 2003							
As previously reported	57,270	10,564	27,319	1,711	50	26,616	123,530
Prior year adjustment: SSAP 12 — restatement of deferred tax	—	—	(2,185)	—	—	(528)	(2,713)
As restated	57,270	10,564	25,134	1,711	50	26,088	120,817
Surplus on revaluation — note 14	—	—	3,404	—	—	—	3,404
Deferred tax liabilities arising from revaluation — note 26	—	—	(503)	—	—	—	(503)
Exchange realignment	—	—	—	85	—	—	85
Net profit for the year	—	—	—	—	—	43,324	43,324
Interim dividend — note 12	—	—	—	—	—	(14,506)	(14,506)
Proposed final dividend — note 12	—	—	—	—	—	(28,709)	(28,709)
<b>At 31 December 2003</b>	<b>57,270</b>	<b>10,564</b>	<b>28,035</b>	<b>1,796</b>	<b>50</b>	<b>26,197</b>	<b>123,912</b>

# Notes to Financial Statements

31 December 2003

## 29. RESERVES (continued)

### Company

	<b>Share premium account HK\$'000</b>	<b>Contributed surplus HK\$'000</b>	<b>Retained profits HK\$'000</b>	<b>Total HK\$'000</b>
At 1 April 2002	57,270	15,516	178	72,964
Net profit for the period	—	—	25,258	25,258
Interim dividend — <i>note 12</i>	—	—	(13,599)	(13,599)
Proposed final dividend — <i>note 12</i>	—	—	(11,786)	(11,786)
At 31 December 2002 and 1 January 2003	57,270	15,516	51	72,837
Net profit for the year	—	—	43,171	43,171
Interim dividend — <i>note 12</i>	—	—	(14,506)	(14,506)
Proposed final dividend — <i>note 12</i>	—	—	(28,709)	(28,709)
<b>At 31 December 2003</b>	<b>57,270</b>	<b>15,516</b>	<b>7</b>	<b>72,793</b>

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

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

# Notes to Financial Statements

31 December 2003

## 30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### Acquisition of a subsidiary

	<b>Year ended 31 December 2003 HK\$'000</b>	Nine months ended 31 December 2002 HK\$'000
Net assets acquired:		
Fixed assets — <i>note 14</i>	<b>26,464</b>	—
Deposits, prepayments and other receivables	<b>16</b>	—
Cash and bank balances	<b>23</b>	—
Trade payables	<b>(1,218)</b>	—
Other payables and accruals	<b>(22,022)</b>	—
Bank loans	<b>(2,830)</b>	—
Net assets	<b>433</b>	—
Goodwill arising on acquisition	<b>7,421</b>	—
	<b>7,854</b>	—
Satisfied by:		
Other receivables	<b>7,854</b>	—

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

	<b>Year ended 31 December 2003 HK\$'000</b>	Nine months ended 31 December 2002 HK\$'000
Outstanding cash consideration in respect of acquisition of a subsidiary in the prior year	—	(2,550)
Cash and bank balances acquired	<b>23</b>	—
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of a subsidiary	<b>23</b>	(2,550)

# Notes to Financial Statements

31 December 2003

## 30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

In January 2003, the Group acquired the entire interest in Xiamen Sino from an independent third party. Xiamen Sino is engaged in the manufacturing of golf equipment. The purchase consideration for the acquisition was settled by off-setting against the other receivables from the seller.

Since its acquisition, Xiamen Sino contributed no turnover to the Group and the loss of HK\$746,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

## 31. CONTINGENT LIABILITIES

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bills discounted with recourse	<b>29,754</b>	6,715	—	—
Guarantees for bank loans, overdrafts and trade finance facilities in favour of the subsidiaries	—	—	<b>140,001</b>	90,479
Guarantees for finance lease arrangements in favour of a subsidiary	—	—	<b>258</b>	1,415
	<b>29,754</b>	6,715	<b>140,259</b>	91,894

- (b) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$1,648,000 (2002: HK\$1,455,000) as at 31 December 2003, as further explained under the heading "Employment Ordinance long service payments" in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

# Notes to Financial Statements

31 December 2003

## 32. COMMITMENTS

### (a) Capital commitments

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

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Contracted, but not provided for:		
Land and buildings	<b>1,447</b>	2,834
Plant and machinery	<b>263</b>	1,534
	<b>1,710</b>	4,368
Authorised, but not contracted for:		
Capital contribution into subsidiaries	<b>27,626</b>	—
	<b>29,336</b>	4,368

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

# Notes to Financial Statements

31 December 2003

## 32. COMMITMENTS (continued)

### (b) Operating lease commitments

#### (i) As lessor

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

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

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>1,032</b>	—

#### (ii) As lessee

The Group leases certain of its office properties, production plants, staff quarters and motor vehicles under operating lease arrangements, with leases negotiated with original terms ranging from 2 to 16 years.

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

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>4,257</b>	3,281
In the second to fifth years, inclusive	<b>11,407</b>	8,404
After five years	<b>7,683</b>	9,299
	<b>23,347</b>	20,984

# Notes to Financial Statements

31 December 2003

## 33. RELATED PARTY TRANSACTIONS

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

		<b>Year ended 31 December 2003</b>	Nine months ended 31 December 2002
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Purchases of raw materials from Nikko Bussan (Japan)	<i>(a)</i>	<b>125</b>	74
Sales of finished goods to Nikko Bussan (Japan)	<i>(b)</i>	<b>54,623</b>	20,323
Sales of finished goods to Global Sports Technology, Inc. ("Global Sports")	<i>(b), (c)</i>	<b>3,525</b>	16,760
Tooling income from Nikko Bussan (Japan)	<i>(d)</i>	<b>137</b>	796
Patent income from Nikko Bussan (Japan)	<i>(e)</i>	<b>780</b>	—
Rental expenses paid to Progolf Manufacturing Company Limited ("Progolf") and Oriental Leader Limited	<i>(f)</i>	<b>1,440</b>	1,080
Management income received from Progolf and Oriental Leader Limited	<i>(g)</i>	<b>35</b>	—
Sales commission paid to Global Sports	<i>(c), (h)</i>	<b>2,124</b>	1,659
Purchases of fixed assets from Nikko Bussan (Japan)	<i>(i)</i>	—	22
Rental income from Sino Sporting Company Limited ("Sino Sporting")	<i>(j)</i>	<b>303</b>	—
Rental expense paid to Sino Sporting	<i>(j)</i>	<b>132</b>	—
Commission income received from Sino Sporting	<i>(k)</i>	<b>100</b>	—
Management income received from Sino Sporting	<i>(g)</i>	<b>120</b>	—

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

*Notes:*

- (a) Takanori Matsuura, a director of the Company, has beneficial interests in Nikko Bussan (Japan). The purchase prices of raw materials were determined between the Group and Nikko Bussan (Japan) on a cost-plus basis.
- (b) The selling prices of finished goods were based on the agreement between the parties.

# Notes to Financial Statements

31 December 2003

## 33. RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

- (c) Global Sports is a 20% shareholder of Sino CTB until the Group acquired the equity interest of 20% owned by Global Sports in March 2003.
- (d) The tooling income was based on the agreement between the parties.
- (e) The patent income was based on the agreement between the parties.
- (f) Chu Chun Man, Augustine ("Augustine Chu"), a director of the Company, has a beneficial interest in ProGolf, and Chu Yuk Man, Simon ("Simon Chu"), a director of the Company, has a beneficial interest in Oriental Leader Limited. The rental expenses were determined at rates agreed between the Group and the corresponding related parties based on market rates.
- (g) The management income was based on the expense such as rental expenses and staff salary utilised by the related parties.
- (h) Sales commission paid to Global Sports as an agent in overseas for soliciting customers. The commission rate is determined at a mutually-agreed rate between the Group and Global Sports.
- (i) The purchase price of fixed assets are determined at a mutually-agreed rate between the Group and Nikko Bussan (Japan).
- (j) Augustine Chu, Takanori Matsuura and Simon Chu, the directors of the Company, have beneficial interests in Sino Sporting. The rental rates were based on the agreement between the parties.
- (k) Sales commission received from Sino Sporting for introducing customers to join the club. The commission rate is determined at a mutually-agreed rate between the Group and Sino Sporting.

## 34. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 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 adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

## 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2004.

# Five Years' Financial Summary

	Year ended 31 December 2003 HK\$'000 (Note 3)	Nine months ended 31 December 2002 HK\$'000 (Note 3)	Year ended 31 March		
			2002 HK\$'000 (Note 2)	2001 HK\$'000 (Notes 2 & 4)	2000 HK\$'000 (Notes 1 & 4)
<b>RESULTS</b>					
TURNOVER	<b>400,708</b>	230,497	252,492	300,215	211,540
Cost of sales	<b>(272,580)</b>	(162,426)	(177,194)	(191,402)	(139,581)
Gross profit	<b>128,128</b>	68,071	75,298	108,813	71,959
Other revenue, net	<b>10,891</b>	5,010	6,293	4,509	2,596
Selling and distribution costs	<b>(18,776)</b>	(10,051)	(11,361)	(8,652)	(7,920)
Administrative expenses	<b>(48,231)</b>	(23,182)	(16,890)	(13,962)	(12,648)
Other operating expenses, net	<b>(12,781)</b>	(6,601)	(11,213)	(9,309)	(6,265)
PROFIT FROM OPERATING ACTIVITIES	<b>59,231</b>	33,247	42,127	81,399	47,722
Finance costs	<b>(10,142)</b>	(5,069)	(7,121)	(9,876)	(7,990)
PROFIT BEFORE TAX	<b>49,089</b>	28,178	35,006	71,523	39,732
Tax	<b>(5,281)</b>	(2,003)	(3,219)	(6,257)	(3,567)
PROFIT BEFORE MINORITY INTERESTS	<b>43,808</b>	26,175	31,787	65,266	36,165
Minority interests	<b>(484)</b>	(650)	(1,340)	—	194
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>43,324</b>	25,525	30,447	65,266	36,359

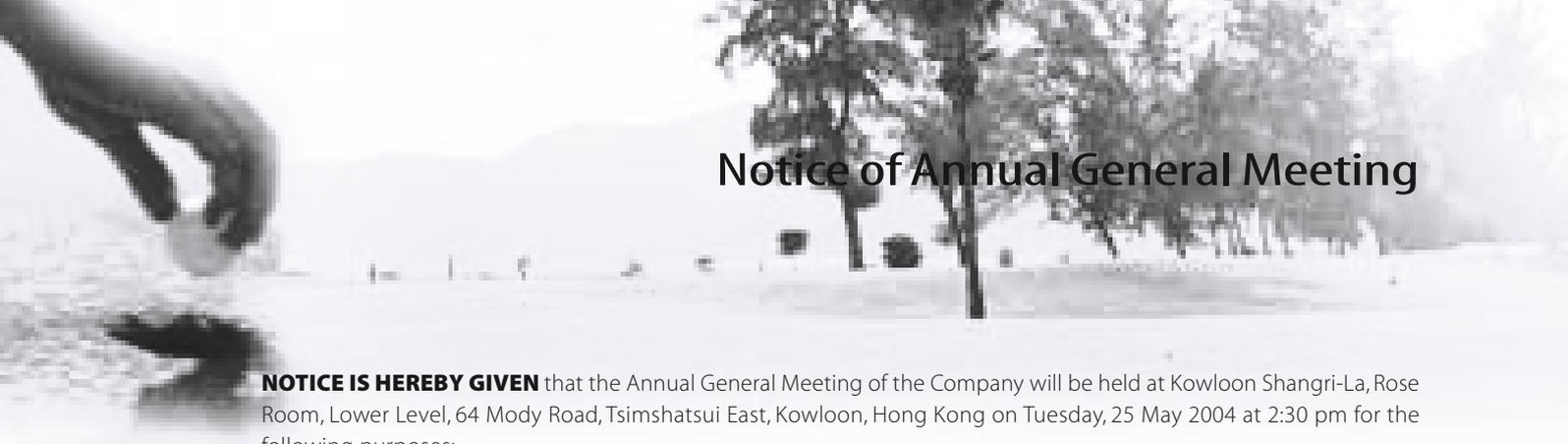
# Five Years' Financial Summary

## ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December			As at 31 March	
	2003	2002	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 3)	(Note 3)	(Note 2)	(Notes 2 & 4)	(Notes 1 & 4)
		(Restated)	(Restated)	(Restated)	(Restated)
TOTAL ASSETS	<b>405,482</b>	332,962	338,251	263,795	144,457
TOTAL LIABILITIES	<b>(211,736)</b>	(158,133)	(147,514)	(93,821)	(121,339)
MINORITY INTERESTS	<b>(10,905)</b>	(12,006)	(10,235)	—	(5,294)
	<b>182,841</b>	162,823	180,502	169,974	17,824

### Notes:

1. The Company was incorporated in Bermuda on 8 August 2000 and became the holding company of the companies now comprising the Group on 5 December 2000. The above financial summaries of the results, assets, liabilities and minority interests of the Group for the year ended 31 March 2000 have been extracted from the Company's prospectus dated 11 December 2000 when the listing of the Company's shares was sought on the main board of The Stock Exchange of Hong Kong Limited, and adjusted for the effects of the revised SSAP 12, as detailed in note 2 to the financial statements.
2. The results and the assets, liabilities and minority interests of the Group for the two years ended 31 March 2002 have been extracted from the Company annual report of 2001 and 2002, and adjusted for the effects of the revised SSAP 12, as detailed in note 2 to the financial statements.
3. The results and the assets, liabilities and minority interests of the Group for the nine months ended 31 December 2002 and year ended 31 December 2003 have been extracted from the consolidated profit and loss account and the consolidated balance sheet as set out on pages 20 to 22 of the annual report.
4. The financial summary of the Group, which is presented for information only, has been prepared on the basis that the structure and business activities of the Group immediately after the completion of the group reorganisation had been in existence throughout the two years ended 31 March 2001.



# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be held at Kowloon Shangri-La, Rose Room, Lower Level, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Tuesday, 25 May 2004 at 2:30 pm for the following purposes:—

## **As Ordinary Business**

1. to receive and adopt the audited financial statements and the reports of the directors and of the auditors for the year ended 31 December 2003;
2. to declare a final dividend for the year ended 31 December 2003;
3. to re-elect the directors of the Company;
4. to authorise the board of directors to fix the directors' remuneration;
5. to re-appoint the auditors and to authorise the board of directors to fix their remuneration; and

## **As Special Business**

6. to consider and if thought fit, pass with or without amendment(s) the following resolutions each as an Ordinary Resolution:—

**"THAT:—**

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

# Notice of Annual General Meeting

(d) for the purposes of this Resolution:

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

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1989 of Bermuda or any other applicable law of Bermuda to be held; and
- (iii) the date on which the authority set out in this Resolution is revoked or varied by the passing of an ordinary resolution of the shareholders of the Company in general meeting.

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

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

**“THAT:—**

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

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

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1989 of Bermuda or any other applicable law of Bermuda to be held; and



# Notice of Annual General Meeting

- (iii) the date on which the authority set out in this Resolution is revoked or varied by the passing of an ordinary resolution of the shareholders of the Company in general meeting.

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

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

9. to consider and if thought fit, pass the following resolutions as a Special Resolution of the Company:

**“THAT** the bye-laws of the Company (the “Bye-Laws”) be and are hereby amended by:

(a) adding the following definitions in Bye-Law 1:

““associate(s)” in relation to any Director, shall have the meaning ascribed to it in the rules of the Designated Stock Exchange;

“Hong Kong” means the Hong Kong Special Administrative Region of the People’s Republic of China;

(b) deleting the existing definition of “clearing house” in Bye-Law 1 and substituting therefor the following new definition of “clearing house”:

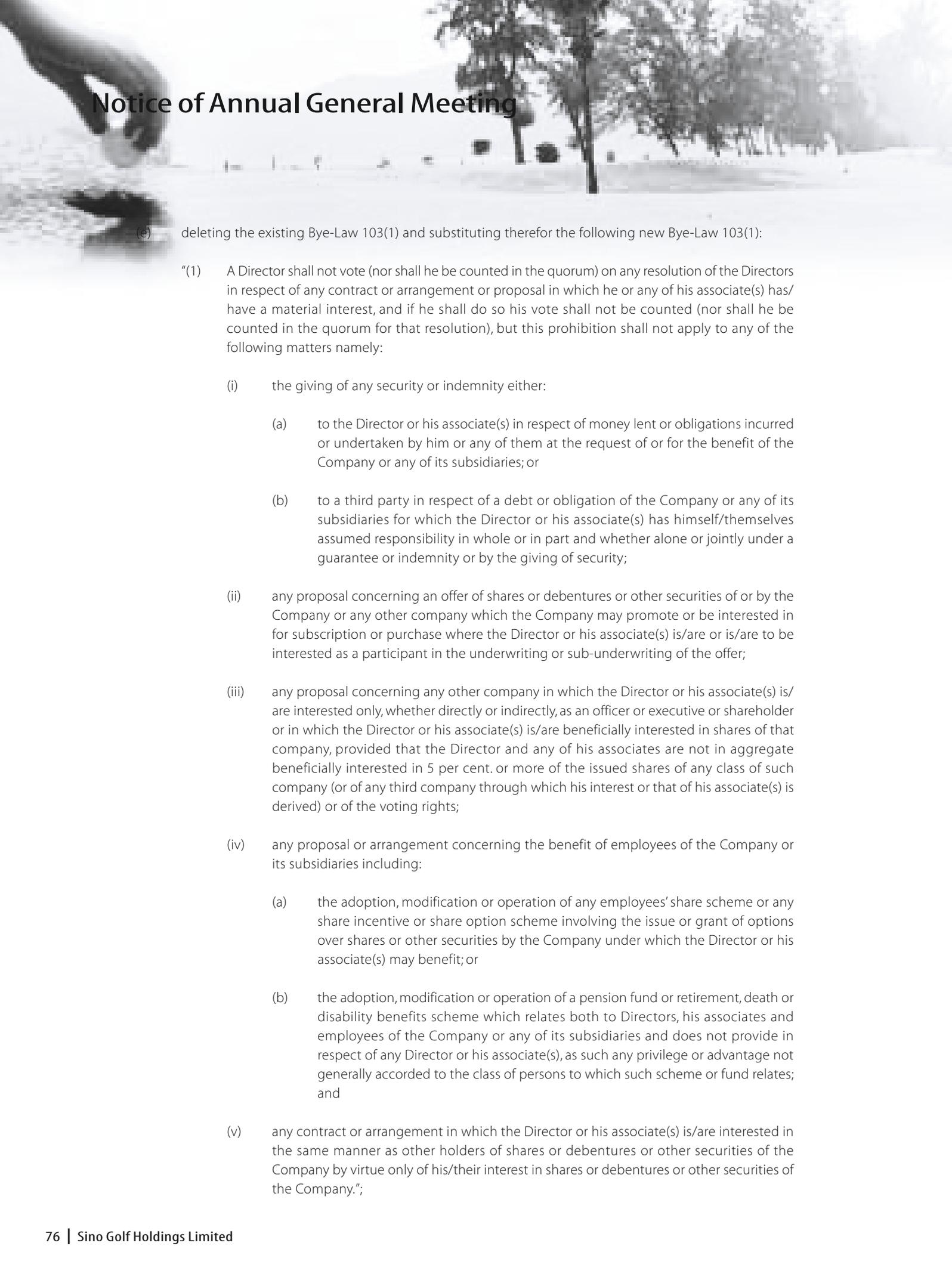
““clearing house” means a recognised clearing house within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) or a clearing house or authorised shares depository recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction;”;

(c) adding the following as a new Bye-Law 77(A) immediately after Bye-Law 77:

“77.(A) Where any member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.”;

(d) deleting the existing Bye-Law 88 and substituting therefor the following new Bye-Law 88:

“88. No person, other than a retiring Director, shall, unless recommended by the Directors for election, be eligible for election to the office of Director at any general meeting, unless notice in writing by some member (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company. The period for lodgment of the notice required under this Bye-Law shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting, provided that such period shall be at least seven days.”

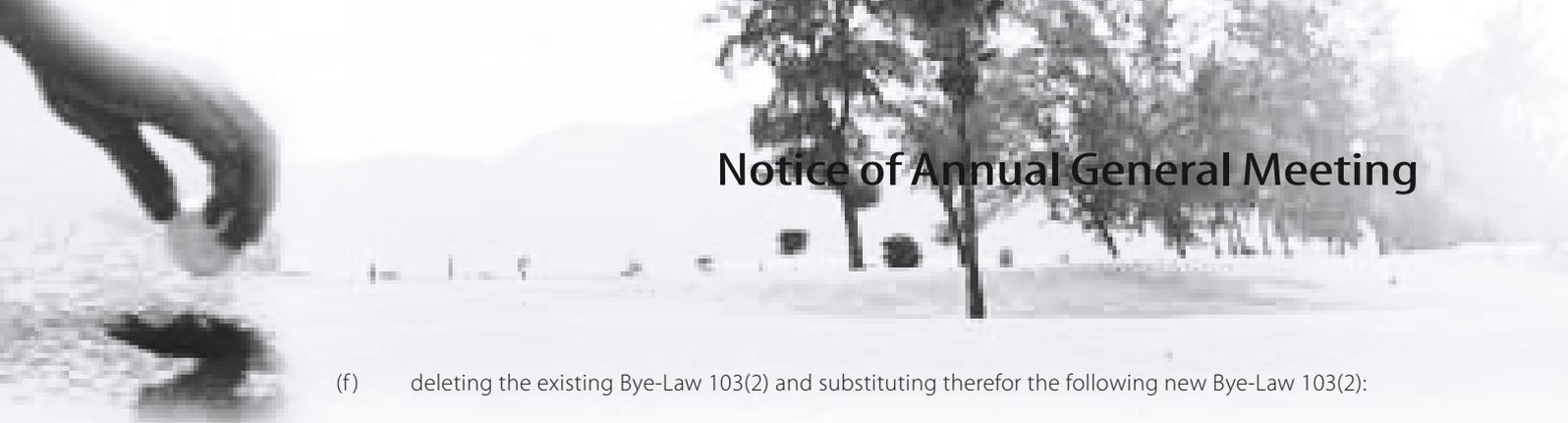


# Notice of Annual General Meeting

(e) deleting the existing Bye-Law 103(1) and substituting therefor the following new Bye-Law 103(1):

"(1) A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Directors in respect of any contract or arrangement or proposal in which he or any of his associate(s) has/have a material interest, and if he shall do so his vote shall not be counted (nor shall he be counted in the quorum for that resolution), but this prohibition shall not apply to any of the following matters namely:

- (i) the giving of any security or indemnity either:
  - (a) to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries; or
  - (b) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (ii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iii) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in 5 per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associate(s) is derived) or of the voting rights;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:
  - (a) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme involving the issue or grant of options over shares or other securities by the Company under which the Director or his associate(s) may benefit; or
  - (b) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors, his associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.";



# Notice of Annual General Meeting

(f) deleting the existing Bye-Law 103(2) and substituting therefor the following new Bye-Law 103(2):

“(2) A company shall be deemed to be a company in which a Director and/or any of his associates owns 5 per cent. or more of the issued shares of any class of the equity share capital of such company or of the voting rights of any class of shares of such company if and so long as (but only if and so long as) he and/or his associates is/are (either directly or indirectly) the holder of or beneficially interested in 5 per cent. or more of any class of the equity share capital of such company (or of any third company through which his/their interest is derived) or of the voting rights of any class of shares available to shareholders of the company. For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder.”;

(g) deleting the existing Bye-Law 103(3) and substituting therefor the following new Bye-Law 103(3):

“(3) Where a company in which a Director and/or any of his associates holds 5 per cent. or more of any class of the equity share capital of such company or of the voting rights of any class of shares available to shareholders of the company is materially interested in a transaction, then that Director shall also be deemed materially interested in such transaction.”; and

(h) deleting the existing Bye-Law 103(4) and substituting therefor the following new Bye-Law 103(4):

“(4) If any question shall arise at any meeting of the Directors as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director or his associate(s) shall be final and conclusive except in a case where the nature or extent of the interest of the Director or his associate(s) concerned as known to such Director has not been fairly disclosed to the Directors. If any question as aforesaid shall arise in respect of the chairman of the meeting or his associate(s) such question shall be decided by a resolution of the Directors (for which purpose such chairman shall not be counted in the quorum and shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman or his associate(s) as known to such chairman has not been fairly disclosed to the Directors.”

and THAT any director of the Company be and is hereby authorised to take such further action as he/she may, in his/her sole and absolute discretion, think fit for and on behalf of the Company to implement the aforesaid amendments to the existing Bye-Laws.”

By Order of the Board  
**Chu Chun Man, Augustine**  
*Chairman*

Hong Kong  
21 April 2004



# Notice of Annual General Meeting

## Notes:

1. Any shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
2. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of authority, must be deposited at the Company's share registrar, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting.
3. Delivery of the form of proxy will not preclude a shareholder from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.
4. In the case of joint registered holders of any Share, any one of such joint registered holders may vote at the meeting, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint registered holders be present at the meeting, the vote of the most senior who tenders a vote either personally or by proxy shall be accepted to the exclusion of the votes of the other joint registered holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.
5. For the purpose of determining the list of shareholders entitled to attend and vote at the Annual General Meeting and to receive the final dividend to be declared at the meeting, the Company shall temporarily suspend changes to the register of members from Thursday, 20 May 2004 to Tuesday, 25 May 2004. Shareholders whose names appear on the register at the time of the suspension of registration shall be entitled to attend and vote at the meeting and shall be entitled to receive final dividend if declared at the meeting. Persons who purchase shares of the Company during the period of suspension of registration shall not be entitled to attend the meeting nor to the final dividend.
6. In relation to the proposed resolution 6 set out in the notice convening the meeting, approval is being sought from the members as a general mandate under the Listing Rules. The Directors wish to state that they have no immediate plans to issue any new shares of the Company.
7. In relation to the proposed resolution 7 set out in the notice convening the meeting the Directors wish to state that they will exercise the powers conferred thereby to repurchase shares of the Company in the circumstances which they deem appropriate for the benefit of the Company and the shareholders.