# SINO GOLF HOLDINGS LIMITED
# 順龍控股有限公司

*(Incorporated in Bermuda with limited liability)*
(Stock Code: 00361)

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

### FINANCIAL HIGHLIGHTS

| **Results** | **For the six months ended 30 June** | | |
|---|---|---|---|
| | **2011** | 2010 | Changes |
| | ***HK$'000*** | *HK$'000* | *Increase/* |
| | **(unaudited)** | (unaudited) | *(Decrease)* |
| **Group turnover** | **140,144** | 200,966 | (30.3%) |
| from golf equipment segment | **113,364** | 182,205 | (37.8%) |
| from golf bag segment | **26,780** | 18,761 | 42.7% |
| **Gross Profit** | **31,930** | 45,083 | (29.2%) |
| **EBITDA** | **17,490** | 26,071 | (32.9%) |
| **Profit attributable to owners of the Company** | **2,553** | 8,747 | (70.8%) |
| | ***HK cents*** | *HK cents* | |
| **Earnings per share attributable to owners of the Company** | | | |
| **– Basic** | **0.84** | 2.89 | |
| **– Diluted** | **0.84** | 2.85 | |
| **Interim dividend per ordinary share** | **–** | – | |

**Group**

- With the volatile global economy and a contraction in the market demand, the Group has recorded a downturn in revenues and profits during the first half of 2011 compared to the corresponding period in 2010.

- The average gross profit margin was improved to 22.8%, up from 22.4% of the comparative preceding period.

- EBITDA declined to HK$17.5 million from HK$26.1 million for the comparative preceding period, mainly due to the plummet in sale volume.

**Golf Equipment Segment**

- The golf equipment sales fell by 37.8% period on period mainly because major customers generally purchased more prudently under a fluctuating economic environment, which had been aggravated by the incident of the Japan earthquake that took place during the period.

- The golf equipment business is nevertheless anticipated to rebound during the second half of 2011 when major customers partially resume the ordering volume.

**Golf Bag Segment**

- Total sales of the golf bag segment grew further to show a mild increase of 4.2% period on period. Alternatively, the Group's turnover attributable to the golf bag segment, which represented golf bag and accessories sales to external customers, had increased remarkably by 42.7% after eliminating the inter-segmental sales of HK$5,122,000 (2010: HK$11,858,000) from the total segment sales.

## INTERIM RESULTS

The board of directors (the "Board") of Sino Golf Holdings Limited (the "Company") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the " Group") for the six months ended 30 June 2011 which have been reviewed by the Company's audit committee, together with the comparative figures for the six months ended 30 June 2010 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2011*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| Turnover | *3* | **140,144** | 200,966 |
| Cost of sales | | **(108,214)** | (155,883) |
| Gross profit | | **31,930** | 45,083 |
| Other operating income | | **1,961** | 1,902 |
| Selling and distribution costs | | **(3,722)** | (3,149) |
| Administrative expenses | | **(22,151)** | (26,979) |
| Finance costs | | **(5,347)** | (7,765) |
| Profit before taxation | | **2,671** | 9,092 |
| Income tax expense | *5* | **(132)** | (358) |
| Profit and total comprehensive income for the period | *6* | **2,539** | 8,734 |
| Profit and total comprehensive income (expense) for the period attributable to: | | | |
| Owners of the Company | | **2,553** | 8,747 |
| Non-controlling interests | | **(14)** | (13) |
| | | **2,539** | 8,734 |
| Earnings per share | *8* | | |
| Basic | | **HK0.84 cents** | HK2.89 cents |
| Diluted | | **HK0.84 cents** | HK2.85 cents |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2011*

| | Notes | 30.6.2011<br>HK$'000<br>(Unaudited) | 31.12.2010<br>HK$'000<br>(Audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **219,862** | 246,787 |
| Prepaid lease payments | | **12,592** | 20,279 |
| Goodwill | | **20,385** | 20,385 |
| Club debentures | | **2,135** | 2,135 |
| Deposits and other receivables | | **936** | 616 |
| Prepayments for the acquisition of property, plant and equipment | | **706** | 1,697 |
| | | **256,616** | 291,899 |
| Current assets | | | |
| Inventories | | **168,260** | 173,817 |
| Trade and other receivables | *9* | **66,437** | 83,901 |
| Prepaid lease payments | | **401** | 632 |
| Bank balances and cash | | **49,166** | 43,316 |
| | | **284,264** | 301,666 |
| Assets classified as held for sale | | **29,433** | – |
| | | **313,697** | 301,666 |
| Current liabilities | | | |
| Trade and other payables | *10* | **40,039** | 72,133 |
| Amounts due to non-controlling shareholders of a subsidiary | | **462** | 462 |
| Income tax payable | | **695** | 1,398 |
| Bank borrowings | | **123,232** | 199,000 |
| Loan from ultimate holding company | | **101,362** | 16,640 |
| | | **265,790** | 289,633 |
| Liabilities associated with assets held for sale | | **211** | – |
| | | **266,001** | 289,633 |

| | 30.6.2011 | 31.12.2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Net current assets | **47,696** | 12,033 |
| | **304,312** | 303,932 |
| Non-current liabilities | | |
| Bank borrowings | **10,956** | 14,289 |
| Loan from immediate holding company | **23,020** | 23,678 |
| Deferred taxation | **2,528** | 2,565 |
| | **36,504** | 40,532 |
| | **267,808** | 263,400 |
| Capital and reserves | | |
| Share capital | **30,370** | 30,220 |
| Reserves | **234,985** | 230,713 |
| Equity attributable to owners of the Company | **265,355** | 260,933 |
| Non-controlling interests | **2,453** | 2,467 |
| Total equity | **267,808** | 263,400 |

*Notes:*

## 1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical costs basis except for certain leasehold land and buildings and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except as described below.

In the current interim period, the Group has applied, for the first time, the following new or revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 |
| HKFRS 1 (Amendments) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters |
| HKFRS 1 (Amendments) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters |
| HKAS 24 (Revised) | Related Party Disclosures |
| HKAS 32 (Amendments) | Classification of Rights Issues |
| HK(IFRIC)-Interpretations ("Int") 14 (Amendments) | Prepayments of a Minimum Funding Requirement |
| HK(IFRIC)-Int 19 | Extinguishing Financial Liabilities with Equity Instruments |

The application of the above new and revised HKFRSs in the current interim period has no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new and revised standards and amendments that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective.

| | |
|---|---|
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 11 | Joint Arrangements[2] |
| HKFRS 12 | Disclosure of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 19 (as revised in 2011) | Employee Benefits[2] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[2] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[2] |

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.

These five new or revised standards on consolidation, joint arrangement and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2012. Earlier application is permitted provided that all five new or revised standards are applied early at the same time.

The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for the financial year ending 31 December 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements; (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgment. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated.

The amendments to HKAS 1 have been issued to improve the presentation of other comprehensive income. The amendments require entities to group together the items of other comprehensive income that may be reclassified to profit and loss in the future by presenting them separately from those that would never be reclassified to profit and loss. The application of the amendment to HKAS 1 might result in changes in presentation of the Group's statement of comprehensive income.

Other than disclosed above, the directors of the Company anticipate that the application of the new or revised standards will have no material impact on the results and the financial position of the Group.

## 3. TURNOVER

Turnover represents the net amounts received and receivable for goods sold to outside customers, less discounts, returns and sales related taxes.

## 4. SEGMENT INFORMATION

Information reported to the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance, focuses on types of goods delivered.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

Golf equipment – The manufacture and trading of golf equipment, and related components and parts.

Golf bags – The manufacture and trading of golf bags, other accessories, and other related components and parts.

Information regarding the above segments is reported below.

### (a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

| | For the six months ended 30 June | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Golf equipment | | Golf bags | | Eliminations | | Consolidated | |
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| Segment revenue | | | | | | | | |
| Sales to external customers | **113,364** | 182,205 | **26,780** | 18,761 | **–** | – | **140,144** | 200,966 |
| Inter-segment revenue | **–** | – | **5,122** | 11,858 | **(5,122)** | (11,858) | **–** | – |
| Other operating income | **1,543** | 1,397 | **385** | 245 | **–** | – | **1,928** | 1,642 |
| Total | **114,907** | 183,602 | **32,287** | 30,864 | **(5,122)** | (11,858) | **142,072** | 202,608 |
| Segment results | **8,118** | 17,689 | **2,935** | 2,364 | **–** | – | **11,053** | 20,053 |
| Interest income | | | | | | | **33** | 260 |
| Unallocated corporate expenses | | | | | | | **(3,068)** | (3,456) |
| Finance costs | | | | | | | **(5,347)** | (7,765) |
| Profit before taxation | | | | | | | **2,671** | 9,092 |

Segment results represents the results of each segment without allocation of interest income, central administration costs and directors' salaries and finance costs. This is the measure reported to the chief operating decision maker of the Group for the purposes of resource allocation and assessment of segment performance.

Inter-segment sales are charged with reference to market price.

**(b) Segment assets**

The following is an analysis of the Group's assets by reportable segments:

| | Golf equipment | | Golf bags | | Consolidated | |
|---|---|---|---|---|---|---|
| | **30.6.2011** | 31.12.2010 | **30.6.2011** | 31.12.2010 | **30.6.2011** | 31.12.2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) | **(unaudited)** | (audited) | **(unaudited)** | (audited) |
| Segment assets | **457,169** | 502,908 | **31,324** | 43,744 | **488,493** | 546,652 |
| Unallocated corporate assets | | | | | | |
| – Asset classified as held for sale | | | | | **29,433** | – |
| – Club debentures | | | | | **2,135** | 2,135 |
| – Bank balances and cash | | | | | **49,166** | 43,316 |
| – Others | | | | | **1,086** | 1,462 |
| Total assets | | | | | **570,313** | 593,565 |

For the purposes of monitoring segment performance and allocating resources between segments, all assets are allocated to reportable segments other than club debentures and bank balances and cash. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

## 5. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Current tax | | |
| – Hong Kong Profits Tax | **169** | 350 |
| – PRC Enterprise Income Tax ("EIT") | **–** | 46 |
| | **169** | 396 |
| Deferred taxation | **(37)** | (38) |
| | **132** | 358 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 June 2011 and 2010.

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the tax rate of certain subsidiaries of the Company is 25% for the six months ended 30 June 2011 and 2010.

In accordance with the tax legislations applicable to foreign investment enterprise, various subsidiaries are entitled to exemption from PRC EIT in the first two years starting from the first profit-making year of operation and thereafter, entitled to a 50% relief from the PRC EIT for the following three years.

Certain PRC subsidiaries were either in loss-making position for the current period and the previous years or had sufficient tax losses brought forward from previous years to offset the estimated assessable income for the period and accordingly did not have any assessable income.

## 6. PROFIT FOR THE PERIOD

Profit for the period is arrived at after charging:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Amortisation of prepaid lease payments | **316** | 299 |
| Bad debts directly written off | **59** | 174 |
| Cost of inventories sold | **108,214** | 155,883 |
| Depreciation of property, plant and equipment | **10,118** | 11,315 |
| Impairment loss recognised in respect of trade receivables (included in administrative expenses) | **30** | 196 |
| Loss on disposal of property, plant and equipment | **370** | – |
| Loss on deregistration of a subsidiary | **–** | 8 |
| Research and development costs | **220** | 2,132 |

## 7. DIVIDENDS

No dividends were paid, declared or proposed during or subsequent to the six months ended 30 June 2011.

## 8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Earnings** | | |
| Earnings for the purposes of basic and diluted earnings per share | **2,553** | 8,747 |

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **302,233** | 302,200 |
| Effect of dilutive potential on ordinary share from share options | **3,000** | 4,500 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **305,233** | 306,700 |

## 9. TRADE AND OTHER RECEIVABLES

| | **30.6.2011** | 31.12.2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables | **18,356** | 29,021 |
| Less: impairment losses recognised | **(552)** | (522) |
| | **17,804** | 28,499 |
| Prepayments | **2,763** | 1,105 |
| Deposits and other receivables | **45,870** | 54,297 |
| | **48,633** | 55,402 |
| | **66,437** | 83,901 |

(a) The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally between 30 and 90 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management.

(b) The aging analysis of the trade receivables (net of impairment) of the Group was as follows:

| | | | Past due but not impaired | | | |
|---|---|---|---|---|---|---|
| | **Total** | **Neither past due nor impaired** | **1 to 3 months** | **4 to 6 months** | **7 to 12 months** | **More than 12 months** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 30 June 2011 (Unaudited)** | **17,804** | **14,291** | **3,139** | **23** | **339** | **12** |
| At 31 December 2010 (Audited) | 28,499 | 19,517 | 8,933 | 49 | – | – |

## 10. TRADE AND OTHER PAYABLES

| | **30.6.2011** | 31.12.2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade and bills payables | **32,577** | 56,229 |
| Customers' deposit received | **887** | 2,285 |
| Accrual and other payables | **6,575** | 13,619 |
| | **40,039** | 72,133 |

The aging analysis of trade and bills payables presented based on invoice date at the end of the reporting period of the Group was as follows:

| | **30.6.2011** | 31.12.2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Within 3 months | **22,974** | 21,316 |
| 4 to 6 months | **2,764** | 22,064 |
| 7 to 12 months | **5,672** | 10,010 |
| More than 12 months | **1,167** | 2,839 |
| | **32,577** | 56,229 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

The volatile economic environment prevailing during the first half of 2011 has brought a temporary halt to the rising trend of the Group's business. During the period, the golf equipment sales decreased considerably whilst the golf bag segment has managed to achieve a mild increase in the total sales volume. Facing the economic uncertainties, major golf name brands had been pursuing a more prudent procurement strategy so as to optimize the inventory portfolio and enhance competitiveness. Besides, the earthquake incident that took place in Japan in March 2011 has aggravated the economic sentiment and led to a short-term shrinkage in product demand as evidenced by a reduction and rescheduling of customers' orders. The situation is however anticipated to improve with a possible rebound during the second half of the year.

The Group's turnover for the six months ended 30 June 2011 plummeted, period on period, by 30.3% to HK$140.1 million (2010: HK$201.0 million). Gross profit fell, in commensurate with the reduced revenue level, to HK$31.9 million from HK$45.1 million for the comparative preceding period. Notwithstanding the depressed economy, the Group continued to reinforce its cost control measures to effectively cut and rationalize expenditures to help mitigate the impact of a declining turnover. The broadened customer base and the enhanced manufacturing capability have endowed our Group with greater competitive edge in procuring and restoring business during a period of economic turmoil. Guided by our mission to provide one-stop value added services to customers, the Group has strived to pursue its corporate goals to gain market share and industry recognition through the persistent emphasis on product innovation and customers' fulfillment. It is envisaged that the Group will endeavor to solicit more business from those first-tier customers to generate extra revenues. To this end, we remain cautiously confident on the outlook of the second half of 2011 as the order volume from customers is expected to partially resume.

### Financial Results

Consolidated turnover for the six months ended 30 June 2011 decreased, period on period, by 30.3% to HK$140,144,000 (2010: HK$200,966,000). Profit attributable to owners of the Company was reduced to HK$2,553,000 compared to HK$8,747,000 for the corresponding period in 2010. Both the basic and diluted earnings per share were HK0.84 cents for the period (2010: HK2.89 cents and HK2.85 cents, respectively). The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: nil).

During the period, the golf equipment sales fell, period on period, by 37.8% to HK$113,364,000 (2010: HK$182,205,000) that accounted for 80.9% of the Group's turnover (2010: 90.7%). On the contrary, the turnover of the golf bag segment comprising sales to external customers had increased, period on period, by 42.7% to HK$26,780,000 (2010: HK$18,761,000), representing 19.1% of the Group's turnover for the period (2010: 9.3%). The total sales of the golf bag segment nevertheless showed a mild increase of 4.2% prior to eliminating the inter-segmental sales of HK$5,122,000 for the period (2010: HK$11,858,000). The inter-segmental sales of golf bags had been incorporated as components of the golf club sets, sales of which were properly classified to the turnover of the golf equipment segment. With the overall decrease in turnover, gross profit for the period fell to HK$31,930,000 from HK$45,083,000 for the comparative preceding period. Despite that, the average gross profit margin was improved to 22.8% (2010: 22.4%) as a result of the effective implementation of the cost control programs.

Other operating income for the period increased slightly to HK$1,961,000 from HK$1,902,000 for the comparative preceding period, mainly due to the higher subcontracting fees earned.

Selling and distribution costs for the period increased to HK$3,722,000 from HK$3,149,000 for the comparative preceding period, mainly owing to the additional freight charges incurred in respect of certain delay in shipments.

Administrative expenses for the period were remarkably reduced to HK$22,151,000 from HK$26,979,000 for the comparative preceding period, mainly attributable to the savings derived from the stringent cost control measures. In addition, finance costs for the period decreased to HK$5,347,000 from HK$7,765,000 for the comparative preceding period, primarily owing to the reduction in term loan interest as well as less factoring charge being incurred against the lower sales volume.

Adversely affected by the substantial drop in revenues, the net profit of the Group for the period was reduced to HK$2,553.000 in contrast to HK$8,747,000 for the corresponding period in 2010.

**Golf Equipment Business**

Notwithstanding the curtailed sales, the golf equipment segment remained the main operating segment to account for 80.9% of the Group's turnover for the period (2010: 90.7%). As the global economy became increasingly volatile, the Group's key customers generally revised down or rescheduled their order volume since entering 2011. The golf equipment sales thus plummeted, period on period, by 37.8% to HK$113,364,000 for the period (2010: HK$182,205,000).

The segment turnover for the period comprised golf clubs sales of HK$103,156,000 (2010: HK$162,600,000) and components sales of HK$10,208,000 (2010: HK$19,605,000), representing 91.0% (2010: 89.2%) and 9.0% (2010: 10.8%), respectively. Of the golf clubs sales, the proportion of club sets versus individual clubs was 80.7% (2010: 83.6%) and 19.3% (2010: 16.4%), respectively. For the components sales, club heads accounted for 74.2% (2010: 69.2%) with shafts and accessories taking up the remaining 25.8% (2010: 30.8%).

During the period, sales to the largest segmental customer that carries the world's most prominent golf brand dropped, period on period, by 29.5% to HK$50,262,000 (2010: HK$71,338,000), which represents 44.3% (2010: 39.2%) of the segment turnover or 35.9% (2010: 35.5%) of the Group's turnover for the period. On the other hand, golf equipment sales to other customers generally decreased by differing extent to further erode revenues that were partly compensated by the contributions from another new first tier customer, sales to which amounted to HK$8,291,000 (2010: nil) or 7.3% of the segment turnover during the period. With the back up of our strong customer network, the Group maintains a positive view on the outlook of the golf equipment business for the second half of the year. Turnover generated from the top five golf equipment customers aggregated to HK$102,957,000 (2010: HK$162,321,000), representing 90.8% (2010: 89.1%) of the segment turnover or 73.5% (2010: 80.8%) of the Group's turnover for the period.

Driven by the Group's strategy to take advantage of the lower operating cost structure in the northern part of the PRC, the Shandong manufacturing facility has assumed an increasingly important role to account for the majority of the Group's production during the period. The relocation of more production volume to the Shandong manufacturing facility will continue until two-third or more of the Group's output has come from there to adequately realize the benefit of cost differentiations that exist between the operating environment of the southern and the northern part of the PRC. To further streamline production efficiency and rationalize cost, several golf bag production lines have been set up at the Shandong manufacturing facility to cater for customers' orders of golf club sets that include golf bags as accessories. This also helps eliminate the risk of damage and theft associated with bulk transporting the completed golf bags over a long distance from the Group's Guangdong manufacturing facility. The Shandong manufacturing facility has helped strengthen our competitive advantage and provides an effective means to facilitate the Group to solicit new business from those top tier golf name brands that are seeking alternative high quality supply sources. During the period, the Group has entered into an agreement for the disposal of its entire equity interest in the subsidiary that owns the Xiamen manufacturing facility in the PRC, which production role has been assumed by the Shandong manufacturing facility. The transaction was subject to and had been submitted for the approval and registration by the relevant authority in the PRC. Details of the transaction were set out on an announcement of the Company dated 17 February 2011 and the supplemental announcement dated 23 February 2011, respectively. The proceeds of the disposal of RMB18 million will mainly be applied towards providing funds for the Group's working capital.

The Group continued its sound practice to factor the major receivables to assure due recoverability of trade debts in accordance with the terms. Given the fragile economy, the Group has closely monitored the due settlement of receivables by individual customers and shortened the general credit terms to avoid excessive exposure. The management assessed regularly the performance of customers and is satisfied with the overall quality of the Group's trade receivables.

During the period, raw materials and component costs showed a moderate fluctuation given the strong Renminbi currency that added inflationary pressure for domestic purchases. However, the stringent cost control measures have effectively mitigated the impact of a rising trend in costs such as the labor and energy expenditures that helped stabilize the profit margins.

Irrespective of the temporary shrinkage in sales volume, the golf equipment segment has managed to achieve a segmental profit of HK$8,118,000 for the period in contrast to HK$17,689,000 for the comparative preceding period. Taking into account the prevailing market conditions and the current order book status, the management maintains a positive view that the golf equipment segment shall rebound in the second half year as customers are expected to partially resume their order volume.

**Golf Bag Business**

Despite a general economic downturn, the turnover of the golf bag segment comprising sales to the external customers increased remarkably to HK$26,780,000 during the first half of 2011 from HK$18,761,000 for the corresponding period in 2010, representing 19.1% of the Group's turnover for the period (2010: 9.3%) or a rise of 42.7% for the segmental turnover period on period. The total sales of the golf bag segment nevertheless increased, period on period, by 4.2% prior to eliminating the inter-segmental sales of HK$5,122,000 for the period (2010: HK$11,858,000). The inter-segmental sales of golf bags had been incorporated as components of the golf club sets that were classified to constitute the turnover of the golf equipment segment.

Of the segment turnover, golf bag sales amounted to HK$18,848,000 (2010: HK$13,771,000) to account for 70.4% (2010: 73.4%) whilst accessories sales comprising mainly shoe bags aggregated to HK$7,932,000 (2010: HK$4,990,000) to take up the remaining 29.6% (2010: 26.6%). There has not been significant change in the product mix throughout these years. During the period, sales to the largest golf bag customer increased by 25.7% to HK$17,405,000 (2010: HK$13,841,000), accounting for 65.0% (2010: 73.8%) of the segment turnover or 12.4% (2010: 6.9%) of the Group's turnover. Turnover from the top five golf bag customers aggregated to HK$23,996,000 (2010: HK$16,572,000), representing 89.6% (2010: 88.3%) of the segment sales or 17.1% (2010: 8.2%) of the Group's turnover for the period.

Analyzed alternatively, sales of the Japan line of products increased, period on period, by 23.5% to HK$17,551,000 (2010: HK$14,209,000) or represent 65.5% (2010: 75.7%) of the segment turnover, whereas sales of the non-Japan line of products, comprising mostly golf bags of American design, surged 102.7%, period on period, to HK$9,229,000 (2010: HK$4,552,000) to account for the remaining 34.5% (2010: 24.3%) of the segment turnover. The Group is committed to continually developing and exploring both the Japan line and the non-Japan line of golf bags with an aim to gain market share and broaden the customer base. We are determined to allocate necessary resources to tape the market opportunities that bring us both the business volume and profit margins.

During the period, the prices of major raw materials for the golf bag production such as PVC, PU and nylon generally exhibited an upward trend whilst the prices of accessories like metal parts and plastic components fluctuated mildly. Besides, the labor cost and production overheads such as energy and fuel also moved up moderately to increase the overall cost burden. To enhance our competitive advantage, the golf bag segment has continued to reinforce various measures implemented to streamline the operations and rationalize expenditures. The Group is devoted to continually developing the golf bag business to uphold our role as one of the key market players in the golf bag sector.

Benefited from the satisfactory performance of the key customers, the golf bag segment achieved a segmental profit of HK$2,935,000 during the first half of 2011, up 24.2% from HK$2,364,000 for the comparative preceding period. Given the prevailing market conditions and the current ordering trend, our management anticipates that the golf bag segment will develop consistently under a fragile economy with various challenges.

**Prospects**

Impacted by a fluctuating economy following the incident of the Japan earthquake, our Group has suffered a curtailment in both the business volume and profitability during the first half of 2011. The golf equipment sales diminished substantially while the golf bag segment was able to demonstrate further growth during the period despite a harsh business environment. To effectively combat the challenges, the Group has reinforced the implementation of the reengineering programs to enhance productivity and rationalize costs. In addition, the Group continued to relocate more production volume to the Shandong manufacturing facility to take advantage of the cost differentiation that helps to partly recoup the margins foregone with the declining sales.

Supported by the Group's strong customer network and enhanced manufacturing capabilities, we are cautiously confident to maintain a positive view that the golf equipment business will improve with an expected rebound in the second half of 2011 whilst the golf bag business shall continue to develop and perform reasonably facing the various challenges and economic uncertainties. Besides, the business potential with the first-tier customers remains promising and it is anticipated that additional top-tier name brands may further be picked up to broaden our customer base given the Group's competitive advantage and determination for success.

To facilitate the long-term development, the Group has been looking into the opportunity to get involved in producing certain tools products that employ the same casting technology as what our Group has been applying for the production of golf heads. This could be a diversification option that fits basically into our Group's current equipment and machinery set-up and offers a more effective utilization of the available resources to generate revenue. The Group is making contact with the relevant party to liaise for potential business to commence in the current year hopefully. We are technically capable and well equipped to pick up this new opportunity in due course. The Group is devoted to keeping constant awareness of the market change and developments to ensure an efficient response in capturing opportunities as well as managing challenges.

On 22 June 2011, the Company made an announcement to inform the shareholders and investors that its controlling shareholder, CM Investment Co., Ltd., and Mr. Chu Chun Man Augustine, a director of the Company, were in preliminary discussion with an independent third party involving, inter alia, a disposal of their shareholding interests in the Company to such independent third party which, if materialized, may lead to a change in control of the Company and other related arrangements that may affect the interest of the shareholders. Subsequently, the Company has made monthly announcements setting out the progress of the aforesaid discussions on 22 July 2011 and 18 August 2011, respectively. The shareholders and public investors have been urged to exercise extreme caution in dealing with the shares of the Company.

On 18 August 2011, the Company also made an announcement of profit warning to inform the shareholders and potential investors that the Group will record a considerable reduction in revenue and net profit for the six months ended 30 June 2011, mainly due to the volatile global economy and the incident of the Japan earthquake. The shareholders and potential investors have been advised to exercise caution in placing reliance on the profit warning and when dealing in the shares of the Company.

## Liquidity and Financial Resources

In addition to internally generated cash flows and banking facilities, the Group further procured funds from the ultimate holding company to strengthen its financial position and reduce the reliance on bank borrowings. It has been the Group's objective to effectively manage and limit the exposure to financial risks to assure the healthy development of our business in the long term.

At 30 June 2011, bank balances and cash, which were mostly denominated in United States dollars, Hong Kong dollars and Renminbi, amounted to HK$49.2 million (31 December 2010: HK$43.3 million). The increase in bank balances and cash was attributable to the funds advanced by the ultimate holding company to enable the Group to effectively combat the challenges and needs that might arise during a period of economic turbulence. It is crucial that the Group maintains a strong financial position to bridge the intervening period and secure adequate funds for its operations and discharging the liabilities as they fall due.

Borrowings of the Group other than the loans from the immediate holding company and the ultimate holding company are mostly denominated in Hong Kong dollars, United States dollars and Renminbi that carry interest on HIBOR/LIBOR plus basis or at the interest rate promulgated by the Peoples' Bank of China from time to time. At 30 June 2011, interest-bearing borrowings comprising bank borrowings amounted to HK$134.2 million (31 December 2010: HK$213.3 million), of which HK$123.2 million (31 December 2010: HK$199.0 million) was repayable within one year. The loan from the immediate holding company of HK$23.0 million at 30 June 2011 was unsecured, interest-free and has been extended to mature in March 2013 (31 December 2010: HK$23.7 million). On the other hand, the loan from the ultimate holding company of HK$101.4 million at 30 June 2011 was unsecured, interest-free and repayable on demand (31 December 2010: HK$16.6 million). Besides, bank loans from certain PRC banks of HK$68.7 million at 30 June 2011 (31 December 2010: HK$85.9 million) were secured by the land and buildings of the Group with a carrying value of HK$180.6 million (31 December 2010: HK$182.4 million). The gearing ratio, defined as bank borrowing less bank balances and cash of HK$85.0 million (31 December 2010: HK$170.0 million) divided by the shareholders' equity of HK$267.8 million (31 December 2010: HK$263.4 million), was 31.7% as at 30 June 2011 (31 December 2010: 64.5%). The gearing ratio would be restated as 78.2% at 30 June 2011 (31 December 2010: 79.8%) if the loans from the immediate holding company and the ultimate company were both included in computing the ratio.

It is always our corporate objective to maintain a financial position that is supportive of the Group's long-term development and healthy growth. At 30 June 2011, the total assets and net asset value of the Group amounted to HK$570.3 million (31 December 2010: HK$593.6 million) and HK$267.8 million (31 December 2010: HK$263.4 million) respectively. Current and quick ratios as at 30 June 2011 were 1.18 (31 December 2010: 1.04) and 0.55 (31 December 2010: 0.44), respectively. Both ratios have improved moderately following the move to realise certain non-current assets. The Group is devoted to continue to explore effective means to rationalize and further improve its financial position.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND CONTINGENT LIABILITIES

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

At 30 June 2011, the Group had no significant contingent liabilities.

## EMPLOYEE AND REMUNERATION POLICIES

At 30 June 2011, the Group employed a total of about 1,800 employees in Hong Kong and the PRC. It is the Group's policy to maintain a harmonious relation with its employees through provision of competitive remuneration packages and career development opportunities. The employees were remunerated based on their duties, experience and performance as well as industrial practices. The remuneration packages are reviewed annually to assure fairness and appropriateness and discretionary bonuses may be awarded to employees based on individual performance.

## AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors of the Company. The audit committee has reviewed with management the accounting polices and practice adopted by the Group and discussed auditing, internal controls, and financial reporting matters including review of the financial statements for the six months ended 30 June 2011.

## 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 period.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the directors. Upon specific enquiry, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2011.

## REMUNERATION COMMITTEE

The Company established a remuneration committee with written terms of reference pursuant to the provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules. The committee comprises three independent non-executive directors and two executive directors. The remuneration committee is principally responsible for formulating and making recommendation to the Board on the Group's policy and structure for all remuneration of the directors of the Company and senior management of the Group.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules throughout the six months ended 30 June 2011, except for certain deviations, which are explained below:

a) The roles of the chairman and chief executive officer have not been separated. The deviation is deemed appropriate as the Board believes that vesting the roles of both chairman and chief executive officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. It also considers that the current structure does not impair the balance of power and authority between the Board and the management of the Company.

b) The independent non-executive directors have not been appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye Laws.

## PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at http://www.hkexnews.hk and on the website of the Company at http://www.sinogolf.com. The interim report will be dispatched to the shareholders and published on both the websites of the Stock Exchange and the Company in due course.


## ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend my sincere thanks to the Group's employees for their loyalty, continuous support and dedicated services.


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

Hong Kong, 30 August 2011

*As at the date hereof, the board of directors of the Company comprises 6 directors, of which 3 are Executive Directors, namely Mr. CHU Chun Man, Augustine, Mr. CHU Yuk Man, Simon and Mr. CHANG Hua Jung, and the rest of 3 are Independent Non-Executive Directors, namely Mr. CHOY Tak Ho, Ms. CHIU Lai Kuen, Susanna and Mr. HSIEH Ying Min.*