



# Sino Golf

**Holdings Limited**

(Incorporated in Bermuda with limited liability)

# 2004

Interim Report



## INTERIM RESULTS

The Board of Directors (the “Board”) of Sino Golf Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2004 which have been reviewed by the Company’s audit committee, together with the comparative figures for the six months ended 30 June 2003 as follows:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30 June	
		2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
<b>TURNOVER</b>	3	<b>226,011</b>	200,377
Cost of sales		<b>(151,439)</b>	(139,069)
Gross profit		<b>74,572</b>	61,308
Other revenue		<b>3,746</b>	8,129
Selling and distribution costs		<b>(6,945)</b>	(7,798)
Administrative expenses		<b>(27,407)</b>	(23,576)
Other operating expenses		<b>(6,749)</b>	(5,798)
<b>PROFIT FROM OPERATING ACTIVITIES</b>	4	<b>37,217</b>	32,265
Finance costs	5	<b>(5,349)</b>	(4,823)
<b>PROFIT BEFORE TAX</b>		<b>31,868</b>	27,442
Tax	6	<b>(1,672)</b>	(2,220)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>30,196</b>	25,222
Minority interests		<b>(2,994)</b>	(592)
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>27,202</b>	24,630
Interim dividend	7	<b>19,039</b>	14,506
<b>EARNINGS PER SHARE – Basic</b>	8	<b>9.00 cents</b>	8.15 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

		<b>30 June 2004 (unaudited) HK\$'000</b>	31 December 2003 (audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>137,626</b>	139,343
Goodwill		<b>21,820</b>	22,762
		<b>159,446</b>	162,105
<b>CURRENT ASSETS</b>			
Inventories		<b>84,768</b>	68,346
Trade and bills receivable	9	<b>96,065</b>	61,860
Deposits, prepayments and other receivables		<b>29,993</b>	19,334
Cash and cash equivalents		<b>83,397</b>	93,837
		<b>294,223</b>	243,377
<b>CURRENT LIABILITIES</b>			
Trade and bills payable	10	<b>32,797</b>	40,976
Tax payable		<b>3,713</b>	2,631
Other payables and accruals		<b>30,865</b>	22,959
Bank borrowings		<b>90,856</b>	35,001
Finance lease payables		<b>87</b>	87
		<b>158,318</b>	101,654
<b>NET CURRENT ASSETS</b>			
		<b>135,905</b>	141,723
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>295,351</b>	303,828
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings		<b>94,500</b>	105,000
Finance lease payables		<b>127</b>	171
Deferred tax		<b>4,911</b>	4,911
		<b>99,538</b>	110,082
<b>MINORITY INTERESTS</b>			
		<b>14,479</b>	10,905
		<b>181,334</b>	182,841
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	<b>30,220</b>	30,220
Reserves	12	<b>132,075</b>	123,912
Proposed dividend		<b>19,039</b>	28,709
		<b>181,334</b>	182,841



## CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June	
	2004	2003
	(unaudited) HK\$'000	(unaudited) HK\$'000
Total shareholders' equity at beginning of period	182,841	162,823
Net profit for the period	27,202	24,630
Dividend paid	(28,709)	(11,786)
Total shareholders' equity at end of period	<u>181,334</u>	<u>175,667</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2004	2003
	(unaudited) HK\$'000	(unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	(15,365)	34,854
Net cash outflow from investing activities	(7,330)	(15,886)
Net cash inflow/(outflow) before financing activities	(22,695)	18,968
Net cash inflow from financing activities	12,255	30,841
Increase/(decrease) in cash and cash equivalents	(10,440)	49,809
Cash and cash equivalents at beginning of period	93,837	38,535
<b>Cash and cash equivalents at end of period</b>	<u>83,397</u>	<u>88,344</u>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	83,397	38,344
Time deposits	-	50,000
	<u>83,397</u>	<u>88,344</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. Basis of Preparation and Accounting Policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The accounting policies adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the Group’s audited financial statements for the year ended 31 December 2003.

### 2. Segment Information

The following tables present revenue and results by business and geographical segments for the six months ended 30 June 2004.

#### (a) Business segments

	Golf equipment		Golf bag		Eliminations		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Segment revenue:								
Sales to external customers	181,761	159,211	44,250	41,166	-	-	226,011	200,377
Intersegment revenue	3,203	2,921	6,746	7,718	(9,949)	(10,639)	-	-
Other revenue	2,894	7,964	812	(38)	-	-	3,706	7,926
Total	187,858	170,096	51,808	48,846	(9,949)	(10,639)	229,717	208,303
Segment results	32,415	31,817	4,762	245			37,177	32,062
Interest income							40	203
Profit from operating activities							37,217	32,265
Finance costs							(5,349)	(4,823)
Profit before tax							31,868	27,442
Tax							(1,672)	(2,220)
Profit before minority interests							30,196	25,222
Minority interests							(2,994)	(592)
Net profit from ordinary activities attributable to shareholders							27,202	24,630



## 2. Segment Information (Continued)

### (b) Geographical segments

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
Segment revenue: sales to external customers		
North America	<b>172,978</b>	155,085
Europe	<b>17,231</b>	8,676
Asia (excluding Japan)	<b>10,341</b>	16,745
Japan	<b>21,232</b>	14,983
Others	<b>4,229</b>	4,888
	<b>226,011</b>	<b>200,377</b>

## 3. Turnover

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

## 4. Profit from Operating Activities

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

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
Depreciation	<b>9,064</b>	7,453
Amortisation of goodwill	<b>1,522</b>	1,068
Loss on disposal of fixed assets	<b>23</b>	4
Interest income	<b>(40)</b>	(203)

## 5. Finance Costs

	<b>Six months ended 30 June</b>	
	<b>2004</b>	<b>2003</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest expenses on:		
Bank loans	<b>4,345</b>	3,014
Finance leases	<b>2</b>	25
Bank charges	<b>1,002</b>	1,784
Total finance costs	<b>5,349</b>	4,823

## 6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. 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>Six months ended 30 June</b>	
	<b>2004</b>	<b>2003</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Provision for the period:		
Hong Kong	<b>1,672</b>	2,220

## 7. Interim Dividend

	<b>Six months ended 30 June</b>	
	<b>2004</b>	<b>2003</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim dividend of HK6.3cents (2003: HK4.8cents) per ordinary share	<b>19,039</b>	14,506



## 8. Earnings per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$27,202,000 (2003: HK\$24,630,000) and the weighted average of 302,200,000 (2003: 302,200,000) ordinary shares in issue during the periods.

Diluted earnings per share for the six months ended 30 June 2004 has not been disclosed, as the Company's options outstanding during the period had anti-dilutive effect on the basic earnings per share for the period. Diluted earnings per share for the six months ended 30 June 2003 has not been calculated as no diluting events existed during that period.

## 9. Trade and Bills Receivable

An ageing 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 provision, is as follows:

	<b>30 June 2004 (unaudited) HK\$'000</b>	31 December 2003 (audited) HK\$'000
Within 3 months	<b>65,650</b>	49,359
4 to 6 months	<b>12,666</b>	2,181
7 to 12 months	<b>13,515</b>	8,951
Over 1 year	<b>4,234</b>	1,369
	<b><u>96,065</u></b>	<u>61,860</u>

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\$455,000 due from (31 December 2003: HK\$3,149,000) Nikko Bussan Co., Ltd. ("Nikko Bussan (Japan)") arising from transactions carried out in the ordinary course of business of the Group. Takanori Matsuura, a director of the Company, has 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.



## 10. Trade and Bills Payable

An aged analysis of the Group's trade and bills payable as at the balance sheet date, based on the date of receipt of the goods purchased, is as follows:

	<b>30 June 2004 (unaudited) HK\$'000</b>	31 December 2003 (audited) HK\$'000
Within 3 months	23,659	36,118
4 to 6 months	5,241	2,404
7 to 12 months	1,632	1,425
Over 1 year	2,265	1,029
	<b>32,797</b>	<b>40,976</b>

## 11. Share Capital

	<b>30 June 2004 (unaudited) HK\$'000</b>	31 December 2003 (audited) HK\$'000
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

## 12. Reserves

	Share premium account (unaudited) HK\$'000	Contributed surplus (unaudited) HK\$'000	Fixed asset revaluation reserve (unaudited) HK\$'000	Other reserves (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	Retained profits (unaudited) HK\$'000	Total (unaudited) HK\$'000
At 1 January 2004, (audited)	57,270	10,564	28,035	50	1,796	26,197	123,912
Net profit for the period	-	-	-	-	-	27,202	27,202
Proposed interim dividend	-	-	-	-	-	(19,039)	(19,039)
<b>At 30 June 2004</b>	<b>57,270</b>	<b>10,564</b>	<b>28,035</b>	<b>50</b>	<b>1,796</b>	<b>34,360</b>	<b>132,075</b>



## 13. Contingent Liabilities

- (a) At the reporting date, the Group had HK\$7,251,000 (31 December 2003: HK\$29,754,000) bills discounted with recourse not provided for in the financial statements.
- (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\$1,717,000 (31 December 2003: HK\$1,648,000) as at 30 June 2004. 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.

## 14. Commitments

### (a) Capital commitments

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

	<b>30 June 2004 (unaudited) HK\$'000</b>	31 December 2003 (audited) HK\$'000
<b>Contracted, but not provided for:</b>		
Land and buildings	4,932	1,447
Plant and machinery	2,914	263
	<b>7,846</b>	1,710
<b>Authorised, but not contracted for:</b>		
Capital contribution into subsidiaries	22,450	27,626
	<b>30,296</b>	29,336

**14. Commitments (Continued)**

**(b) Operating lease commitments**

(i) As lessor

The Group leases its rented property and motor vehicle under operating lease arrangements, with leases negotiated for a term of one year. The terms of leases generally also require the tenants to pay security deposits.

As 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>30 June 2004 (unaudited) HK\$'000</b>	31 December 2003 (audited) HK\$'000
Within one year	<b>452</b>	1,032

(ii) As lessee

The Group leases certain of its office properties, production plants, staff quarters and motor vehicles under operating lease arrangements, with leases negotiated with original terms ranging from 1 to 10 years. At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2004 (unaudited) HK\$'000</b>	31 December 2003 (audited) HK\$'000
Within one year	<b>6,592</b>	4,257
In the second to fifth years, inclusive	<b>19,951</b>	11,407
After five years	<b>19,891</b>	7,683
	<b>46,434</b>	23,347



## 15. Related Party Transactions

The Group had the following material transactions with related parties during the period:

	Notes	Six months ended 30 June	
		2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Purchases of raw materials from Nikko Bussan (Japan)	(a)	25	–
Sales of finished goods to Nikko Bussan (Japan)	(b)	2,223	6,991
Sales of finished goods to Global Sports Technology, Inc. (“GST”)	(b),(c)	–	3,521
Patent income from Nikko Bussan (Japan)	(d)	–	780
Rental expenses paid to Progolf Manufacturing Company Limited (“Progolf”) and Oriental Leader Limited	(e)	720	720
Rental income from Sino Sporting Company Limited (“Sino Sporting”)	(f)	169	135
Rental expenses paid to Sino Sporting	(f)	66	–
Sales commission paid to GST	(g)	–	5
		–	5

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.
- (c) GST was a 20% shareholder of Sino CTB Company, L.L.C. until the Group acquired the equity interest of 20% owned by GST in March 2003.

## **15. Related Party Transactions (Continued)**

*Notes: (Continued)*

- (d) The patent income was based on the agreement between the parties.
- (e) 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.
- (f) 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.
- (g) Sales commission was paid to GST as an agent in overseas for soliciting customers. The commission rate is determined at a mutually-agreed rate between the Group and GST.

## **16. Approval of the Interim Financial Statements**

The interim financial statements were approved by the board of directors on 17 September 2004.



### MANAGEMENT DISCUSSION AND ANALYSIS

#### *Business Review, Developments and Prospects*

With a persistent recovery of the global and local economy, our Group continued to progress steadily in business during the six months ended 30 June 2004. The on-going outsourcing of golf equipment manufacturing from the developed markets like the North America and Europe has reinforced the growth of the golf club segment for the period. Similarly, the golf bag business also performed well as a result of the benefit of synergy realised through the network of the golf club segment. Our Group's devotion to research and development activities in recent years has successfully enhanced our profile and market recognition in the golf industry resulting in increased sales.

Consolidated turnover for the six months ended 30 June 2004 aggregated to HK\$226,011,000, representing an increase of 12.8% over that of the preceding comparative period. Sales of golf clubs and accessories amounted to HK\$181,761,000, accounting for 80.4% of total turnover for the period, while the remaining 19.6% or HK\$44,250,000 represents sales of golf bags.

Profit from operating activities and net profit from ordinary activities attributable to shareholders for the period amounted to HK\$37,217,000 and HK\$27,202,000 respectively, representing 15.3% and 10.4% increase compared to the preceding comparative period. Both performance indicators have shown satisfactory improvement.

The apparent drop in other revenue mainly attributes to the decrease in patent and testing fees income during the period due to less engagements on those activities.

The golf clubs and accessories business remains the largest segment that contributes more than 80% of our Group's revenue and profitability. During the period, the golf clubs and accessories sales recorded an 14.2% increase over that of the preceding comparative period. The continued outsourcing by major golf brands has helped uphold the demand for golf equipment despite an increasingly competitive market environment. Thanks also to our customers whose initiatives and marketing efforts have made our products well recognised and perceived in the market place. Our Group's strategy to emphasis and persistently engage in product innovation programs has proved fruitful. It has significantly enhanced our design and development capability and enables us to better serve our customers with value added services. Over the years, this has broadened our competitive advantage in that we have been able to swiftly react to customer needs and market changes. Though facing a tougher environment with pressure of a rising trend of raw materials and energy costs, our Group has successfully mitigated the impact through improved production efficiency and savings derived from lowering the wastage rates. Consequential on those effective control measures and coupled with a move to producing more high value products such as titanium wood heads, the Group's gross profit margin for the period was improved by over 2% to 33%.

### ***Business Review, Developments and Prospects (Continued)***

Compared to the preceding comparative period, sales of golf bags during the period increased by about 7.5% to HK\$44,250,000. This accounts for approximately 19.6% of the Group's total turnover, a slight drop of 0.9% from the preceding period. The mild growth in golf bag sales was mainly attributable to a delay in the commencement of the new factory's operation, which defers the take-up and fulfillment of certain mass orders to later periods. During the period, the golf bag business has been performing satisfactorily and continued to enjoy the benefit of synergy with the golf club segment. Its customer base has been widened following the strategic alliance with a well-known golf bag design house in Japan last November. The closer tie with the strategic Japanese partner has brought and will continue to bring additional business to our Group comprising widely recognised brand names in the market. This will help strengthen and affirm our leading position in the golf bag industry particularly with the commencement of the operation of the "state-of-art" factory in July this year. The new facility possesses an annual capacity of about one million units, which assures sufficient capability to satisfy the anticipated growing volume of golf bag sales. On the other hand, the termination of the assembly operation in the United States since last December has helped restore segment profitability from its deficits. As a result, the golf bag segment has shown obvious improvement and recorded a contribution of HK\$4,762,000 for the current period. Average gross margin for golf bags has remained fairly stable and is expected to rise with increased production volume and less external subcontracting work.

Consistent with the historic trend, North America continues to represent the largest geographical segment that accounts for approximately 76.5% of the Group's total turnover for the period. Europe, Japan, and other countries in turn account for approximately 7.6%, 9.4% and 6.5% respectively of the Group's total turnover. In terms of percentage to total turnover, there has been no material fluctuation for the North American market while sales for the European and Japan markets have demonstrated a modest increase from 4.3% and 7.5% of total turnover to 7.6% and 9.4% respectively during the period. Among the various geographical regions, Japan is the market possessing most potential for our Group's development and expansion. Following the strategic alliance with Kobayashi Corporation last November, it is anticipated that sales of golf bags to the Japan market would keep growing with our strategic partner introducing more reputable brands to broaden our customer base. In consideration of the huge market opportunity, the management has resolved to actively expand and develop the Japan market both for golf clubs and golf bags. It is our belief that the Japan market will grow steadily to assume a more significant role in the geographical distribution of our business. In monetary terms, sales to both the North America, Europe and Japan markets all have recorded encouraging growth at double digits which the management feels confident to pursue.



### ***Business Review, Developments and Prospects (Continued)***

Strategically, our Group will continue to actively invest in research and development to enhance our competitiveness and we would pursue a customer-oriented approach in expanding sales and business. We will work closely with the existing customers to help boost their market share and we would also promote contacts for possible pick-up of new customers with good potential. Our commitment and ability to provide high quality products and value added services has helped enhance the Group's competitive advantage to facilitate achieving the corporate goals of continued growth and being one of the leaders in the golf industry. Based on the current order book status and market projections, the directors remain cautiously optimistic about the business of the second half-year of 2004.

### ***Liquidity and Financial Resources***

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

As at 30 June 2004, cash and bank balance amounted to HK\$83.4 million (31 December 2003: HK\$93.8 million). The decrease in cash and bank balance has been attributed to funds applied for compiling additional inventories to meet scheduled production.

As at 30 June 2004, total borrowings from banks and financial institutions amounted to HK\$185.6 million, of which HK\$90.9 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\$102.2 million divided by the shareholders' equity of approximately HK\$181.3 million, was 56.3% (31 December 2003: 25.4%). The gearing ratio increased significantly mainly because our Group has adapted its policy to utilise more bank loans of lower interest rates to substitute the discounting of bills and receivables. This practice required direct recognition of liabilities in the balance sheet and gave rise to a higher computed gearing ratio. Contractually, the Group assumes the same ultimate financial obligation to repay the bankers under both financing arrangements.



### ***Liquidity and Financial Resources (Continued)***

Throughout the years, the Group follows a prudent treasury practice to maintain a strong and reasonable financial position. As at 30 June 2004, the net assets of the Group amounted to approximately HK\$181.3 million (31 December 2003: HK\$182.8 million). Current ratio and quick ratio of the Group were 1.86 (31 December 2003: 2.39) and 1.32 (31 December 2003: 1.72) respectively. Both ratios are maintained within reasonable range and considered healthy.

### ***Exposure to Fluctuations in Exchange Rates***

Our 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 period.

### ***Employee and Remuneration Policies***

As at 30 June 2004, the Group employed a total of approximately 3,200 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.

## **INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS**

The Board declares an interim dividend of HK6.3cents per share for the six months ended 30 June 2004 payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on Wednesday, 6 October 2004. The Register of Members will be closed from Thursday, 7 October 2004 to Friday, 8 October 2004, both days inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfer documents 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 Center, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 6 October 2004. The dividend will be paid on or around Friday, 15 October 2004.



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

At 30 June 2004, the interests and short positions of the directors in the issued share capital and share options 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			Number of share options held		Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation#	Directly beneficially owned	Total	
Executive directors:						
CHU Chun Man, Augustine	263	1,000,000	171,543,775	3,000,000	175,544,038	58.09%
Takanori MATSUURA	1,155,400	-	-	3,000,000	4,155,400	1.38%
CHU Yuk Man, Simon	636,237	-	-	3,000,000	3,636,237	1.20%
CHANG Hua Jung	456,793	-	-	-	456,793	0.15%
	<u>2,248,693</u>	<u>1,000,000</u>	<u>171,543,775</u>	<u>9,000,000</u>	<u>183,792,468</u>	

# 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 171,543,775 shares of the Company therefore duplicate with those of CM Investment Company Limited and A & S Company Limited.

**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%

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 and their associates had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations as notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



## SHARE OPTION SCHEME

On 7 August 2002, a new share option scheme (the “Share Option Scheme”) was adopted by the Company to comply with the new amendments of the Listing Rules regarding share option schemes of a company.

The purpose of the 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 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 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.

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

Name or category of participant	Number of share options		Date of grant of share options*	Exercise period of share options	Exercise price of share options**
	At 1 January and 30 June 2004				
<b>Directors</b>					
CHU Chun Man, Augustine	3,000,000		24 December 2003	29 December 2003 to 31 December 2006	1.51
CHU Chun Yuk, Simon	3,000,000		24 December 2003	29 December 2003 to 31 December 2006	1.51
Takanori MATSUJURA	3,000,000		24 December 2003	29 December 2003 to 31 December 2006	1.51
<b>Others</b>					
In aggregate	10,000,000		11 September 2003	1 October 2003 to 30 September 2004	1.60
In aggregate	8,280,000		24 December 2003	29 December 2003 to 31 December 2006	1.51
	27,280,000				

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

## SHARE OPTION SCHEME (Continued)

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

At the balance sheet date, the Company had 27,280,000 share options outstanding under the 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).

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

At 30 June 2004, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Number of share options held	Percentage of the Company's issued share capital	
					Total	share capital
CM Investment Company Limited		Directly beneficially owned	171,543,775	-	171,543,775	56.76%
A & S Company Limited	(a)	Through a controlled corporation	171,543,775	-	171,543,775	56.76%
Value Partners Limited		Investment manager	15,372,000	-	15,372,000	5.09%
Cheah Cheng Hye	(b)	Through a controlled corporation	15,372,000	-	15,372,000	5.09%
Hung Tze Nga, Cathy	(c)	Through spouse	171,544,038	3,000,000	174,544,038	57.76%
Hung Tze Nga, Cathy		Directly beneficially owned	1,000,000	-	1,000,000	0.33%
			<u>172,544,038</u>	<u>3,000,000</u>	<u>175,544,038</u>	<u>58.09%</u>



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

Notes:

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

Save as disclosed above, 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.

### **CHANGES IN DIRECTORS**

The Board is pleased to announce that Mr. Carl Thomas McManis ("Mr. McManis") has resigned as independent non-executive director of the Company and member of the audit committee with effect from 17 September 2004. He ceased to be regarded as independent after the amendment of the Listing Rules which took effect on 31 March 2004 as he is the consultant of the Group before 31 December 2003. Mr. McManis confirmed that there is no disagreement with the Board and there is no matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company.

The Board would like to thank Mr. McManis for his valuable contribution to the Company.

The Board is also pleased to announce the appointments of Ms. CHIU Lai Kuen, Susanna ("Ms. Chiu") and Mr. TSE Ying Man ("Mr. Tse") as the independent non-executive directors and members of the audit committee of the Company with effect from 17 September 2004.

## CHANGES IN DIRECTORS (Continued)

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

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

Mr. Tse, aged 48, is a Taiwanese. He is the chairman of 東莞雅美舒公司, which is a golf processing factory. Mr. Tse has over 30 years of experience in golf manufacturing industry and possesses rich knowledge in the manufacturing processes of golf club as well as a considerable familiarity with the related market and materials.

There is no service contract signed between Ms. Chiu, Mr. Tse and the Company for service as independent non-executive directors. They will have no fixed term of service with the Company and will be subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s Bye-Laws. Ms. Chiu and Mr. Tse will receive director’s fee as approved by the Board and currently being HK\$40,000 and HK\$50,000, respectively per annum.

Both Ms. Chiu and Mr. Tse do not hold other directorships in listed company in the past three years. They are not connected with any directors, senior management or substantial shareholders or controlling shareholders of the Company, and, as at the date hereof, they do not have any interests in the shares of the Company or its associated corporations within the meaning of Part XV of the SFO.



### **AUDIT COMMITTEE**

The audit committee of the Company was established in accordance with the requirements of the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal controls.

Before 17 September 2004, the audit committee comprises two independent non-executive directors of the Company, namely Mr. Choy Tak Ho and Mr. McManis. Since then, it comprises three independent non-executive directors namely Mr. Choy Tak Ho, Ms. Chiu and Mr. Tse.

### **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.

### **COMPLIANCE WITH THE MODEL CODE**

The Company has adopted a code of conduct regarding directors’ securities transactions as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of the directors of the Company, none of the directors of the Company has not complied with, for any part of the accounting period covered by this interim report, the required standard set out in the Model Code and its code of conduct regarding directors’ securities transaction.

### **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the directors, the Company complied with the Code throughout the accounting period covered by the interim report.



## COMPLIANCE WITH THE CHAPTER 13 OF THE LISTING RULES

As at 30 June 2004, the Company had loan facilities, which were subject to, inter alias, a specific performance obligation on the controlling shareholders of the Company during the tenure of such loan facilities. The specific performance obligation is that the controlling shareholders shall maintain a holding of no less than 51% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and repayable on demand by the relevant tenders according to the respective terms and conditions thereof. The details of the loan facilities are as follows:

<u>Amount outstanding as at 30 June 2004</u>	<u>Final maturity of the loan facilities</u>
HK\$20 million	February 2007

## ACKNOWLEDGEMENT

I would like to take this opportunity to extend my thanks and appreciation to our colleagues on the Board, the management and all staff and employees of the Group for their loyal services, hard work and dedication throughout the period.

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

Hong Kong, 17 September 2004

*As at the date hereof, the board of directors of the Company is comprised of 7 directors, of which 4 are Executive Directors, namely Messrs. CHU Chun Man, Augustine, Messrs. Takanori MATSUURA, Messrs. CHU Yuk Man, Simon and Messrs. CHANG Hua Jung, and the rest of 3 are Independent Non-executive Directors, namely Messrs. CHOY Tak Ho, Messrs. CHIU Lai Kuen, Susanna and Messrs. TSE Ying Man.*