Sino Golf Holdings Limited
順龍控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00361

Annual Report

2008

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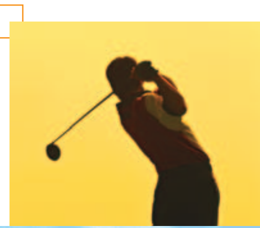
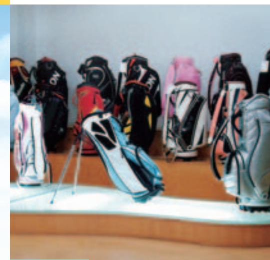




CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHOY Tak Ho
(Member of Audit Committee and Remuneration Committee)
CHIU Lai Kuen, Susanna
(Chairman of Audit Committee and Member of Remuneration Committee)
HSIEH Ying Min
(Chairman of Remuneration Committee and member of Audit Committee)

COMPANY SECRETARY

CO, Man Kwong, Rochester

AUTHORISED REPRESENTATIVES

CHU Chun Man, Augustine
CHU Yuk Man, Simon

AUDITORS

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway,
Hong Kong

INTERNAL CONTROL REVIEW ADVISOR

SHINEWING Risk Services Limited
16/F., United Centre
95 Queensway,
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited
The Bank of Tokyo – Mitsubishi UFJ, Limited
Standard Chartered Bank (Hong Kong) Limited
Nanyang Commercial Bank Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

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

TICKER SYMBOL

Listed on The Stock Exchange of Hong Kong Limited
under the Share ticker number 00361

WEBSITE

http://www.sinogolf.com

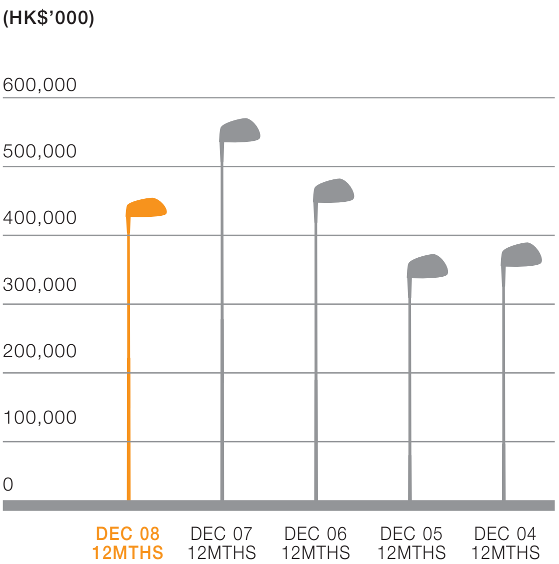
CORPORATE STRUCTURE

SINO GOLF HOLDINGS LIMITED

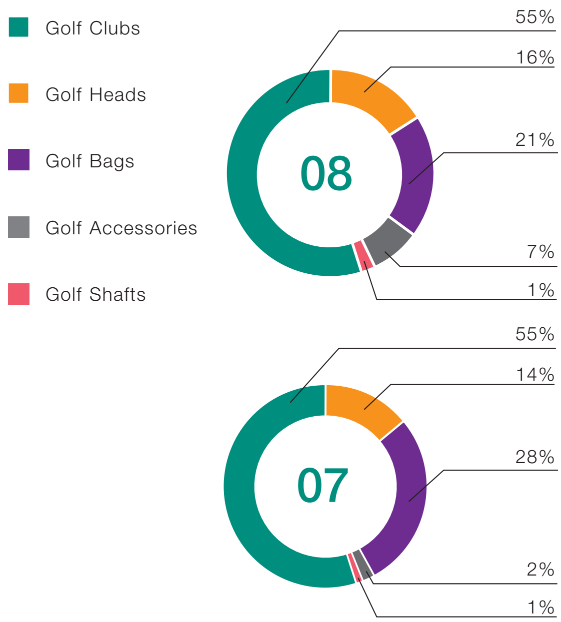
- SINO GOLF (BVI) COMPANY LIMITED (100%)
  - SINO (CNC) Company Limited (51%)
    - 臨沂順發精密模具製造有限公司 (100%)
  - Sino Golf Manufacturing Company Limited (100%)
    - Xiamen Sino Talent Golf Manufacturing Co., Ltd (100%)
    - Guangzhou Sino Concept Golf Manufacturing Co., Ltd (100%)
    - Sino Golf Leisure Company Limited (100%)
    - 增城市順龍高爾夫球製品有限公司 (100%)
    - CTB Golf (HK) Limited (100%)
      - 東莞騏衡運動用品製造有限公司 (100%)
      - Linyi CTB Sports Goods Manufacturing Co., Ltd (100%)
    - Linyi Sino Golf Co., Ltd (100%)
    - 萍鄉順達隆高爾夫球製品有限公司 (100%)
  - Sino Golf Comercial Offshore De Macau Limitada (100%)
  - Sino Golf Sourcing Company Limited (51%)
    - 上海順龍商務諮詢有限公司 (100%)
  - Sino U.S. Holding Company L.L.C. (100%)
    - Sino CTB Company, L.L.C. (100%)
      - Sino Golf (USA), Inc. (100%)

FINANCIAL HIGHLIGHTS

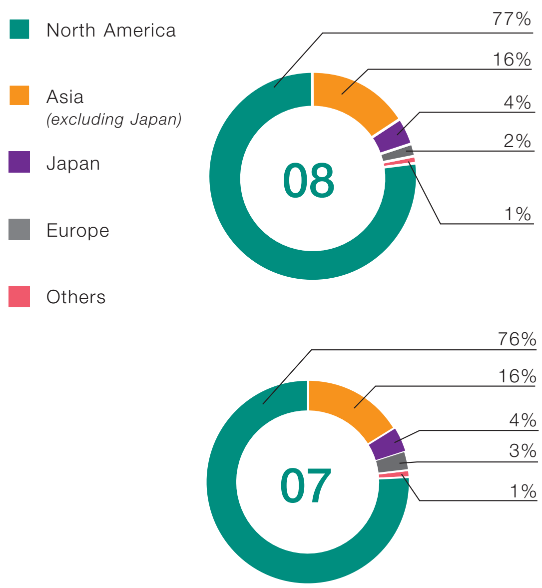
Turnover



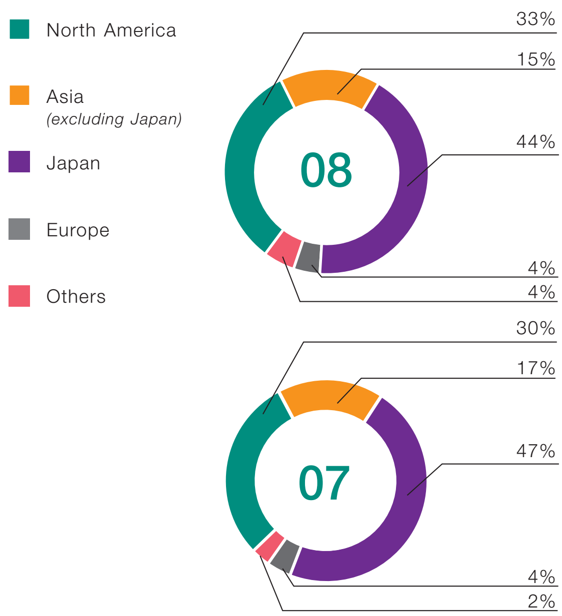
Turnover by Product



Turnover (Club) by Geographical Area



Turnover (Bag) by Geographical Area



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of Sino Golf Holdings Limited (the "Company"), I am pleased to present to shareholders the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2008.

Chu Chun Man, Augustine

Chairman

RESULTS AND DIVIDENDS

For the year ended 31 December 2008, consolidated turnover and net profit attributable to equity holders of the Company amounted to HK$446,659,000 and HK$13,312,000 respectively (2007: HK$567,668,000 and HK$41,810,000 respectively). Basic earnings per share was HK4.41 cents (2007: HK13.84 cents). No diluted earnings per share has been presented as no diluting events existed during the year (2007: HK13.80 cents).

The Board does not recommend payment of a final dividend for the year. Taking into account the interim dividend of HK1.5 cents per share declared and paid, a total annual dividend of HK1.5 cents (2007: HK4.5 cents) per share has been paid in respect of the year, which represents a payout ratio of about 34.0% (2007: 32.6%).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 2 June 2009 to Wednesday, 3 June 2009, both days inclusive, for the purpose of establishing entitlement of shareholders to vote at the forthcoming annual general meeting. During the period, no transfer of shares will be effected. All share transfer, accompanied by the relevant share certificates, shall be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Monday, 1 June 2009.

BUSINESS REVIEW

Overview

The outbreak of the financial tsunami in 2008 has caused a remarkable downturn in the world's major economies, making the year an "Annus Horribilis" for the manufacturing and export industry. Our Group's business had been adversely affected when customers' orders shrank abruptly during the later part of 2008. The impact on the golf industry was obvious though it used to have been quite insensitive to economic fluctuations historically. The financial crisis has widespread to hard hit the global economies and, contrary to most people's hopes, the economic recession is more likely to last for a considerable period. Suffering from huge economic turbulence, both golf equipment and golf bag sales have dropped by differing extent during the year. The Group's turnover declined, as a consequence, by 21.3% from approximately HK$568 million in 2007 to approximately HK$447 million in 2008. The situation is however alleviated as business has somewhat stabilized in the first quarter of 2009.

With the sales downturn, gross profit decreased from about HK$144.2 million in 2007 to approximately HK$102.4 million this year. The average gross profit margin fell from 25.4% in 2007 to 22.9% in 2008 due mainly to additional cost pressure. Profit attributable to equity holders of the Company amounted to approximately HK$13,312,000 for the year, as compared to approximately HK$41,810,000 in the comparative preceding year.

CHAIRMAN'S STATEMENT

Despite a depression in the financial performance, our Group has pursued its strategy of focusing on product innovation and customer service as a crucial means to sustain long-term development and growth. This facilitated the strengthening of the Group's competitive advantage in its effort to procure first tier new customers at a time of deteriorating economic conditions with falling demand. Pursuant to the corporate mission, the Group committed itself to continually providing customers with high quality one-stop premium services and we are progressing in this direction consistently.

During the year, operating costs escalated as energy, labor and social insurance expenditures stayed high. In addition, the appreciation of the Renminbi currency has intensified the cost burden of manufacturers operating in the Mainland. Despite an unfavorable economic environment, our Group continued to implement and run its reengineering programs to optimize costs and enhance productivity so as to uphold our position as one of the leading manufacturers in the golf industry. Augmented by effective marketing strategies, the Group has managed to recover to the extent feasible the cost increase from the pricing of new product models. Notwithstanding this, the impact of the economic downturn has resulted in depressed sales with reduced profitability for the year.

In 2008, golf equipment sales aggregated to approximately HK$351,162,000 that accounted for about 78.6% of the Group's turnover. Sales in the golf bag segment contributed the remaining 21.4% or approximately HK$95,497,000 of the annual turnover. Impacted by the economic crisis, the golf equipment and golf bag segments achieved segmental profits of approximately HK$24,456,000 and approximately HK$4,790,000 for the year respectively. Both business segments have suffered a curtailment in profitability in the face of a down-market cycle.

Golf Equipment Business

The golf equipment business continued to generate the majority of the Group's revenue, accounting for approximately 78.6% of the Group's turnover for the year. Disappointedly, the growing trend of the golf equipment segment was rebutted when the global financial crisis disruptively curtailed business during the later part of 2008. Golf equipment sales dropped, period on period, by over 30% in the second half of 2008 to approximately HK$157,143,000. Year over year, golf equipment sales fell nearly 13.9% in 2008 to approximately HK$351,162,000 against a 9.9% growth recorded, period on period, for the first half of the year.

Constituting the segment revenues were golf clubs sales of approximately HK$247,214,000 and components sales comprising club heads, shafts and accessories of approximately HK$103,948,000, which represent 70.4% and 29.6% respectively of the segment sales. As regards the golf clubs sales, the split between club sets and individual clubs were approximately 52.3% and 47.7% respectively. Sales of individual clubs demonstrated an apparent pick up and narrowed the dominance of sales of club sets to a bare majority. For the components sales, club heads accounted for over 70% with shafts and accessories taking up the balance.

Despite unfavorable market conditions, sales comprising mainly hybrid irons to the Group's largest customer maintained its momentum and aggregated to approximately HK$180,792,000 for the year, representing about 51.5% of the segment sales or 40.5% of the Group's turnover. The successful launch of the hybrid irons programs by the Group's largest customer has made it the top selling brand of irons and the number one hybrid in play on the PGA, Champions and Nationwide Tours in recent years. During the year, business with other major customers remained reasonable and there were contributions from new customers having growth potential. Sales of golf equipment to the top five customers in 2008 aggregated to approximately

HK$266,837,000, representing about 76.0% of the segment sales or 59.7% of the Group's annual turnover. The economic turmoil instigated by the financial tsunami has led to an abrupt shrinkage and postponement in customers' orders in late 2008. Despite that, the Group has been working closely with certain top tier name brands for developing samples with an aim to commence business in due course. There was satisfactory progress through factory visits and working groups sent from those entities and orders are anticipated upon passing the qualifying production run scheduled to take place in the first half of 2009.

During the year, the new golf club manufacturing facility in Shandong Province, the P.R.C. has commenced operations to initially produce club heads that is to be followed by shaft production and clubs assembly as well in 2009. Due to the time and resources taken for training and trial production, the Shandong manufacturing facility did not contribute positively for the year as operating expenditures of approximately HK$5.7 million had been incurred against a lower than norm production level during this set up period. Contributions from the new manufacturing facility are expected upon a full range of production varieties at elevated volume next year. With the state-of-art manufacturing platform, the Group has possessed an advanced facility that meets the sophisticated criteria required of doing business with most top tier golf name brands. It is our medium-term plan to shift by stages the bulk production of golf equipment to the Shandong manufacturing facility with the goal to take full advantage of the lower labor and operating costs in the northern part of China. The Group's on-going focus on research and development has helped enhance our industry recognition in face of the intense competition. Our competitive advantage built on the capability to produce a variety of high-end products and the ability to react swiftly to market demand strengthens the Group's position as one of the leading players in the golf industry.

Pursuant to sound corporate practice, the Group has adopted a policy to hedge to the extent possible the recoverability of its receivables by procuring non-recourse factoring and insurance on shipments to key customers. Through effective credit controls and periodic review of payment status, the Group closely monitored individual customers' performance for compliance of terms. Any material exceptions or non-compliance of terms are reported to management for rectification including a decision to engage collection agents or withhold shipments where necessary. During the year, the Group made provisions of approximately HK$1,576,000 for impairment of receivables, of which approximately HK$1,301,000 related to warranty disputes with a customer. On the other hand, the Group has received further distribution of approximately HK$399,000 from the trustee of the Huffy Unsecured Claims Trust in accordance with the reorganization plan of Huffy Corporation, a former customer, effected in 2005. The recovered amount had been applied as appropriate to reduce the remaining debt owed by Huffy Corporation that was brought forward prior to the execution of its reorganization plan in 2005. During the year, the Group made no sales to Huffy Corporation as the latter had then disposed of its golf business in 2007. Having considered all the relevant factors including periodic distributions from the Huffy Unsecured Claims Trust, the management concurred that no additional provision for impairment in value of the remaining balance owed by Huffy Corporation is required in the current year.

During the year, raw materials and components cost showed various extent of escalation except in the last quarter during which materials price started to fall from their peak when the economic conditions deteriorated under the impact of financial tsunami. This however had little effect to help reduce cost for the year but slow down the pace of material price hikes. For a significant part of the year, operating costs such as labor, social insurance and energy expenses stayed high due to the inflationary pressure and high fuel prices. The appreciation of the Renminbi currency by about 7% during the year further increased the Group's cost burden as extra foreign currency revenues had to be exchanged to discharge the Renminbi expenditures. Irrespective that price revisions were made to the extent allowable to recoup the cost increase when negotiating for new product models, the weakened economy with depressed demand had remarkably restricted the extent to which sales prices could be adjusted to preserve profit margins. To mitigate the impact of raw materials price hikes and to secure uninterrupted production for timely delivery and orders fulfillment, the Group strategically compiled inventories of selected materials that are susceptible to price fluctuations and supply shortages. The delay and postponement of customers' orders following the outbreak of the financial crisis in late 2008 has caused a short-term accumulation of inventory at the yearend, which were generally consumed in subsequent production and deliveries.

Impacted by the economic recession and associated cost rise factors, the golf equipment segment sustained a decline in segmental profit to approximately HK$24,456,000 in 2008, representing a decrease of about 56.5% year over year. In anticipation of a prolonged economic down-cycle and taking into account the prevailing market conditions and the current order book status, the management has adopted a cautious view that the business of the golf equipment segment will remain stagnant and continue to face various challenges during the first half of 2009 but the circumstances shall improve when business with certain first tier new customers starts to contribute revenues during the second half of the ensuing year.

Golf Bag Business

The global recession and the credit crunch of the financial markets catalyzed to trigger a consolidation of the golf bag business after experiencing a period of rapid growth in the past couple of years. Turnover of the golf bag segment declined by about 40.2% year over year to approximately HK$95,497,000 in 2008. Due to a more vulnerable nature, the golf bag business has sustained a greater extent of sales retardation than the golf equipment business under the impact of the economic crisis. During the year, turnover of the golf bag segment fell from its historic high to represent only 21.4% of the Group's turnover in contrast to 28.1% in the comparative preceding year. Of the total segment sales, golf bag sales accounted for about 84.2% and amounted to approximately HK$80,450,000, while sales of accessories comprising mainly shoe bags aggregated to approximately HK$15,047,000 or 15.8% of the segment sales for the year. There has not been material fluctuation in the product mix percentage throughout these years. In 2008, sales to the largest golf bag customer decreased by 43.2% to approximately HK$48,192,000, representing about 50.5% of the segment sales or 10.8% of the Group's turnover. Sales to the top five golf bag customers during the year aggregated to approximately HK$89,365,000 and accounted for about 93.6% of the segment sales or 20.0% of the Group's turnover.

The Japan line of products has incurred a greater drop in sales than the non-Japan line mainly because some lower end items in the Japan line of golf bags with unsatisfactory contribution were abandoned upon our decision to make price revisions to rationalize margins. During the year, sales of the Japan line of products decreased by about 45.6% while that of the non-Japan line, comprising mainly golf bags of American style, fell by a lesser extent of 32.3% year over year. Despite that, the Japan line of products continued to dominate the golf bag segment by generating over 53% of the segment revenues. It has been the Group's strategy to continue to actively develop both the Japan line and non-Japan line of golf bags with an aim to increase revenues and regain market share. We are committed to allocate sufficient resources to develop the Japan line of products that generally commands better prices and margins, while embarking on programs to further expand the non-Japan line of products particularly in the North American market that offers bulk sales opportunities with stable contributions.

The SOE compliant status of our Group's golf bag operations has been an important factor that differentiates us from other non-qualified competitors in dealing with the first tier name brands, which usually make SOE compliant a prerequisite condition for purchase of goods from any suppliers. The SOE compliance gives the customers a greater assurance on product quality and orders fulfillment, which helps introduce new business for the Group at a time of fierce competition under the economic recession. Our Group has assumed a leading position in the golf bag industry and now manufactures for substantially all the major brand names in the golf bag sector. We are devoted to further developing the golf bag business to strengthen our competitive advantage and enhance our market share through persistent focus on product innovation and provision of value added one-stop premium services.

For a significant part of the year, price of key materials for golf bag production such as PVC, PU and nylon fluctuated moderately under the influence of high crude oil prices, which somewhat stabilized in the last quarter when the economic conditions deteriorated with the outbreak of the financial crisis. On the other hand, price of accessories like metal parts and plastic components showed greater increment during the year to squeeze available margins. Our Group effectively monitored the materials cost through a diversified purchasing policy which gives more favor on those suppliers who could offer greater discounts with value added options. In addition, labor cost including welfare and social insurance expenses stayed high upon the enforcement of new labor regulations in China that created further cost pressure for the Mainland manufacturers. To mitigate the impact of the cost rise, our Group implemented stringent cost control measures and concurrently proceeded with its reengineering projects to rationalize and enhance output efficiency. It is the Group's priority to further promote and expand the high-end golf bags with an aim to strengthen our competitive advantage and the leading position in the golf bag sector.

Hard hit by the global recession, the golf bag segment sustained a 43.5% drop in segmental profit to approximately HK$4,790,000 in 2008. In light of the economic difficulties and having considered the current order book status and the prevailing market conditions, the management has maintained a cautious view that the golf bag segment will continue to face numerous challenges in the ensuing year but the Group is confident and determined to persistently develop our golf bag business going forward to sustain long term growth.

Geographical Segments

There has not been significant fluctuation in the geographical distribution of the Group's business. Throughout these years, the Group shipped the majority of its golf equipment products to customers in the United States; and a substantial portion of the golf bags to clients in Japan and the United States respectively. During the year, the rising trend of the Japanese market was reversed as sales of the Japan line of golf bags fell remarkably from its historic peak in light of a weakened global economy. Same as in prior years, the North American market remained the largest geographical segment contributing approximately 67.7% of the Group's turnover in 2008. Other geographical regions including Japan, Europe, Asia (excluding Japan) and others generated revenues to account for 12.5%, 2.6% and 17.2% of the Group's turnover for the year respectively.

With a strong customer base, sales to the North American market, as a percentage of the Group's turnover, increased from 62.4% in 2007 to 67.7% in 2008. Affected by a significant drop in sales of the Japan line of golf bags, sales to the Japanese market declined from 16.5% in 2007 to 12.5% of the Group's turnover in the current year. During the year, sales to other geographical regions covering Europe, Asia (excluding Japan) and others decreased mildly, as a percentage of the Group's turnover, from 21.1% in 2007 to 19.8% this year.

In monetary terms, all the geographical segments have recorded sales retardation during the year. Sales to the North American market dropped nearly 14.7% in 2008 to approximately HK$302,307,000, comprising golf equipment and golf bag sales in approximate proportions of 90% and 10% respectively. Triggered by the economic crisis, sales of golf bags to the United States came down by more than one third while golf equipment sales to the United States dropped a lesser extent by about 11.3% year over year. Following a boom in sales of the Japan line of golf bags during the past couple of years, sales to the Japanese market comprising mostly golf bags underwent a consolidation and plummeted by about 40.3%% to HK$55,850,000 in 2008. On the other hand, sales to other geographical regions covering Europe, Asia (excluding Japan) and others decreased by about 26.2% to approximately HK$88,502,000 in 2008.

It is the corporate goal to strengthen and enhance our competitive advantage in the North American market as over two-third in value of the Group's products are shipped to customers in the United States, the world's largest golf market. There are plenty of business opportunities our Group can further explore in the North American market and the anticipated cooperation with certain targeted first tier name brands in the ensuing year are successful outcomes of our effort. Notwithstanding that sales to the Japanese market shrank significantly due to the impact of financial crisis, the Group remains committed to allocating adequate resources to further develop and tap the business opportunities in the Japanese market both for the golf bag and golf equipment segments. To facilitate the long-term goal to increase our market share, the Group is devoted to continually exploring business in the geographical regions covering Europe, Asia (excluding Japan) and others, particularly in the Asian market, where golf activities are deemed to become more popular and affordable by the public in the years ahead.

PROSPECTS AND RISK FACTORS

Prospects

The financial tsunami caused by the subprime mortgage crisis of the United States has led to a worldwide-synchronized recession in 2008 affecting all countries. China has not been immune against the global downturn with its export-oriented economy and this affects many of the Mainland manufacturers. Despite massive intervention by fiscal and monetary authorities of different countries, the global financial system remains fragile with credit tight. It is more likely that the global recession will last for a considerable period until the credit crunch is resolved and consumers' spending resumes to stimulate demand.

The impact on the golf industry was obvious though it used to have been fairly insensitive to economic fluctuations historically. The Group's business had been adversely affected in 2008 when customers' orders shrank in face of the economic upheavals. With a strong customer base, we are able to maintain a reasonable business volume with the existing customers against the economic down cycle. During the year, we had satisfactory progress on our negotiations with the targeted first tier name brands for which we have completed developing samples and related liaisons needed of qualifying our Group as their new golf club vendors. Despite the impact of the financial crisis, the Group pursued its mission to provide one-stop premium services with value added options to its customers and continued to focus on product innovation and customer service to sustain long-term growth. We have passed the qualifying production run with a targeted first tier name brand during the first quarter of 2009 and it is anticipated that bulk orders should be coming by the second quarter to contribute revenues for the Group. There is great potential of growth for business with those first tier new customers, which facilitates to rebuild sales volume and enables us to achieve a more balanced customer portfolio. The Shandong manufacturing facility helps enhance our Group's competitive advantage by lowering the operating costs in the long term. Its state-of-art design and purposely-built layout upgrades our Group's recognition in the golf industry. This is crucial in getting new business from top tire name brands, which count on the standards of manufacturing facilities and related systems. The Shandong manufacturing facility represents a milestone for our Group and it is our medium-term plan to shift by stages the bulk production of golf equipment to the northern part of China to take full advantage of lower operating costs.

Despite a consolidation of the golf bag business triggered by the financial crisis, the SOE compliant status of the golf bag operations endows our Group with a firm foundation to establish and regain business against those non-qualified manufacturers at a time of fierce competition under the global recession. Most top tier name brands have made SOE compliant generally a prerequisite for purchase of golf bags from any suppliers and there is limited choice of SOE compliant manufacturers in the market. The Group has enjoyed a leading position in the golf bag market and we are devoted to strengthening our competitive advantage through stringent cost control measures including a diversified purchasing policy to procure greater price discounts from suppliers in exchange for shorter payment period, and from provision of innovative products with one-stop premium services. It is our strategy to focus on high-end golf bags, which can best demonstrate our superior features and assurance on quality, product innovation and value for service. The Group is committed to putting up extra effort to promote and restore the volume of the Japan line of products that generally carries better prices and margins. Concurrently, we are actively exploring new opportunities in the non-Japan line of products that comprises mainly golf bags of American style, which offer bulk sales quantities with stable margins. The Group will continue to utilize the extensive network of the golf equipment segment to promote golf bag business in regions like the North American market and vice versa in regard to applying the network of the golf bag segment to help further promote golf equipment products in regions such as Japan and Asian countries.

The economic conditions and business are expected to remain stagnant during the first half of 2009 due to a prolonged recession. The Group maintains a satisfactory relationship with its customers and we exchange to share market information for better planning and prompt response to market changes. Our Group is well prepared to deal with and overcome the challenges ahead. With a strengthened customer network and innovative capability, our Group is positioned to capture new opportunities to cooperate with those first tier name brands that are seeking competitive alternative suppliers at a time of economic turbulence. With the acceptance of our qualifying production run by a targeted first tier name brand, it is anticipated that orders may be placed by the second quarter of 2009 to contribute additional revenues for the Group. There should be improvement to the business conditions in the second half of 2009 when mass production for the targeted new customers commences. Given that the global recession has over spilled to 2009 and may continue for some time, the golf equipment and golf bag segment are likely to face additional challenges going forward. Notwithstanding this, the Group remains confident in the long-term development of our business and is determined to overcome hurdles and difficulties that arise from time to time on our way to achieve the corporate goals.

Risk Factors

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

Status of U.S. Economy and Currency Fluctuation

Since the Group exports the majority of its products to the United States, any material fluctuation of the U.S. economy might have a potential impact on the Group's business. The economic recession brought about by the financial tsunami has adversely affected the consumer market demand in the United States, which could lead to a shrinkage of the volume of exports from China to the United States including the golf products. Besides, the continued appreciation of the Renminbi currency may, and indeed is likely to, adversely affect the competitive advantage and hence the volume of goods exported by the manufacturers from China.

Interest Rates Movements

The Group generally utilizes banking facilities to finance its operations, which bear interest at floating rates. Movements in applicable interest rates therefore will affect the level of finance cost to be borne by the Group. Though the decreasing trend of interest rates during 2008 has resulted in some interest savings for the Group, any subsequent rise in the interest rates due to the credit crunch of the financial markets will increase the finance burden of the Group. Although the Group could choose to enter into interest rate swap contracts to hedge interest payments, there is no assurance that the interest rate swaps would result in any material savings for the Group.

Concentration of Key Customers

In 2008, sales to the largest customer represents over 51% of the turnover of the golf equipment segment or over 40% of the Group's annual turnover. The five largest customers in aggregate accounted for about 71% of the Group's turnover for the year. Although it is the Group's objective to diversify and develop new first tier customers so as to maintain a more balanced customer portfolio, there is no assurance that the existing major customers would continue to contribute sufficient sales to support the growth expected of the Group before contributions from the new customers could represent a meaningful portion of the Group's turnover. It is inevitable that incidents with material adverse impact on the Group's key customers would also adversely affect the Group's business.

Materials Cost and Sources of Supply

As materials cost represents the major cost component of the Group's products, the material price hikes and supply shortages experienced in recent years has posed threats on the Group's ability to maintain profit margins. Any cost-driven adjustments to sales prices may not necessarily bring extra contribution of significance for the Group as this is a means to recover additional cost but not creating profits. Though materials price has come down by certain extent subsequent to the outbreak of the financial tsunami, there is no apparent contribution to improve margins due to the pressure of price cuts as demanded by customers at a time of economic recession. In addition, the more reliance on component makers and suppliers specified by customers is going to limit the choice and flexibility in selecting suppliers by the Group, this might undermine and squeeze profit margins over the time.

In addition to the risk factors identified above, the Group is also subject to other risks factors and uncertainties that could arise when market conditions change from time to time. The management thus remains cautious to keep alert of other possible risks and will adopt prompt measures to mitigate the Group's exposure as necessary.

ACKNOWLEDGEMENT

On behalf of the Board, I hereby express my sincere thanks to the Board members, the management and other employees for their commitment, hard work and loyalty. We treasure their on-going support as a key motivator providing impetus for the Group's long-term development and success.

Chu Chun Man, Augustine
Chairman

Hong Kong
25 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

This statement provides supplementary information to the Chairman's Statement

RESULTS OF OPERATIONS

Adversely affected by the financial tsunami, the Group's turnover for the year ended 31 December 2008 decreased by about 21.3% to approximately HK$446,659,000 (2007: HK$567,668,000). Profit attributable to equity holders of the Company for the year plummeted to approximately HK$13,312,000 (2007: HK$41,810,000) as a result of the sales drop and additional costs incurred. The economic recession brought about by the financial crisis has led to a business consolidation whereby sales of the golf equipment and golf bag segments dropped during the year by about 13.9% and 40.2% respectively. Due to a more vulnerable nature, the golf bag business has sustained a greater extent of consolidation than the golf equipment business after enjoying an unprecedented expansion in the past of couple years. With a strong customer base, the Group has managed to maintain a reasonable business volume with the existing customers despite a difficult economic environment under the financial crisis. Gross profit for the year decreased to approximately HK$102,430,000 from HK$144,190,000 in 2007 in commensurate with the reduced turnover amount. With the impact of a general cost rise, the average gross profit margin fell from 25.4% in 2007 to 22.9% in the current year. The Group managed to mitigate the impact of the cost rise through sales price revisions and stringent cost control measures.

Other operating income for the year decreased to approximately HK$6,265,000 from HK$7,661,000 in 2007, mainly owing to a reduction in the sample and tooling income at a time of curtailed business activities. During the year, the Group earned approximately HK$311,000 from derivative financial instruments which related to forward currency option contracts made up with Hong Kong dollars and United States dollars. At 31 December 2008, a fair value gain of approximately HK$97,000 was recognized on the forward currency option contract outstanding. Both amounts were recorded as other operating income.

Selling and distribution costs decreased from HK$21,590,000 in 2007 to approximately HK$12,654,000 this year, primarily owing to the decrease in sales commissions and freight charges associated with the reduced business volume. Administrative expenses for the year decreased by about 4.1% to approximately HK$55,584,000 from HK$57,982,000 in 2007, mainly attributable to the savings derived from the cost control measures adopted. Other expenses increased from approximately HK$6,714,000 in 2007 to approximately HK$10,541,000 in 2008, mainly due to the increase in the amount of fixed assets write-off and provisions of approximately HK$1,576,000 made for impairment of receivables.

Finance costs for the year decreased to approximately HK$15,875,000 from HK$22,576,000 in 2007, principally owing to the decrease in applicable interest rates on the borrowings and the reduction in export factoring charges during the year.

Impacted by the economic downturn, profit attributable to equity holders of the Company for 2008 amounted to approximately HK$13,312,000, representing a decrease of about 68.2% compared to that of 2007.

LIQUIDITY AND FINANCIAL RESOURCES

In accordance with sound governance practice, the Group pursues prudent but effective policies to procure and manage its funds. We continue to rely generally on internally generated cash flows and banking facilities to finance our operations and provide working capital. To limit the exposure to financial risks, the Group has adopted effective policies and guidelines to help identify, monitor and confine those risks within acceptable ranges for scrutiny and follow up.

Cash and cash equivalents, which were mostly denominated in United States dollars and Hong Kong dollars, amounted to approximately HK$30.1 million at 31 December 2008 (2007: HK$80.1 million). The substantial drop in cash balance was mainly attributable to the appropriation of funds during the year for the new golf club manufacturing facility in Shandong Province, the P.R.C. and the acquisitions of machinery and equipment. To optimize funds utilization, the Group follows a practice of maintaining sufficient but not excessive cash to run its operations and discharge the liabilities as they fall due. Attributable to the appreciation of the

Renminbi currency and the compilation of specific inventories that are susceptible to price fluctuations and supply shortages, the value of inventory at the balance sheet date went up to approximately HK$168.4 million (2007: HK$161.6 million).

Borrowings of the Group are mostly denominated in Hong Kong dollars and United States dollars and carry interest at a certain spread over HIBOR or LIBOR respectively. At 31 December 2008, borrowings comprising bank loans and finance lease payable aggregated to approximately HK$236.3 million (2007: HK$215.1 million), of which approximately HK$167.2 million (2007: HK$106.4 million) was repayable within one year. The increase in borrowings was mainly the result of a higher utilization of import loan facilities for achieving net savings through the price discounts granted by the suppliers for a shorter payment period. The gearing ratio, defined as bank loans and finance lease payable less cash and cash equivalents of approximately HK$206.2 million divided by the shareholders' equity of approximately HK$256.4 million, was 80.4% as at 31 December 2008 (2006: 55.9%). The gearing ratio went up mainly due to the increase in net borrowings.

It is the Group's objective to maintain a financial position that is supportive of its growth and long-term development needs. At 31 December 2008 the total assets and net asset value of the Group amounted to approximately HK$585.5 million and HK$256.4 million respectively (2007: HK$587.5 million and HK$241.6 million respectively). Current and quick ratios as at 31 December 2008 were 1.07 (2007: 1.34 as restated) and 0.42 (2007: 0.66 as restated) respectively. Both the current ratio and quick ratio decreased as substantial amount of funds had been utilized during the year to finance the new golf club manufacturing facility in Shandong Province, the P.R.C. Pursuant to the corporate goal, the Group is actively considering possible means to strengthen and rationalize its financial position and arrangements could be made in due course as appropriate.

SHORTFALL UNDER PROFIT GUARANTEE

Pursuant to an agreement dated 22 December 2003 (the "Agreement") entered into between Sino Golf Manufacturing Company Limited ("SGMCL"), an indirect wholly owned subsidiary of the Company, and Mr. Chen Chien Hsiang ("Mr. Chen"), SGMCL acquired from Mr. Chen an additional 11.5% interest ("Acquisition") in the ordinary share capital of CTB Golf (HK) Limited ("CTB"), rendering CTB 62.5% then owned by the Group after the Acquisition. The Group subsequently further increased the shareholding in CTB to 100% in August 2005. The consideration of the Acquisition is HK$9.8 million which is subject to refund by Mr. Chen if the audited consolidated profit of CTB is less than the guaranteed profit of HK$8,522,000 ("Guaranteed Profit") for each of the five profit-guaranteed years commencing on 1 January 2004. As the audited consolidated profit of CTB for the year ended 31 December 2008 was less than the Guaranteed Profit, SGMCL is entitled to a receivable of approximately HK$633,000 from Mr. Chen calculated in accordance with the terms of the Agreement. The amount receivable from Mr. Chen has been accounted for in the consolidated balance sheet under other receivables. As the profit guaranteed period has ended on 31 December 2008, the accumulated amount received or receivable from Mr. Chen of approximately HK$3,543,000 was transferred from other payables and applied, as appropriate, to reduce the amount of attributable goodwill in the consolidated balance sheet at the yearend.

NEW GOLF CLUB MANUFACTURING FACILITY

The new golf club manufacturing facility in Shandong Province, the P.R.C., has commenced operations during the year. At 31 December 2008, the Group invested in aggregate approximately HK$97.8 million in this project, which comprised land premium net of amortization of approximately HK$14.8 million and building costs of approximately HK$83 million.

At the initial phase of the operations, the new golf club manufacturing facility mainly produced golf club heads that is to be expanded to include shaft production and clubs assembly when the work force is further increased and duly trained up within 2009. At the yearend, the production capacity reached a volume of over 85,000 units per month, which will further be enhanced to achieve a targeted monthly output capacity of up to 170,000 units in the ensuing year. The operation of the new golf club manufacturing facility signifies a key milestone for our Group through which we enhance our industry recognition and get qualified to do business with potential top tier name brands. The new facility also provides additional capacity for fulfilling the needs from both the existing and targeted new customers. Taking advantage of the lower operating and labor costs in the northern part of China, it is expected that the Group would benefit from additional cost savings to enhance its competitiveness going forward and to create more value for its shareholders.

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 currencies giving rise to this risk are primarily United States dollars, and Renminbi.

As at 31 December 2008, the Group had no significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2008, the Group employed a total of about 3,000 employees in Hong Kong, Macau, the P.R.C. and the United States. It is the Group's strategy to establish and maintain a harmonious relationship with its employees through provision of competitive remuneration packages and training opportunities. The employees were remunerated based on their performance, experience and expertise 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND MANAGEMENT

EXECUTIVE DIRECTORS

CHU Chun Man, Augustine ("Augustine Chu"), aged 51, is the chairman of the Company and one of the founders of the Group and is responsible for the strategic planning, corporate policy and overall management and marketing aspect of the Group. Augustine Chu holds a bachelor degree in commerce from the University of Calgary, Alberta, Canada and an executive master of business administration from the Chinese University of Hong Kong. He has over 25 years of experience in golf equipment manufacturing industry. He also serves various positions in the public sector including a membership of The Chinese People's Political Consultative Conference (CPPCC) – Guangdong Province.

CHU Yuk Man, Simon ("Simon Chu"), aged 53, is the elder brother of Augustine Chu. He has over 11 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 an executive 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 47, graduated from an industrial institution in Taiwan. Mr. Chang has over 26 years of experience in the golf equipment manufacturing industry. He joined the Group in August 1988 and is responsible for the production and the research and development functions of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHOY Tak Ho, aged 80, has over 46 years of experience in trading business in Hong Kong. He is the President of Union International (HK) Company Limited. Mr. Choy is the Charter President of Hong Kong Kwun Tong Industries and Commerce Association Limited, Chartered President of Hong Kong and Overseas Chinese Association of Commerce Ltd., Hon. Permanent President of Hong Kong Commerce Industrial Ltd., Hon. Life Chairman of Chinese General Chamber of Commerce, Hong Kong, Hon. President of the Chinese Manufacturers' Association of Hong Kong, Member of The National Committee 9th of the Chinese People's Political Consultative Conference, Executive Committee Member 8th of The All China Federation of Industrial and Commerce, Hon. Director of China Overseas Friendship Association.

Mr. Choy is also an independent non-executive Director of Multifield International Holdings Limited (Stock Code: 898), Oriental Explorer Holdings Limited (Stock Code: 430), EVA Precision Industrial Holdings Limited (Stock Code: 838). Mr. Choy resigned as an independent non-executive director of three listed companies, namely China Leason Investment Group Co., Limited (stock code: 8270), Ocean Grand Holdings Limited (stock code: 1220) and VODone Limited (stock code: 82) with effect from 15 August 2006, 26 July 2006 and 28 May 2007 respectively. Save as disclosed, Mr. Choy did not hold any directorships in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

CHIU Lai Kuen, aged 49, is the Senior Vice President of Li & Fung (Trading) Limited, responsible for business operations. Ms Chiu is a qualified Chartered Accountant from England, holds an executive master of business administration from the Chinese University of Hong Kong. She is currently the Vice President of the HK Institute of Certified Public Accountants and Past President of ISACA (HK Chapter). Ms Chiu is also appointed by the government to serve on the Antiquities Advisory Board and the Pan Pearl River Delta Panel of the Central Policy Unit. Ms Chiu is a member of the HK Institute of Directors. Ms Chiu brings considerable experience in business operations, finance, internal control and corporate governance.

HSIEH Ying Min, aged 53, is a Taiwanese. He is the chairman of Approach Golf International Co., Ltd, which is a golf processing factory. Mr. Hsieh has over 34 years of experience in golf manufacturing industry and possesses rich knowledge in the manufacturing processes of golf club as well as a considerable familiarity with the related market and materials.

SENIOR MANAGEMENT

CO Man Kwong, Rochester, aged 46, is the operations director and company secretary of the Company and is responsible for the financing activity, investors' relation, operations management and strategic planning of the Group. Mr. Co joined the Group in September 2002. Prior to that, he has worked in an international accounting firm for over 6 years before joining the commercial field for more than 11 years. Mr. Co graduated from the Hong Kong Polytechnic University and is a fellow member of the Association of Chartered Certified Accountants, the United Kingdom, and HKICPA.

MAK Yat Ho, Humphrey, aged 36, joined the Group in April 2005, and is the financial controller of the Group. He is responsible for accounting, financial management and company secretarial affairs of the group. He holds a bachelor degree in Accountancy from the University of Wollongong in Australia and has more than 12 years of experience in auditing, finance and accounting. He is a member of the Certified Practising Accountants in Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

LEE May Yee, aged 39, is the senior marketing manager of the Group. Ms. Lee has over 16 years of experience in the golf equipment manufacturing industry. She graduated with a bachelor degree in business administration from the University of Baptist. She joined the Group in December 1992 and is currently in charge of the marketing functions of the Group.

HE Xin Hong, aged 45, 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 a golf bag subsidiary. Mr. He has more than 18 years of experience in the golf manufacturing industry.

XIE Zi Peng, aged 41, is the internal audit manager of the Group. Mr. Xie graduated with a master degree in world economy from Zhongshan University. He is a member of the Institute of Internal Auditors. He joined the Group in April 2000 and is currently in charge of the overall internal audit of the Group.

HUNG Yi Chuan, aged 46, 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 a golf equiment subsidiary. Mr. Hung has more than 21 years experience in golf manufacturing industry.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2008.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 38 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 2008 and the state of affairs of the Group at that date are set out in the financial statements on pages 53 to 107 of the annual report.

An interim dividend of HK1.50 cents per ordinary share was paid pursuant to a resolution passed at a meeting of directors held on 27 September 2008. The directors do not recommend the payment of a final dividend in respect of the year.

Summary Financial Information

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

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in notes 30 and 31 to the financial statements respectively.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company during the year are set out in note 37 to the financial statements and in the consolidated statement of changes in equity respectively.

Distributable Reserves

At 31 December 2008, the Company's reserves available for distribution amounted to HK$18,056,000. In accordance with the Companies Act 1981 of Bermuda, the Company's contributed surplus may be distributed in certain circumstances. In addition, the Company's share premium account, in the amount of HK$57,270,000, may be distributed in the form of fully paid bonus shares.

Charitable Contributions

During the year, the Group made charitable contributions totalling HK$611,000.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 70.9% of the total sales for the year and sales to the largest customer included therein amounted to 40.5%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Directors

The directors of the Company during the year were:

Executive Directors:

Mr. CHU Chun Man, Augustine
Mr. CHU Yuk Man, Simon
Mr. CHANG Hua Jung

Independent Non-Executive Directors:

Mr. CHOY Tak Ho
Ms. CHIU Lai Kuen, Susanna
Mr. HSIEH Ying Min

In accordance with articles 87 of the Company's bye-laws, Chu Chun Man, Augustine, Chu Yuk Man, Simon and Choy Tak Ho will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 19 to 20 of the annual report.

Directors' Service Contracts

Each of the executive directors has entered into a service contract with the Company commencing on 1 December 2000 which will continue thereafter unless terminated in accordance with the relevant clauses of the service contracts. These service contracts are exempted from the shareholders' approval requirement under Rule 13.68 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

Directors' Remuneration

With the shareholder's approval at general meeting, the Company's board of directors was authorised to fix the director's remuneration including directors' fee. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

Directors' Interests in Contracts

Save as disclosed in note 36 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, or subsidiaries was a party during the year.

Directors' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2008, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(i) Long Positions in Ordinary Shares of the Company:

	Number of shares held, capacity and nature of interest				
Name of director	Directly beneficially owned	Through spouse or minor children	Through controlled corporation#	Total	Percentage of the Company's issued share capital
CHU Chun Man, Augustine	2,326,263	300,000	171,543,775	174,170,038	57.63%
CHU Yuk Man, Simon	636,237	–	–	636,237	0.21%
	2,962,500	300,000	171,543,775	174,806,275	57.84%

\# These shares of the Company are held by CM Investment Company Limited, a company incorporated in the British Virgin Islands, of which, approximately 67.46% of issued share capital are owned by A & S Company Limited, approximately 4.18% of issued share capital are owned by Chu Chun Man, Augustine and approximately 1.21% of its issued share capital are owned by Chu Yuk Man, Simon. A & S Company Limited is a company incorporated in the British Virgin Islands and is owned as to approximately 64% by Chu Chun Man, Augustine, approximately 21.71% by Chu Yuk Man, Simon and 14.29% by another family member. The interests of Chu Chun Man, Augustine, 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 Shares and Underlying Shares of Associated Corporations:

Name of director	Name of associated corporation	Relationship with the Company	Shares	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued non-voting deferred share capital
CHU Chun Man, Augustine	Sino Golf Manufacturing Company Limited	Company's subsidiary	Non-voting deferred shares	1,190,607	Directly beneficially owned	30.98%
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%

In addition to the above, a director has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Group solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2008, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' Rights to Acquire Shares

Save as disclosed in the share option scheme disclosures in note 31 to the financial statements below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies or subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 31 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

	Number of share options					
Name or category of participant	**At 1 January 2008**	**Expired during the year**	**At 31 December 2008**	**Date of grant of share options***	**Exercise period of share options**	**Exercise price of share options** HK$ per share**
Directors						
Chang Hua Jung	1,000,000	1,000,000	–	3-8-06	3-8-06 to 31-7-08	0.70
Others						
In aggregate	3,000,000	3,000,000	–	3-8-06	3-8-06 to 31-7-08	0.70
	4,000,000	4,000,000	–			

Notes to the table of share options outstanding during the year:

* 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.

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

At 31 December 2008, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Positions:

Name	*Notes*	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
CM Investment Company Limited		Directly beneficially owned	171,543,775	56.76%
A & S Company Limited	*(a)*	Through a controlled corporation	171,543,775	56.76%
Preferable Situation Assets Limited		Directly beneficially owned	15,600,000	5.16%
Webb David Michael	*(b)*	Through a controlled corporation	17,636,000	5.84%
Webb David Michael		Directly beneficially owned	3,576,000	1.18%
			21,212,000	7.02%
Hung Tze Nga, Cathy	*(c)*	Through spouse	171,544,038	56.77%
Hung Tze Nga, Cathy		Directly beneficially owned	1,000,000	0.33%
			172,544,038	57.10%

Notes:

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

(b) The interest disclosed are the shares directly beneficially owned by Preferable Situation Assets Limited. Preferable Situation Assets Limited is wholly owned by Webb David Michael, who reported the interest in shares of the Company owned by Preferable Situation Assets Limited as his deemed interest.

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

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares (continued)

Save as disclosed above, as at 31 December 2008, 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.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Compliance with Chapter 13 of the Listing Rules

As at 31 December 2008, the Group had loan facilities, which were subject to, inter alias, specific performance obligations on the controlling shareholders of the Company during the tenure of such loan facilities. The specific performance obligations relate to a minimum holding by the controlling shareholders in the issued share capital of the Company throughout the tenure of the loan facilities granted to the Group. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and declared repayable on demand by the relevant lenders according to the respective terms and conditions thereof. The details of the loan facilities are as follows:

Amounts outstanding as at 31 December 2008	Minimum holding in the issued share capital of the Company	Final maturity of the loan facilities
HK$22.5 million	51%	May 2010
HK$30 million	over 50%	May 2010
HK$18.4 million	40%	October 2010

Auditors

Ernst & Young tendered their resignation as the auditors of the Company on 3 December 2008 as they could not reach a consensus on the auditors' remuneration with the board of directors. Ernst & Young confirmed in their resignation letter that there was no matter in connection with their resignation that needed to be brought to the attention of the shareholders of the Company. The same was confirmed by the directors and audit committee of the Company.

Pursuant to an ordinary resolution passed by the shareholders of the Company at a special general meeting held on 24 December 2008, SHINEWING (HK) CPA Limited was appointed as auditors of the Company to fill the casual vacancy and to hold office until the conclusion of the next annual general meeting.

SHINEWING (HK) CPA Limited retires 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
25 April 2009

CORPORATE GOVERNANCE REPORT

The Company recognizes the importance of good corporate governance to the Company's healthy growth and will continue to devote efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "CG Code") of the Listing Rules throughout the year ended 31 December 2008, except for certain deviations which are explained below. The Company has also put in place certain Recommended Best Practices as set out in the CG Code.

CG Principles/Code Provisions and Sino Golf's Practices

A. Director

The Board

Code Principle

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

Code provisions	Comply?	Governance Practices for Sino Golf
• At least four Board meetings a year.	✓	• The Board met seven times during the year. • Details of Directors' attendance records in 2008: **Attendance** **Executive Directors** CHU Chun Man, Augustine *(Chairman)* 7/7 CHU Yuk Man, Simon 7/7 CHANG Hua Jung 6/7 **Independent Non-Executive Directors** CHOY Tak Ho 6/7 CHIU Lai Kuen, Susanna 6/7 HSIEH Ying Min 6/7
• All Directors are given an opportunity to include matters in the agenda for regular Board meetings.	✓	• Directors are consulted to include any matter in the agenda for regular Board meetings.

Code provisions	Comply?	Governance Practices for Sino Golf
• Notice of at least 14 days is given of a regular Board meeting.	✓	• The Company generally gives notice and draft agenda of regular Board meetings at least 14 days in advance. The company aims at giving reasonable notice generally for all other Board meetings.
• Access to advice and services of the Company Secretary.	✓	• All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters.
• Minutes of meetings were kept by Company Secretary and were opened for inspection. • Draft and final minutes were sent to all Directors for comments within a reasonable time.	✓	• The Company Secretary is responsible for taking minutes of Board and Board Committee meetings, which would be sent to Directors within a reasonable time (generally within 14 days) after each meeting and generally be made available for inspection by Directors/committee members.
• Agreed procedure for Directors to seek independent professional advice at the Company's expense.	✓	• Sino Golf's corporate governance guidelines provide for Directors taking independent professional advice at the Company's expense.
• If a substantial shareholder/director has a conflict of interest in a material matter, Board meeting should be held. Such Director must abstain from voting and not be counted in quorum.	✓	• There is a prescribed list of matters reserved for full Board decision, which includes material transactions with connected persons. • The Company's Bye Laws provide for voting and quorum requirements conforming with Code requirements (Bye Laws 114 – 116).

The Board of Sino Golf is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The Management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Audit Committee and Remuneration Committee and has delegated to these committees various responsibilities set out in their terms of reference respectively. During the year, the Company did not appoint any new directors.

Chairman and Chief Executive Officer

Code Principle

Clear division of responsibilities – separate offices of Chairman and Chief Executive Officer to ensure a balance of power and authority.

Code provisions	Comply?	Governance Practices for Sino Golf
• Roles of Chairman and Chief Executive Officer should be separated; clearly established and set out in writing.	✗	• Chu Chun Man, Augustine, who acts as the Chairman of the Company, is also responsible for overseeing the general operations of the Group. The Company does not have any office with the title "Chief Executive Officer". The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. • The Board considers that the existing structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Company does not consider appointing a "Chief Executive Officer" at the present stage.
• The Chairman should ensure all Directors be briefed on issues arising at the Board meetings.	✓	• The Chairman has a clear responsibility to provide the whole Board with all the information that is relevant to the discharge of the Board's responsibilities. • The Company aims to continually improve on the quality and timeliness of the dissemination of information to Directors.
• The Chairman should ensure Directors to receive adequate information in a timely manner.		

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

Board composition

The list of all Directors is set out under "Corporate Information" on page 2 of the annual report.

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

The relationships among the members of the Board are disclosed under "Biographical Details of Directors and Management" on pages 19 to 20 of the annual report.

Code Principle

The Board should have a balance of skills and experience appropriate for the requirements of the business of the issuer, which also consists of a balanced composition of Executive and Non-Executive Directors (including Independent Non-Executive Directors) so that independent judgment can effectively be exercised.

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

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

Skill/experience

Executive Directors

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

Independent Non-Executive Directors

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

Appointments, re-election and removal

Code Principle

Formal, considered and transparent procedures should be established for the appointment of new directors. There should be plans for orderly succession.

Code provisions	Comply?	Governance Practices for Sino Golf
• Non-Executive Directors should be appointed for a specific term, subject to re-election. • Every Director should be subject to rotation at least once every three years. • All Directors appointed to fill a casual vacancy should be subject to election at the first and subsequent general meeting.	✓ with deviation	• Although the Independent Non-Executive Directors have not been appointed for any specific terms, they are required by the Company's Bye Laws to retire by rotation once every three years at the Company's annual general meeting. • To conform with Code Provision A.4.2, a special resolution was passed at the 2007 annual general meeting of the Company to amend the Company's Bye Laws so that all directors are subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-Executive Directors.

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

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary. During the year, the Company did not appoint any new directors.

According to clauses 87(1) and 87(2) of the Company's Bye-Laws, Mr. Chu Chun Man, Augustine, Mr. Chu Yuk Man, Simon and Mr. Choy Tak Ho will retire and offer themselves for re-election at the 2009 annual general meeting.

The Board recommended the re-appointment of the Directors standing for re-election at the 2009 annual general meeting of the Company.

The Company's circular dated 30 April 2009 contains detailed information of the Directors standing for re-election.

Responsibilities of Directors

Code Principle

All Directors (including Non-Executive Directors) are required to keep abreast of their responsibilities as Directors of the Company and of the conduct, business activities and development of that Company.

Code provisions	Comply?	Governance Practices for Sino Golf
• Every newly appointed Director should receive a comprehensive, formal and tailored induction to ensure that he/she has a proper understanding of the business, his/her responsibilities under the Listing Rules, applicable regulatory requirements, business and governance policies of the issuer.	✓	• On appointment, new Directors will be given a comprehensive orientation package, including introduction to Group activities, induction into their responsibilities and duties, and other regulatory requirements. • Non-Executive Directors are regularly updated with management's strategic plans, lines of business, financial objectives, plans and actions. • The Company Secretary is responsible for keeping all Directors updated on Listing Rules and other statutory requirements.

Code provisions	Comply?	Governance Practices for Sino Golf
• Functions of Non-Executive Directors should include: • bringing an independent judgment at the Board meetings; • taking the lead where potential conflicts of interests arise; • serving on committees if invited; • scrutinising the Company's performance and monitoring the reporting of performance. • Directors should ensure that they can give sufficient time and attention to the affairs of the Company.	✓	• Strategic planning and monitoring are two distinct but intertwined roles of Sino Golf Directors. Strategic planning should be based on an identification of the opportunities and the full ranges of risks that will determine which of these opportunities are worth pursuing. • On an on-going basis, the Board will review with management how the strategic environment is changing, what major risks and opportunities have emerged, how they are being managed and what, if any, adjustments in strategic direction would be required. • There is satisfactory attendance for Board and Board Committee meetings in 2008.
• Directors must comply with their obligations under the Model Code set out in Appendix 10.	✓	• The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2008. • The Company also has established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines" and "Code for Securities Transactions by Directors and Employees") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. • No incident of non-compliance of the Employees Written Guidelines and Code for Securities Transactions by Directors and Employees was noted by the Company.

Supply of and access to information

Code Principle

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

Code provisions	Comply?	Governance Practices for Sino Golf
• Board papers should be sent to all Directors at least three days before the date of Board/ Committee meetings.	✓	• Board papers are sent to all Directors at least 3 days before the date of Board/Committee meetings.
• Each Director should have separate and independent access to senior management.	✓	• Senior management is from time to time brought into formal and informal contact with the Board at Board meetings and other events.
• Directors are entitled to have access to board papers; steps must be taken to respond promptly and fully to Director queries.	✓	• Board papers and minutes are available for inspection by Directors and Committee Members.

B. Remuneration of Directors and Senior Management

The level and make-up of remuneration and disclosure

Code Principle

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

Code provisions	Comply?	Governance Practices for Sino Golf
• Issuers should establish a Remuneration Committee with specific written terms of reference (containing the minimum prescribed duties) which information is available on request and on the Company's website. A majority of the members should be Independent Non-Executive Directors.	✓	• A Remuneration Committee with written terms of reference had been set up that comprises three Independent Non-Executive Directors and two Executive Directors. The terms of reference are available on request and on the Company's website.
• The Committee should consult the Chairman and/or Chief Executive Officer regarding proposed remuneration of other Executive Directors and have access to professional advice where necessary.	✓	• The Remuneration Committee is responsible for formulating and making recommendation to the Board on the Group's policy and structure for all remuneration of the Directors of the Company and senior management of the Group.
• The Remuneration Committee should be provided with sufficient resources to discharge its duties.	✓	• Independent professional advice will be sought to supplement internal resources where necessary.

Code provisions	Comply?	Governance Practices for Sino Golf
Recommended Best Practice		
• A significant proportion of Executive Directors' remuneration should be linked to corporate and individual performance.	✓	• The Directors' remuneration is determined by the Company in general meeting. It is delegated to the Board by the shareholders at the AGM. The emolument is determined with reference to the Directors' duties, responsibilities, performance and the results of the Group.

Remuneration Committee

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

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

The Remuneration Committee met once during the year ended 31 December 2008 and reviewed the remuneration policy and structure of the Company and remuneration packages of the Directors and the senior management for the year under review.

Details of attendance records of Remuneration Committee meetings in 2008:

Executive Directors	**Attendance**
CHU Chun Man, Augustine	1/1
CHU Yuk Man, Simon	1/1
Independent Non-Executive Directors	
HSIEH Ying Min *(Chairman)*	1/1
CHOY Tak Ho	1/1
CHIU Lai Kuen, Susanna	1/1

C. Accountability and Audit

Financial reporting

Code Principle

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

Code provisions	Comply?	Governance Practices for Sino Golf
• Management should provide explanation and information to enable the Board to make informed assessment of relevant matters.	✓	• Directors are regularly kept informed and updated with management's strategic plans, lines of business, financial objectives, plans and actions.
• The Directors should acknowledge of their responsibility for preparing the accounts; there should be a statement by the auditors regarding their reporting responsibilities in the auditors' report.	✓	• A Statement of Director Responsibilities for Financial Statements is set out in this Annual Report on page 51 to 52. • The statement of the external auditors about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 51 to 52.
• The Board's responsibility to present a balanced, clear and understandable assessment extends to annual/interim reports, other price-sensitive announcements and other financial disclosures/reports under the Listing Rules and statutory requirements.	✓	• The Board aims to present a comprehensive, balanced and understandable assessment of the Group's position and prospects in all shareholder communications.

The remuneration paid/payable to the external auditors of the Company or its associates in respect of audit services and non-audit services for the year ended 31 December 2008 amounted to HK$750,000 and HK$135,000 respectively.

Internal Controls

Code Principle

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

Code provisions	Comply?	Governance Practices for Sino Golf
• The Directors should at least annually conduct a review of the effectiveness of the system of internal controls.	✓	• The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. • Management is charged with the responsibility to design and implement an appropriate system of internal controls. • Management regularly reviews the effectiveness of the risk management and system of internal controls. Key findings are reported to the Audit Committee and the Board. • The Board has engaged an external professional adviser to assist it to conduct an annual review of the effectiveness of the system of internal controls of the Group and is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report is sound and effective to safeguard the shareholders' investments and the Group's assets.

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

The Group's system of internal controls comprises of the following five interrelated components:

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

1. Control Environment

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

The Board and its Audit Committee actively participate in the Group's corporate governance and oversight. Major transactions have to be reviewed and approved by the Board/Audit Committee. All members of the Audit Committee are Independent Non-Executive Directors with relevant experiences and expertise and one of them is a qualified accountant who gave valuable recommendations or guidelines to the Group. Independent professional advice, where necessary, is available for them to discharge their duties and responsibilities, which are outlined in the terms of reference.

The Group has well-defined lines of authority and control responsibilities within the organization structure to ensure the work activities are consistent with organizational objectives. Every employee has a written job description; performance is evaluated and reviewed annually.

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

2. Risk Assessment

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

- The market trends are actively monitored through internal research and participation in local and overseas business shows and exhibitions and visits to overseas customers.

- Key financial and operational performance indicators are reviewed to monitor the Group's performance.

- Employee performance and reward review is conducted annually to ensure that quality staff is retained in the Group.

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

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

3. Information and Communication

The Group has provided sufficient human and financial resources to develop or revise the necessary information systems in response to the Group's business strategy, or process and application objectives.

The Group's information systems provide Management with sufficient details on a timely basis to enable it to carry out its responsibilities efficiently and effectively. All important information will be documented and recorded for review purpose.

Procedures and guidelines are established for timely and appropriate response to external enquiries about the Group's affairs. Senior staff of the Group are identified and authorized to act as its spokespersons in response to enquiries in designated area of issues.

The Group's objectives are communicated to the employees through staff meetings and internal circulars. All employees are encouraged to report any potential improprieties or constructive suggestions to Management and they will be handled confidentially to the extent possible under the circumstances. Lines of authority and responsibilities are clearly defined and every employee has a written job description.

Procedures and guidelines are established to ensure that proper controls are in place for safeguarding assets and recording of complete, accurate and timely accounting and management information. They are reviewed by management periodically and discussed with the Audit Committee where necessary. Regular audits are carried out to ensure that the financial statements are prepared in accordance with generally accepted accounting principles, legislation, regulations, and the group's policies.

4. Control Activities

Management has implemented the following control activities that are effective and efficient:

- Policies and procedures are reviewed periodically for appropriateness to the Group's business.

- To safeguard the assets, all valuable assets are properly secured and register is maintained for all fixed assets. Physical checks are performed periodically.

- Programs and data files are backed up daily and access to specific applications and databases are restricted to authorized personnel.

- Procedures and guidelines are established for implementing, documenting, testing and approving changes to computer programs. Major information system projects and resources priorities are to be reviewed by the Audit Committee.

- Duties are segregated so that different staff are responsible for asset custody and records keeping separately.

- All transactions are properly documented and approved by authorized personnel.

- Significant accounting estimates and unusual transactions are to be reviewed by the Board/ Audit Committee. Accounting and closing practices are followed consistently throughout the year. Key performance indicators and monthly financial information accompanied by analytical comments are prepared and submitted to Management for review. Quarterly information are to be reviewed by the Audit Committee where necessary.

5. Monitoring

Internal audit plays an important role in monitoring the Group's internal governance and provides an objective assurance to the Board that a sound internal control system is maintained and operated by Management in compliance with the Group's policies.

An independent internal audit department, headed by a member of the Institute of Internal Auditors, has been set up to monitor the Group's activities and to ensure that they are carried out in accordance with the policies laid down by Management to help achieve the Group's mission. The scope of planned internal audit activities is reviewed in advance with Management. Independent reviews of different financial, business and functional operations and activities are conducted with resources focused on higher risk areas.

Ad hoc reviews are also conducted on areas of concern identified by Management. Procedures and control processes are reviewed periodically to ensure that the controls are in place and applied as expected.

Exceptions and overrides are investigated and corrective actions are taken promptly on deficiencies. Findings and recommendations from internal auditors and regulators are timely addressed by Management.

Audit Committee

Code Principle

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

Code provisions	Comply?	Governance Practices for Sino Golf
• Minutes be kept by a duly appointed secretary; and should be sent to all committee members within a reasonable time.	✓	• Draft minutes prepared by the Company Secretary are sent to members generally within 14 days of each meeting.
• A former partner of the existing auditors should not sit on the Audit Committee.	✓	• None of the three Audit Committee members are former partners of the external auditors.
• The terms of reference of Audit Committee (containing the minimum prescribed duties) be made available on request and on the Company's website.	✓	• Full terms of reference are available on request and on the Company's website.

Code provisions	Comply?	Governance Practices for Sino Golf
• Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or the dismissal of the external auditors, there should be a statement from the Audit Committee explaining its recommendation and the reason(s) why the Board has taken a different view.	✓	• Audit Committee recommended to the Board (which in turn endorsed the view) that, subject to shareholders' approval at the forthcoming AGM, SHINEWING (HK) CPA Limited, be reappointed as the external auditors for 2009.
• The Audit Committee should be provided with sufficient resources to discharge its duties.	✓	• There is an agreed procedure for Audit Committee members to take independent professional advice at Company's expense.

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

Audit Committee

The Audit Committee comprises three Independent Non-Executive Directors of the Company. It has reviewed with management the accounting policies and practice adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the financial statements for the year ended 31 December 2008.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, internal auditor or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held three meetings during the year ended 31 December 2008 to review the financial results and reports, financial reporting and compliance procedures, the internal control and risk management, the report of External Auditors to the Audit Committee in relation to the audit of the consolidated financial statements of the Group and the re-appointment of the external auditors.

The Company's annual results for the year ended 31 December 2008 has been reviewed by the Audit Committee.

Details of attendance records of Audit Committee Meetings in 2008:–

Independent Non-Executive Directors	Attendance
CHIU Lai Kuen, Susanna *(Chairman)*	3/3
CHOY Tak Ho	3/3
HSIEH Ying Min	3/3

D. Delegation by the Board

Management functions

Code Principle

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

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

Board Committees

Code Principle

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

Code provisions	Comply?	Governance Practices for Sino Golf
• Clear terms of reference to enable proper discharge of committee functions.	✓	• The Board has established two Board Committees (i.e. the Audit Committee and the Remuneration Committee) with specific terms of reference.
• The terms of reference should require committees to report their decisions to the Board.	✓	• Board Committees present their respective reports to the Board after each meeting, which reports address their work and findings.

E. Communication with Shareholders

Effective communication

Code Principle

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

Code provisions	Comply?	Governance Practices for Sino Golf
• A separate resolution be proposed by the Chairman for each substantially separate issue.	✓	• Separate resolutions are proposed at the meeting on each substantially separate issue, including the election of individual Directors.
• The Chairman of the Board should attend the annual general meeting and arrange for the Chairmen of the Audit, Remuneration and Nomination Committees (as appropriate) to be present.	✓	• The Chairman of the Board and four other Directors including three Independent Non-Executive Directors were present in the 2008 Annual General Meeting to answer questions raised by the shareholders.

The Company has also established a web site (http://www.sinogolf.com) to communicate with the shareholders.

Voting by poll

Code Principle

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

Code provisions	Comply?	Governance Practices for Sino Golf
• The annual general meeting circulars should disclose the procedures and rights of shareholders to demand a poll. • Ensure that votes cast are properly counted and recorded. • Chairman of meeting should adequately explain the poll procedures at the commencement of the meeting.	✓	• Procedures for demanding a poll were set out in the circular accompanying the AGM Notice. Poll procedures were also explained during the AGM proceedings. The Chairman of the meeting has demanded poll on each and every resolution put to the vote in the 2008 AGM. • The Share Registrars of the Company was appointed as scrutineer. • Poll results were posted on the websites of the Stock Exchange and the Company on the business day following the meeting.

INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE MEMBERS OF SINO GOLF HOLDINGS LIMITED
順龍控股有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sino Golf Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 53 to 107, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibility (continued)

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practising Certificate Number: P03427

Hong Kong
25 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	7	**446,659**	567,668
Cost of sales		**(344,229)**	(423,478)
Gross profit		**102,430**	144,190
Other operating income	8	**6,265**	7,661
Selling and distribution costs		**(12,654)**	(21,590)
Administrative expenses		**(55,584)**	(57,982)
Other expenses		**(10,541)**	(6,714)
Finance costs	9	**(15,875)**	(22,576)
Profit before tax	10	**14,041**	42,989
Income tax expenses	12	**(748)**	(1,179)
Profit for the year		**13,293**	41,810
Attributable to:			
Equity holders of the Company		**13,312**	41,810
Minority interests		**(19)**	–
		13,293	41,810
Dividends	13	**4,533**	13,599
Earnings per share attributable to equity holders of the Company	14		
– Basic		**HK4.41 cents**	HK13.84 cents
– Diluted		**N/A**	HK13.80 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	15	**258,786**	196,169
Prepaid land lease payments	16	**21,094**	21,725
Goodwill	17	**22,180**	25,723
Club debentures	18	**2,135**	2,135
Deposits and other receivables	19	**2,166**	3,539
Prepayments for acquisition of property, plant and equipment		**3,044**	22,359
		309,405	271,650
Current assets			
Inventories	20	**168,359**	161,557
Trade and other receivables	21	**77,003**	73,745
Prepaid land lease payments	16	**551**	528
Derivative financial instrument	23	**97**	–
Cash and cash equivalents	24	**30,079**	80,069
		276,089	315,899
Current liabilities			
Trade and other payables	25	**89,178**	126,364
Amounts due to minority shareholders of a subsidiary	26	**462**	462
Tax payable		**1,120**	1,715
Bank borrowings	27	**165,774**	105,039
Obligations under finance leases	28	**1,382**	1,344
		257,916	234,924
Net current assets		**18,173**	80,975
Total assets less current liabilities		**327,578**	352,625
Non-current liabilities			
Bank borrowings	27	**68,408**	106,567
Obligations under finance leases	28	**730**	2,126
Deferred tax liabilities	29	**2,010**	2,333
		71,148	111,026
Net assets		**256,430**	241,599
Capital and reserves			
Share capital	30	**30,220**	30,220
Reserves		**223,708**	208,808
		253,928	239,028
Minority interests		**2,502**	2,571
Total equity		**256,430**	241,599

The consolidated financial statements on pages 53 to 107 were approved and authorised for issue by the board of directors on 25 April 2009 and are signed on its behalf by:

Chu Chun Man, Augustine
Director

Chu Yuk Man, Simon
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Assets revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007	30,220	57,270	10,564	24,360	7,568	395	60,769	6,648	197,794	2,567	200,361
Exchange difference arising on translation of foreign operations and recognised directly in equity	–	–	–	–	12,116	–	–	–	12,116	–	12,116
Profit for the year	–	–	–	–	–	–	41,810	–	41,810	–	41,810
Total recognised income and expense for the year	–	–	–	–	12,116	–	41,810	–	53,926	–	53,926
Expiry of share options	–	–	–	–	–	(83)	83	–	–	–	–
Capital contribution to a subsidiary by a minority shareholder	–	–	–	–	–	–	–	–	–	4	4
2006 final dividend declared	–	–	–	–	–	–	–	(6,648)	(6,648)	–	(6,648)
2007 interim dividend	–	–	–	–	–	–	(6,044)	–	(6,044)	–	(6,044)
Proposed 2007 final dividend	–	–	–	–	–	–	(7,555)	7,555	–	–	–
At 31 December 2007 and 1 January 2008	30,220	57,270*	10,564*	24,360*	19,684*	312*	89,063*	7,555*	239,028	2,571	241,599
Exchange difference arising on translation of foreign operations and recognised directly in equity	–	–	–	–	13,676	–	–	–	13,676	–	13,676
Profit for the year	–	–	–	–	–	–	13,312	–	13,312	(19)	13,293
Total recognised income and expenses for the year	–	–	–	–	13,676	–	13,312	–	26,988	(19)	26,969
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	(50)	(50)
Expiry of share options	–	–	–	–	–	(312)	312	–	–	–	–
2007 final dividend declared	–	–	–	–	–	–	–	(7,555)	(7,555)	–	(7,555)
2008 interim dividend	–	–	–	–	–	–	(4,533)	–	(4,533)	–	(4,533)
At 31 December 2008	30,220	57,270*	10,564*	24,360*	33,360*	–*	98,154*	–*	253,928	2,502	256,430

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

* These reserves accounts comprise the consolidated reserves of HK$223,708,000 (2007: HK$208,808,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**14,041**	42,989
Adjustments for:		
Finance costs	**15,875**	22,576
Bank interest income	**(670)**	(862)
Depreciation of property, plant and equipment	**19,283**	16,635
Amortisation of prepaid land lease payments	**551**	528
(Gain) loss on disposal of property, plant and equipment	**(88)**	75
Gain on fair value of a derivative financial instrument	**(97)**	–
Income from derivative financial instruments	**(311)**	–
Write-off of property, plant and equipment	**1,043**	463
Impairment of trade receivables	**1,576**	–
Write-off of trade receivables	**35**	80
Write-off of other receivables	**–**	350
Loss on deregistration of a subsidiary	**52**	–
Operating cash flows before movements in working capital	**51,290**	82,834
Increase in inventories	**(6,802)**	(10,285)
Decrease in deposits and other receivables	**1,373**	221
Increase in trade and other receivables	**(4,971)**	(47,449)
(Decrease) increase in trade and other payables	**(37,956)**	30,838
Increase in amounts due to minority shareholders of a subsidiary	**–**	8
Cash generated from operations	**2,934**	56,167
Peoples' Republic of China Enterprise Income Tax paid	**(569)**	(483)
Hong Kong Profits Tax paid	**(1,097)**	(1,456)
NET CASH FROM OPERATING ACTIVITIES	**1,268**	54,228
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(44,849)**	(16,855)
Prepayments for acquisition of property, plant and equipment	**(3,044)**	(21,712)
Decrease (increase) in non-pledged time deposit with original maturity of more than three months when acquired	**7,906**	(7,906)
Bank interest received	**670**	862
Income received from derivative financial instruments	**311**	–
Proceeds from disposal of property, plant and equipment	**88**	195
NET CASH USED IN INVESTING ACTIVITIES	**(38,918)**	(45,416)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
FINANCING ACTIVITIES		
New bank borrowings	**102,616**	136,106
Repayment of bank borrowings	**(80,040)**	(111,664)
Interest and factoring charges paid	**(15,105)**	(21,286)
Dividends paid	**(12,088)**	(12,692)
Repayment of obligations under finance leases	**(1,358)**	(1,495)
Capital contribution to a subsidiary by a minority shareholder	**–**	4
NET CASH USED IN FINANCING ACTIVITIES	**(5,975)**	(11,027)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(43,625)**	(2,215)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**72,163**	73,105
EFFECT ON FOREIGN EXCHANGE RATE CHANGES, NET	**1,541**	1,273
CASH AND CASH EQUIVALENTS AT END OF YEAR	**30,079**	72,163
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS, represented by		
Cash and bank balances	**28,079**	66,900
Non-pledged time deposit with original maturity of less than three months when acquired	**2,000**	5,263
	30,079	72,163

Note:

Reconciliation of cash and cash equivalents

	Note	2008 HK$'000	2007 HK$'000
Cash and bank balances and non-pledged time deposit with original maturity of less than three months when acquired		**30,079**	72,163
Non-pledged time deposit with original maturity of more than three months when acquired		**–**	7,906
Total cash and cash equivalents at end of year	*24*	**30,079**	80,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in Bermuda on 8 August 2000 under the Bermuda Companies Act. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 December 2000. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

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

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 38.

Other than those major subsidiaries established in the People's Republic of China (the "PRC") and in the United State of America ("USA") which functional currency is Renminbi ("RMB") and United States dollars ("US$") respectively, the functional currency of the Company and its subsidiaries is Hong Kong dollars ("HK$"). The consolidated financial statements are presented in HK$, which is the same as the functional currency of the Company. The reason for selecting Hong Kong dollars as its presentation currency is because the Company is a public company with the shares listed on the Stock Exchange.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("HK (IFRIC)-INTs") (herein collectively referred to as "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 and HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-INT 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-INT 12	Service Concession Arrangements
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the New HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

The Group has not early applied the following new and revised standards, amendments or INTs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 & 32 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 1(Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Financial Instruments Disclosures – Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[6]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-Int 17	Distributions of non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[7]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods beginning on or after 1 July 2008

[5] Effective for annual periods beginning on or after 1 October 2008

[6] Effective for annual periods ending or after 30 June 2009

[7] Effective for transfer of assets from customers received on or after 1 July 2009

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

The application of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or INTs will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain leasehold land and buildings and financial instruments, which are measured at revalued amounts or fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the consolidation. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant leases.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment, including land and buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the assets revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the assets revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid land lease payments

Payments for obtaining land use right are considered as prepaid operating lease payments. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, amortisation is charged to the consolidated income statement over the period of the rights or the term of the respective enterprise to which the land use rights are granted, whichever is the shorter, using the straight-line method.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownerships to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and buildings

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange fluctuation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statements in the year in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Research and development costs

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

Impairment losses on assets other than goodwill (see the accounting policies in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on assets other than goodwill (see the accounting policies in respect of goodwill above) (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as revaluation increase under that standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Club debentures

Club debentures are carried at cost less accumulated impairment losses, if any.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial asset is classified as loans and receivables and derivative financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market-place.

<u>Effective interest method</u>

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Effective interest method (continued)

Interest income is recognised on an effective interest basis for debt instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on trade receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment loss on financial assets (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including bank borrowings, obligations under finance leases, amounts due to minority shareholders of a subsidiary and trade and other payables) are subsequently measured at amortised cost, using the effective interest method.

Equity Instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which the event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives not designated into an effective hedge relationship are deemed as held for trading and are reclassified as a current asset or a current liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees

For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve). The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Share options granted to other eligible participants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The followings are the critical judgements, apart from those involving estimations that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Valuation of land and buildings

The Group estimates the valuation of leasehold land and buildings with reference to the valuation previously performed by an independent qualified valuer and the current market conditions. Such estimation involved the use of judgements and assumptions.

Key sources of estimation uncertainty

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

(a) Impairment of trade receivables

The Group maintains an allowance for estimated impairment of trade receivables arising from the inability of its debtors to make the required payments. Impairment of trade receivables are determined based on the assessment of the recoverability of trade receivables. The identification of impairment requires management's estimation about the collectability of these receivables with reference to the age of the receivables, objective evidence of the debtors' creditworthiness/financial condition (such as probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) and historical write-off experience. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the receivables and impairment or its reversal in the period in which such estimate has been changed. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected.

(b) Estimated impairment of property, plant and equipment

The Group evaluates whether property, plant and equipment have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the accounting policy stated in note 3. The calculations of value-in-use require the use of estimates.

(c) Estimated impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(d) Estimated useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

(e) Fair value estimation of share options

The Group estimates the fair value of share options using the Black-Scholes model which involves the use of estimates.

(f) Estimated impairment of inventories

The management of the Group reviews the inventories listing on a product-by-product basis at each balance sheet date, and makes impairment for obsolete and slow-moving inventory items identified. The management estimates that the net value for such items based primarily on the latest invoice prices and current market conditions. No impairment had been made for inventories as at 31 December 2007 and 2008.

(g) Income tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provision in the period in which such determination is made.

5. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Derivative financial instrument	97	–
Loans and receivables (including cash and cash equivalents)	108,070	151,002
	108,167	151,002
Financial liabilities		
At amortised cost	319,314	335,922

b. Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables and cash and cash equivalents, trade and other payables, amounts due to minority shareholders of a subsidiary, obligations under finance leases and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include foreign exchange risk, fair value interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Group's overall risk management programme focus on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and polices (continued)

(a) Foreign exchange risk

The Group mainly operates in the PRC, USA and Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$ and RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The Group's management do not expect the net foreign currency risk from these activities to be significant and hence, the Group do not presently hedge the foreign exchange risks. The Group periodically review liquid assets and liabilities held in currencies other than HK$ to evaluate its foreign exchange risk exposure.

As at 31 December 2008, if HK$ had weakened/strengthened by 5% (2007: 5%) against RMB with all other variables held constant, pre-tax profit of the Group for the year would have been approximately HK$2,516,000 (2007: HK$509,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of RMB-denominated cash and cash equivalents, trade and other payables and bank borrowings.

As at 31 December 2008, if HK$ had weakened/strengthened by 5% (2007: 5%) against US$ with all other variables held constant, pre-tax profit of the Group for the year would have been approximately HK$540,000 (2007: HK$624,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of US$-denominated cash and cash equivalents, trade and other receivables, trade and other payables and bank borrowings.

(b) Fair value interest rate risk

The Group's exposure to the risk of changes in market interest rates relates to the Group's bank balances, deposits and interest bearing bank borrowings with a floating interest rate. The Group mitigates the risk by monitoring closely the movements in interest rates.

At 31 December 2008, it is estimated that a general increase or decrease of one percentage point (2007: one percentage point) in interest rates, with all other variables held constant, would decrease or increase the Group's profit for the year by approximately HK$49,000 (2007: HK$87,000).

(c) Credit risk

Credit risk, the risk that a counterparty will fail to pay amounts in full when due, exists in respect of the Group's financial assets that include cash equivalents and trade receivables. Cash equivalents consist mainly of bank balances and bear minimal risk. The Group has not sustained any losses on cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and polices (continued)

(c) Credit risk (continued)

The Group markets its products primarily to the original equipment manufacturer ("OEM") and original design manufacturer ("ODM") customers in the USA, Europe and Japan. The Group limits its exposure to credit risk by prudently selecting customers. The Group also continually evaluates the credit risk of its customers to ensure appropriateness of the amount of credit granted. Credit is extended to customers based on the evaluation of individual customer's financial conditions and collateral in the form of cash deposits, which are usually required from new customers. Only customers of sufficient credit stance and with proven track record are exempt from the down payment requirement. Through factoring and related agreements, the Group assigns the majority of its trade receivables to banks and transfers to banks the credit risk of the debtors' failure to make payments. There was no material credit loss sustained on trade receivables in 2008 and 2007. At 31 December 2008, 72% (2007: 83%) of the Group's trade receivables were due from the Group's three largest debtors.

The credit risk of the Group's financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of credit facilities. The Group aims to maintain flexibility in funding by keeping adequate facilities available.

The maturity profile of financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and polices (continued)

(d) Liquidity risk (continued)

As at 31 December 2008

	Effective interest rate	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year less than two years HK$'000	More than two years less than five years HK$'000
Trade and other payables	–	89,178	89,178	89,178	–	–
Amounts due to minority shareholders of a subsidiary	–	462	462	462	–	–
Obligations under finance leases	2.17%	2,112	2,137	1,404	733	–
Bank borrowings	2.35%	234,182	236,080	165,774	53,098	17,208
		325,934	327,857	256,818	53,831	17,208

As at 31 December 2007

	Effective interest rate	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year less than two years HK$'000	More than two years less than five years HK$'000
Trade and other payables	–	126,364	126,364	126,364	–	–
Amounts due to minority shareholders of a subsidiary	–	462	462	462	–	–
Obligations under finance leases	5.49%	3,470	3,689	1,480	1,450	759
Bank borrowings	4.41%	211,606	217,678	105,039	79,250	33,389
		341,902	348,193	233,345	80,700	34,148

c. Fair value estimation

The carrying amounts of the Group's financial assets and financial liabilities approximate their fair values due to their short-term maturities. The carrying values for financial assets with a maturity of less than one year are a reasonable approximation of their fair values.

The fair value of obligations under finance leases and bank borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of derivative instruments is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices or rates from observable current market transactions.

The directors consider the fair values of other financial assets and financial liabilities (including non-current deposits and other receivables) equal to their carrying amounts as the impact of discounting is not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. CAPITAL RISK MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, repayment of existing borrowings and raise new borrowing or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital. The Group's policy is to maintain the gearing ratio not more than 100% (2007: 75%), which is determined and reviewed with reference to the funding needs of the Group periodically. Net debt includes obligations under finance leases, bank borrowings, less cash and cash equivalents. Total equity includes equity attributable to equity holders of the Company and minority interests. The gearing ratios as at the balance sheet dates were as follows:

	2008 **HK$'000**	2007 HK$'000
Obligations under finance leases	**2,112**	3,470
Bank borrowings	**234,182**	211,606
Less: Cash and cash equivalents	**(30,079)**	(80,069)
Net debts	**206,215**	135,007
Equity attributable to equity holders of the Company	**253,928**	239,028
Minority interests	**2,502**	2,571
Total equity	**256,430**	241,599
Gearing ratio	**80%**	56%

7. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold after allowances for goods returns and trade discounts received and receivable during the year.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. TURNOVER AND SEGMENT INFORMATION (continued)

The Group's operating businesses can be divided into golf equipment segment and golf bag segment which are structured and managed separately according to the nature of their respective operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the golf equipment segment comprises of manufacture and trading of golf equipment, and related components and parts; and

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

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

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

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the two years ended 31 December 2008 and 2007.

For the year ended 31 December

	Golf equipment		Golf bag		Eliminations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**351,162**	407,966	**95,497**	159,702	**–**	–	**446,659**	567,668
Intersegment revenue	**–**	–	**2,953**	4,634	**(2,953)**	(4,634)	**–**	–
Other revenue	**2,633**	2,368	**5,062**	4,431	**(2,100)**	–	**5,595**	6,799
Total	**353,795**	410,334	**103,512**	168,767	**(5,053)**	(4,634)	**452,254**	574,467
Segment results	**24,456**	56,223	**4,790**	8,480	**–**	–	**29,246**	64,703
Interest income							**670**	862
Finance costs							**(15,875)**	(22,576)
Profit before tax							**14,041**	42,989
Income tax expenses							**(748)**	(1,179)
Profit for the year							**13,293**	41,810

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. TURNOVER AND SEGMENT INFORMATION (continued)

(a) Business segments (continued)

As at 31 December

	Golf equipment		Golf bag		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Assets and liabilities						
Segment assets	**491,227**	418,849	**62,476**	86,926	**553,703**	505,775
Corporate and other unallocated assets					**31,791**	81,774
Total assets					**585,494**	587,549
Segment liabilities	**69,460**	77,051	**19,674**	33,063	**89,134**	110,114
Corporate and other unallocated liabilities					**239,930**	235,836
Total liabilities					**329,064**	345,950
For the year ended 31 December						
Other segment information:						
Depreciation of property, plant and equipment	**15,643**	13,894	**3,640**	2,741	**19,283**	16,635
Amortisation of prepaid land lease payments	**551**	528	**–**	–	**551**	528
Loss on disposal of property, plant and equipment	**–**	75	**–**	–	**–**	75
Write-off of property, plant and equipment	**1,043**	463	**–**	–	**1,043**	463
Impairment of trade receivables	**1,576**	–	**–**	–	**1,576**	–
Write-off of trade receivables	**35**	80	**–**	–	**35**	80
Write-off of other receivables	**–**	350	**–**	–	**–**	350
Capital expenditure	**63,862**	43,185	**3,346**	4,550	**67,208**	47,735

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table provides an analysis of the Group's revenue for the two years ended 31 December 2008 and 2007 by geographical market based on the shipment destination:

	North America		Europe		Asia (excluding Japan)		Japan		Others		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Segment revenue:												
Sales to external customers	**302,307**	354,263	**11,660**	19,325	**71,094**	91,190	**55,850**	93,528	**5,748**	9,362	**446,659**	567,668

The following table provides an analysis of the carrying amounts of segments assets and capital expenditure information of the Group, analysed by the geographical area in which the assets are located:

	Hong Kong and Macau		the PRC		Others		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Other segment information:								
Segment assets	**96,039**	104,382	**487,352**	459,608	**2,103**	23,559	**585,494**	587,549
Capital expenditure	**364**	2	**66,844**	47,733	**–**	–	**67,208**	47,735

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. OTHER OPERATING INCOME

	2008 HK$'000	2007 HK$'000
Bank interest income	670	862
Rental income	1,974	1,974
Sample income	214	2,104
Tooling income	1,216	1,765
Sale of scrap materials	134	–
Gain on changes in fair value of a derivative financial instrument	97	–
Income from derivative financial instruments	311	–
Gain on disposal of property, plant and equipment	88	–
Others	1,561	956
	6,265	7,661

9. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Bank overdraft interest	41	–
Factoring and bank charges	8,891	11,712
Interest on bank loans wholly repayable within five years	6,756	10,636
Interest on obligations under finance leases	187	228
	15,875	22,576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2008 HK$'000	2007 HK$'000
Wages, salaries, bonuses and allowances	**85,081**	88,506
Retirement benefits scheme contributions	**4,893**	5,041
Total staff costs (including directors' remuneration *(note 11)*)	**89,974**	93,547
Auditors' remuneration	**750**	1,500
Cost of inventories sold	**216,435**	266,263
Depreciation of property, plant and equipment	**19,283**	16,635
Amortisation of prepaid land lease payments	**551**	528
Minimum lease payments under operating leases in respect of land and buildings	**9,392**	8,400
Research and development costs	**5,475**	4,834
Loss on disposal of property, plant and equipment	**–**	75
Write-off of property, plant and equipment *	**1,043**	463
Write-off of trade receivables *	**35**	80
Impairment of trade receivables * *(note 21)*	**1,576**	–
Write-off of other receivables *	**–**	350
Loss on deregistration of a subsidiary * *(note 32)*	**52**	–

* *The write-off of property, plant and equipment, write-off and impairment of trade receivables, write-off of other receivables and loss on deregistration of a subsidiary for the year are included in "other expenses" on the face of the consolidated income statement.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(a) 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:

	Fees	Salaries	Bonuses	Housing benefits	Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2008						
Executive directors						
Chu Chun Man, Augustine	–	1,560	400	840	12	2,812
Chu Yuk Man, Simon	–	1,200	300	600	12	2,112
Chang Hua Jung	–	720	70	–	–	790
Independent non-executive directors						
Choy Tak Ho	120	–	–	–	–	120
Hsieh Ying Min	50	–	–	–	–	50
Chiu Lai Kuen, Susanna	100	–	–	–	–	100
	270	3,480	770	1,440	24	5,984
2007						
Executive directors						
Chu Chun Man, Augustine	–	1,560	400	840	12	2,812
Chu Yuk Man, Simon	–	1,200	600	600	12	2,412
Chang Hua Jung	–	720	60	–	–	780
Independent non-executive directors						
Choy Tak Ho	120	–	–	–	–	120
Hsieh Ying Min	50	–	–	–	–	50
Chiu Lai Kuen, Susanna	100	–	–	–	–	100
	270	3,480	1,060	1,440	24	6,274

Notes:

(i) None of the directors of the Company waived or agreed to waive any emoluments paid by the Group during the year (2007: Nil).

(ii) Bonuses were determined by the management on individual performance basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS (continued)

(b) Five highest paid individuals

The five highest paid employees during the year ended 31 December 2008 included three (2007: three) executive directors, details of whose remuneration are set out in note 11(a) above. Details of the remuneration of the remaining two (2007: two) individuals were as follows:

	2008	2007
	HK$'000	HK$'000
Salaries and allowances	**1,760**	2,178
Bonuses	**188**	170
Retirement benefits scheme contributions	**23**	12
	1,971	2,360

The remuneration of the individuals fell within the following band is as follows:

	Number of employees	
	2008	2007
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**1**	2
	2	2

During the two years ended 31 December 2008 and 2007, no emoluments were paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INCOME TAX EXPENSES

The amount of taxation charged to the consolidated income statement represents:

	2008 HK$'000	2007 HK$'000
Current tax		
Hong Kong		
Charge for the year	**132**	1,200
Under (over)-provision in prior years	**300**	(203)
	432	997
Outside Hong Kong		
Charge for the year	**219**	567
Under-provision in prior years	**420**	–
	639	567
	1,071	1,564
Deferred tax *(Note 29)*		
Credited for the year	**(194)**	(385)
Effect of change in tax rate	**(129)**	–
	(323)	(385)
Income tax expenses for the year	**748**	1,179

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2008 HK$'000	2007 HK$'000
Profit before tax	**14,041**	42,989
Tax at the statutory rate	**2,980**	3,363
Under (over) provision in prior years	**720**	(203)
Tax effect of preferential tax rate	**(3,964)**	363
Tax effect of income not subject to tax	**(3,391)**	(11,595)
Tax effect of expenses not deductible for tax	**3,692**	10,343
Tax effect of tax loss not recognised	**840**	–
Utilisation of tax losses not recognised in previous years	**–**	(1,092)
Effect of change in tax rate	**(129)**	–
Tax charge for the year	**748**	1,179

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INCOME TAX EXPENSES (continued)

(a) Hong Kong Profits Tax

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced the corporate profits tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/09. Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

(b) The PRC Enterprise Income Tax (the "PRC EIT") and other overseas income tax

PRC subsidiaries are subject to PRC EIT at 25% (2007: 33%).

On 16 March 2007, the PRC government promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council issued implementation Regulation of the New Law. The New Law and implementation Regulation changed the tax rate of the PRC subsidiaries to 25% from 1 January 2008 onwards.

In accordance with approval documents issued by various PRC tax bureaus, certain indirectly wholly-foreign owned PRC subsidiaries of the Company, including Guangzhou Sino Concept Golf Manufacturing Co., Ltd. ("Sino Concept"), 增城市順龍高爾夫球製品有限公司(「增城順龍」), Linyi Sino Golf Co., Ltd ("Linyi Sino Golf"), 東莞騏衡運動用品製造有限公司(「東莞騏衡」) and Xiamen Sino Talent Golf Manufacturing Co., Ltd. ("Xiamen Sino"), are entitled to a full State PRC EIT exemption for two years starting from the first profit-making year, followed by a 50% reduction in the next three years. The first profit-making years of 增城順龍, Sino Concept and Xiamen Sino are 2003, 2005 and 2007 respectively. The applicable EIT tax rate of 增城順龍 and Sino Concept are 25% for 2008 (2007: 33%), the other PRC subsidiaries did not generate taxation profit up to 31 December 2008 and exempted from PRC EIT.

According to the New Law, starting from 1 January 2008, 10% withholding income tax will be imposed on the dividends relating to profits earned by the companies established in the PRC in the calendar year 2008 onwards to their foreign shareholders. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. The Group has applied the preferential rate of 5% as all the Group's subsidiaries in the PRC are directly held by an investment holding company incorporated in Hong Kong. No deferred tax has been provided for in respect of the temporary differences attributable to such profits as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. DIVIDENDS

	2008 HK$'000	2007 HK$'000
Interim – HK1.5 cents (2007: HK2.0 cents) per ordinary share	**4,533**	6,044
Proposed final – nil (2007: HK2.5 cents) per ordinary share	**–**	7,555
	4,533	13,599

14. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the Company of approximately HK$13,312,000 (2007: HK$41,810,000) and the weighted average number of 302,200,000 (2007: 302,200,000) ordinary shares in issue during the year.

No diluted earnings per share has been presented for the year ended 31 December 2008 as no diluting events existed during the year.

The calculation of diluted earnings per share for the year ended 31 December 2007 is based on the profit for that year attributable to equity holders of the Company. The weighted average number of 302,883,000 ordinary shares used in the calculation is the number of ordinary shares in issue during that year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares that would be issued at nil consideration assuming all outstanding share options of the Company were exercised to subscribe for ordinary shares of the Company at the beginning of that year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold 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/VALUATION							
As at 1 January 2007	102,654	7,035	94,935	4,260	3,978	20,357	233,219
Additions	1,153	370	14,216	502	613	30,881	47,735
Disposals/written off	(9)	–	(1,406)	(130)	–	–	(1,545)
Transfers	2,429	29	2,226	87	–	(4,771)	–
Exchange realignment	5,847	328	5,992	266	170	1,393	13,996
At as 31 December 2007 and 1 January 2008	112,074	7,762	115,963	4,985	4,761	47,860	293,405
Additions	367	220	19,168	950	881	45,622	67,208
Disposals/written off	(176)	(685)	(1,748)	(111)	(676)	–	(3,396)
Transfers	93,656	–	–	–	–	(93,656)	–
Exchange realignment	9,921	521	10,550	357	321	2,287	23,957
As at 31 December 2008	215,842	7,818	143,933	6,181	5,287	2,113	381,174
At cost	113,188	7,818	143,933	6,181	5,287	2,113	278,520
At valuation	102,654	–	–	–	–	–	102,654
	215,842	7,818	143,933	6,181	5,287	2,113	381,174
ACCUMULATED DEPRECIATION							
As at 1 January 2007	17,159	2,732	51,257	2,561	2,836	–	76,545
Charge for the year	4,076	699	10,640	704	516	–	16,635
Eliminated on disposals/written back	–	–	(686)	(126)	–	–	(812)
Exchange realignment	1,228	72	3,275	171	122	–	4,868
At as 31 December 2007 and 1 January 2008	22,463	3,503	64,486	3,310	3,474	–	97,236
Charge for the year	4,357	744	12,906	724	552	–	19,283
Eliminated on disposals/written back	(99)	(176)	(1,336)	(100)	(642)	–	(2,353)
Exchange realignment	1,838	146	5,820	215	203	–	8,222
As at 31 December 2008	28,559	4,217	81,876	4,149	3,587	–	122,388
CARRYING VALUES							
As at 31 December 2008	187,283	3,601	62,057	2,032	1,700	2,113	258,786
As at 31 December 2007	89,611	4,259	51,477	1,675	1,287	47,860	196,169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The directors of the Company estimated certain of the Group's leasehold land and buildings at revalued amounts with reference to the valuation report performed by an independent qualified valuer on existing use basis. Such leasehold land and buildings were not revalued at 31 December 2008. In the opinion of directors, the valuations of these leasehold land and buildings is similar with their carrying values as at 31 December 2008.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$74,093,000 (2007: HK$67,109,000) in aggregate.

The leasehold land and buildings are situated in the PRC under medium-term lease.

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

Leasehold land and buildings	Over the shorter of the term of the lease or 20-50 years
Leasehold improvements	10% to 20%
Plant and machinery	10% to 20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

The carrying value of the Group's property, plant and equipment held under finance leases included in the total amount of plant and machinery at 31 December 2008 amounted to approximately HK$3,384,000 (2007: HK$4,624,000).

Certain of the Group's property, plant and equipment are leased to a related party, further details of which are included in note 36(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. PREPAID LAND LEASE PAYMENTS

	2008 HK$'000	2007 HK$'000
The Group's prepaid land lease payments comprise:		
Land outside Hong Kong		
Medium-term lease	**21,645**	22,253
Analysed for reporting purposes as:		
Current assets	**551**	528
Non-current assets	**21,094**	21,725
	21,645	22,253

17. GOODWILL

	2008 HK$'000	2007 HK$'000
As at 1 January	**25,723**	25,723
Less: Adjustment to cost of investment due to refund of shortfall of guaranteed profits	**(3,543)**	–
As at 31 December	**22,180**	25,723

The adjustment to goodwill represents the compensation received or receivable for the shortfall of guaranteed profits in accordance with the terms of the acquisition agreement.

The goodwill was recognised on acquisition of subsidiaries, which are engaged in the manufacture and trading of golf equipment and golf bag business. For the purposes of impairment testing, goodwill has been allocated to the cash generating units of manufacture and trading of golf equipment and golf bag business ("CGUs") with carried amount of approximately HK$12,389,000 and HK$9,791,000 respectively (2007: HK$12,389,000 and HK$13,334,000 respectively).

Management of the Group considers cashflow projections which was prepared based on financial budgets covering respective period of goodwill and determined that there was no impairment of any of its CGUs containing goodwill as at 31 December 2008 and 31 December 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. GOODWILL (continued)

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the CGUs, which covers the above goodwill is determined from a value-in-use calculation. The key assumptions for the value-in-use calculation are those regarding the discount rate, growth rate, and expected changes to selling prices and direct costs during the year. The Group estimates discount rate using the prevailing market rate of return of similar companies in the market adjusted with the specific risks relating to relevant subsidiaries.

The Group prepares five-year cash flow forecasts (the "Forecasts") derived from the CGU's financial budgets for 2009 to 2013, which are approved by the management of the respective CGU. The growth rates of 8-12% (2007: 8-12%) are based on Group's growth forecasts. The rate used to discount the Forecasts is 6% (2007: 7%). Changes in selling prices and direct costs are based on the management's past experience and expectations of future changes in the relevant markets. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the CGUs to exceed the respective aggregate recoverable amounts.

18. CLUB DEBENTURES

The club debentures represent club membership in the PRC private clubs. The directors consider no impairment identified with reference to the second hand market price of the club debentures as at the respective balance sheet dates.

19. DEPOSITS AND OTHER RECEIVABLES

Included in the deposits and other receivables of approximately HK$875,000 (2007: HK$1,167,000) represents loans advanced to employees of the Group. The loans are unsecured, bear interest at rates ranging from 1.5% to 5.5% per annum and are not repayable within the next twelve months from the balance sheet date. The remaining balances are the deposits and receivables which are unsecured, non-interest bearing and are not repayable within the next twelve months from the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	**58,582**	56,497
Work in progress	**50,904**	39,288
Finished goods	**58,873**	65,772
	168,359	161,557

21. TRADE AND OTHER RECEIVABLES

	2008 HK$'000	2007 HK$'000
Trade receivables		
Trade receivables	**49,909**	57,285
Less: impairment losses recognised	**(11,416)**	(9,840)
	38,493	47,445
Other receivables		
Prepayments	**1,178**	6,351
Deposits and other receivables	**37,308**	19,913
Amount due from a director *(note 22)*	**24**	36
	38,510	26,300
	77,003	73,745

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. TRADE AND OTHER RECEIVABLES (continued)

The movements in provision for impairment of trade receivables of the Group are as follows:

	2008 HK$'000	2007 HK$'000
At 1 January	**9,840**	10,771
Impairment losses recognised	**1,576**	–
Amount written off as uncollectable	**–**	(931)
At 31 December	**11,416**	9,840

Included in the above provision for impairment of trade receivables are a provision for individually impaired trade receivables of HK$11,416,000 (2007: HK$9,840,000). The individually impaired trade receivables relate to customers that were in financial difficulties or with whom the Group had dispute relating to warranties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

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

	2008 HK$'000	2007 HK$'000
Neither past due nor impaired	**9,205**	24,242
1 to 3 months past due	**12,894**	18,484
4 to 6 months past due	**10,206**	964
7 to 12 months past due	**1,624**	2,030
Over 1 year past due	**4,564**	1,725
	38,493	47,445

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. TRADE AND OTHER RECEIVABLES (continued)

Included in trade and other receivables in the consolidated balance sheet are mainly the following amounts denominated in currencies other than the functional currency of the Group to which they relate:

	2008 '000	2007 '000
US$	**4,067**	3,899
RMB	**7,439**	14,991

22. AMOUNT DUE FROM A DIRECTOR

Particulars of amount due from a director, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Name	**As at 31 December 2008 HK$'000**	**Maximum amount outstanding during 2008 HK$'000**	As at 31 December 2007 HK$'000	Maximum amount outstanding during 2007 HK$'000
Chang Hua Jung	**24**	**36**	36	130

The amount due is unsecured, interest-free and repayable on demand.

23. DERIVATIVE FINANCIAL INSTRUMENT

	2008 HK$'000	2007 HK$'000
Derivative financial asset – current		
Foreign currency option contract	**97**	–

The foreign currency option contract represents the exchange of US$ and HK$ with various transaction dates up to 30 December 2009. The contract is normally settled other than by physical delivery of the underlying foreign currency and hence is classified as a derivative financial instrument. On each of the transaction dates, the contracted rate is compared to the market rate and the differential is applied to the notional amounts. A net amount may be paid or received by the Group according to the contract terms. The derivative is measured at fair value at the balance sheet date. The fair value is determined with reference to the banker's valuation of the option at balance sheet date. The Group's derivative financial instrument is denominated in US$.

The gain arising from changes in fair value of foreign currency option contract for the year is approximately HK$97,000 (2007: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. CASH AND CASH EQUIVALENTS

	2008	2007
	HK$'000	HK$'000
Cash and bank balances	**28,079**	66,900
Time deposits	**2,000**	13,169
	30,079	80,069

Time deposits represents the following:

	2008	2007
	HK$'000	HK$'000
Non-pledged time deposit with original maturity of less than three months when acquired	**2,000**	5,263
Non-pledged time deposit with original maturity of more than three months when acquired	**–**	7,906
	2,000	13,169

Cash and cash equivalents in the consolidated balance sheet are mainly the following amounts denominated in currencies other than the functional currency of the Group to which they relate:

	2008	2007
	'000	'000
US$	**2,383**	5,036
RMB	**5,387**	21,620
MOP	**3**	4

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are generally made depending on the cash requirements of the Group, and earn interest at the respective floating time deposit rates.

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to approximately RMB5,387,000 equivalent to HK$6,192,000 (2007: RMB21,620,000 equivalent to HK$22,758,000). 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 other currencies through banks authorised to conduct foreign exchange business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. TRADE AND OTHER PAYABLES

	2008 HK$'000	2007 HK$'000
Trade and bills payables	58,314	84,099
Customers' deposits received	6,620	5,980
Accrual and other payables	24,244	36,285
	89,178	126,364

The ageing analysis of trade and bill payables of the Group was as follows:

	2008 HK$'000	2007 HK$'000
Within 3 months	38,616	69,821
4 to 6 months	13,528	10,855
7 to 12 months	4,861	3,039
Over 1 year	1,309	384
	58,314	84,099

Included in trade and other payables in the consolidated balance sheet are mainly the following amounts denominated in currencies other than the functional currency of the Group to which they relate:

	2008 '000	2007 '000
US$	1,772	4,444
RMB	51,214	61,392

26. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF A SUBSIDIARY

The amounts due to minority shareholders of a subsidiary are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. BANK BORROWINGS

	2008 HK$'000	2007 HK$'000
Term loans, unsecured	**172,083**	186,000
Trust receipts and packing loans, unsecured	**62,099**	25,606
	234,182	211,606
Bank borrowings repayable:		
On demand or within one year	**165,774**	105,039
More than one year but not exceeding two years	**51,996**	75,908
More than two years but not more than five years	**16,412**	30,659
	234,182	211,606
Less: Amounts due within one year shown under current liabilities	**(165,774)**	(105,039)
	68,408	106,567

Included in bank borrowings in the consolidated balance sheet are mainly the following amounts denominated in currencies other than the functional currency of the Group to which they relate:

	2008 '000	2007 '000
US$	**4,489**	2,999
RMB	**9,985**	–

Notes:

(a) All bank borrowings of the Group bear interest at floating interest rates. The effective interest rates of these bank borrowings ranging from 1.7% to 6.6% (2007: 4.0% to 6.6%) per annum.

(b) During the year ended 31 December 2008, the Group advanced new borrowings of approximately HK$102,616,000 (2007: HK$136,106,000) to finance its working capital.

(c) As at 31 December 2008, the Company has provided guarantees in relation to bank borrowings granted to certain subsidiaries up to approximately HK$234,182,000 (2007: HK$211,606,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain of its plant and machinery for its golf equipment manufacturing business. These leases are classified as finance leases, the average lease term of these leases is five year (2007: five years) and have remaining lease terms of 10 months to 19 months.

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

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**1,404**	1,480	**1,382**	1,344
More than one year, but not exceeding two years	**733**	1,450	**730**	1,379
More than two years, but not exceeding five years	**–**	759	**–**	747
	2,137	3,689	**2,112**	3,470
Less: Future finance charges	**(25)**	(219)	**N/A**	N/A
Present value of lease obligations	**2,112**	3,470	**2,112**	3,470
Less: Amounts due within one year shown under current liabilities			**(1,382)**	(1,344)
Amounts due after one year			**730**	2,126

All obligations under finance leases of the Group bear interest at floating interest rates. The effective interest rates of these obligations under finance leases ranging from 2.1% to 5.6% (2007: 4.4% to 6.8%).

All obligations under finance leases are denominated in HK$.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. DEFERRED TAX LIABILITIES

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

	Depreciation allowance in excess of related depreciation	Revaluation of land and buildings	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2007	335	2,383	2,718
Credited to the consolidated income statement during the year *(note 12)*	(321)	(64)	(385)
At 31 December 2007 and 1 January 2008	14	2,319	2,333
Credited to the consolidated income statement during the year *(note 12)*	(14)	(180)	(194)
Effect of change in tax rate	–	(129)	(129)
At 31 December 2008	–	2,010	2,010

At the balance sheet date, the Group had tax losses of approximately HK$4,190,000 (2007: HK$830,000) available for offset against future profits of which HK$830,000 (2007: HK$830,000) may be carried forward indefinitely. No deferred asset has been recognised in respect of the tax losses due to the unpredictability of future income stream.

30. SHARE CAPITAL

	2008	2007
	HK$'000	HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid:		
302,200,000 ordinary shares of HK$0.1 each	**30,220**	30,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. SHARE OPTION SCHEME

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the two years ended 31 December 2008 and 31 December 2007:

2008

Name or category of participant	Number of share options: At 1 January 2008	Expired during the year	At 31 December 2008	Date of grant of share options	Exercise period of share option	Exercise price of share option HK$	Percentage of outstanding options to total shares
Director							
Chang Hua Jung	1,000,000	(1,000,000)	–	3-8-2006	3-8-2006 to 31-7-2008	0.70	N/A
Others							
In aggregate	3,000,000	(3,000,000)	–	3-8-2006	3-8-2006 to 31-7-2008	0.70	N/A
	4,000,000	(4,000,000)	–				

2007

Name or category of participant	Number of share options: At 1 January 2007	Expired during the year	At 31 December 2007	Date of grant of share options	Exercise period of share option	Exercise price of share option HK$	Percentage of outstanding options to total shares
Director							
Chang Hua Jung	1,000,000	–	1,000,000	3-8-2006	3-8-2006 to 31-7-2008	0.70	0.3%
Other employees							
In aggregate	1,100,000	(1,100,000)	–	9-6-2005	4-7-2005 to 8-6-2007	0.83	N/A
Others							
In aggregate	3,000,000	–	3,000,000	3-8-2006	3-8-2006 to 31-7-2008	0.70	1.0%
	5,100,000	(1,100,000)	4,000,000				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. DEREGISTRATION OF A SUBSIDIARY

On 25 July 2008, a 51% owned subsidiary of the Group, Sino Victory Sourcing and Distribution Company Limited, was de-registered.

The net assets of Sino Victory Sourcing and Distribution Company Limited as the date of de-registration were as follows:

	HK$'000
Other receivables	102
Minority interests	(50)
Loss on deregistration	(52)
	–

The subsidiary de-registered during the year ended 31 December 2008 had no significant impact on the turnover and results of the Group.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its plant and machinery (note 15) under operating lease arrangements, the general lease term for the leases are one year.

Rental income earned from leasing of certain plant and machinery during the year was HK$186,000 (2007: HK$186,000). All of the plant and machinery held have committed tenants for the next year.

As at 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants and lessees falling due as follows:

	2008	2007
	HK$'000	HK$'000
Within one year	**270**	1,880
In the second to fifth years, inclusive	**–**	150
	270	2,030

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. OPERATING LEASE ARRANGEMENTS

(b) As lessee

The Group leases certain of its office properties, production plants and staff quarters under operating lease arrangements, with leases negotiated for terms ranging from one to ten years and have remaining lease terms within five years as at 31 December 2008 (2007: within five years). The Group does not have an option to purchase the leased asset at the expiry of the lease period.

As at 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2008	2007
	HK$'000	HK$'000
Within one year	**6,093**	6,189
In the second to fifth years, inclusive	**4,581**	8,106
	10,674	14,295

34. CAPITAL COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

	2008	2007
	HK$'000	HK$'000
Contracted, but not provided for:		
Leasehold land and buildings	**2,518**	15,144
Plant and machinery	**4,373**	4,176
	6,891	19,320

35. RETIREMENT BENEFITS SCHEMES

Subsidiaries in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the subsidiaries in an independently administered fund. The subsidiaries' employer contributions vest fully with the employees when contributed into the MPF Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. RETIREMENT BENEFITS SCHEMES (continued)

The employees in the Group, which operates in the PRC is required to participate in pension schemes operated by the local governments. The Group is required to contribute 5% to 13% (2007: 5% to 13%) of their payroll costs to the schemes. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the pension schemes.

At 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the above schemes in future years (2007: Nil).

36. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the years:

	Notes	**2008** **HK$'000**	2007 HK$'000
Rental expenses paid to Progolf Manufacturing Company Limited ("Progolf")	*(i)*	**840**	840
Rental expenses paid to Oriental Leader Limited ("Oriental")	*(i)*	**–**	600
Rental income from Sino Sporting Company Limited ("Sino Sporting")	*(ii)*	**186**	186

Notes:

(i) 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. The rental expenses were determined at rates agreed between the Group and the corresponding related parties.

(ii) Augustine Chu and Simon Chu, have beneficial interests in Sino Sporting. The rental rates were based on the terms of the agreement entered into among the parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. RELATED PARTY TRANSACTIONS (continued)

(b) Key management compensation

Key management personnel of the Group includes all the directors and the five highest paid individuals. Details of compensation of directors and the five highest paid individuals are included in note 11.

37. BALANCE SHEET OF THE COMPANY

	2008 HK$'000	2007 HK$'000
Non-current assets		
Investments in subsidiaries	**15,717**	15,717
Club debentures	**1,560**	1,560
	17,277	17,277
Current assets		
Amounts due from subsidiaries *(note(i))*	**88,123**	95,783
Trade and other receivables	**152**	145
Cash and cash equivalents	**38**	287
	88,313	96,215
Current liabilities		
Trade and other payables	**44**	60
Net current assets	**88,269**	96,155
Net assets	**105,546**	113,432
Capital and reserves		
Share capital	**30,220**	30,220
Reserves *(note(ii))*	**75,326**	83,212
	105,546	113,432

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. BALANCE SHEET OF THE COMPANY (continued)

Notes:

(i) The amounts due from subsidiaries are unsecured, interest-free and repayable on demand

(ii) Reserves

	Share premium	Contributed surplus	Share option reserve	Retained profits	Proposed final dividend	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	57,270	15,516	395	1,461	6,648	81,290
Expiry of share options	–	–	(83)	83	–	–
Profit for the year	–	–	–	14,614	–	14,614
2006 final dividend declared	–	–	–	–	(6,648)	(6,648)
2007 interim dividend	–	–	–	(6,044)	–	(6,044)
Proposed 2007 final dividend	–	–	–	(7,555)	7,555	–
At 31 December 2007 and 1 January 2008	57,270	15,516	312	2,559	7,555	83,212
Expiry of share options	–	–	(312)	312	–	–
Profit for the year	–	–	–	4,202	–	4,202
2007 final dividend declared	–	–	–	–	(7,555)	(7,555)
2008 interim dividend	–	–	–	(4,533)	–	(4,533)
At 31 December 2008	57,270	15,516	–	2,540	–	75,326

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 Bermuda Companies Act, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2008.

Name	Place of incorporation/ registration and operations	Nominal value of issued shares/ paid up capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Sino Golf (BVI) Company Limited	British Virgin Islands/ Hong Kong	US$101	100	–	Investment holding
Sino Golf Manufacturing Company Limited	Hong Kong	HK$2 (ordinary) HK$3,842,700 (non-voting deferred) (note 3)	–	100	Investment holding and trading of golf equipment and accessories
增城順龍 *(note 2)*	PRC	HK$111,700,000	–	100	Manufacture and trading of golf equipment and accessories
Guangzhou Sino Concept Golf Manufacturing Co., Ltd. *(note 2)*	PRC	HK$30,000,000	–	100	Manufacture and trading of golf equipment and accessories
CTB Golf (HK) Limited	Hong Kong	HK$10,000,000 (ordinary) HK$2,730,000 (preference)	–	100	Trading of golf bags and accessories
東莞騏衡 *(note 2)*	PRC	HK$38,000,000	–	100	Manufacture and trading of golf bags
Xiamen Sino *(note 2)*	PRC	US$5,212,680	–	100	Manufacture and trading of golf equipment
Linyi Sino Golf *(notes 2&4)*	PRC	HK$98,000,000	–	100	Manufacture and trading of golf equipment and accessories
Sino Golf (USA), Inc.	USA	US$1,000	–	100	Trading of golf bags
Sino Golf Comercial Offshore De Macao Limitada	Macau	MOP 100,000	–	100	Trading of golf equipment and accessories
臨沂順發精密模具製造) 有限公司(“臨沂順發”) *(notes 2&5)*	PRC	–	–	100	Not yet commence business
萍鄉順達隆高爾夫球製品 有限公司(“萍鄉順達隆”) *(notes 2&6)*	PRC	–	–	100	Not yet commence business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. PRINCIPAL SUBSIDIARIES (continued)

Notes:

1. The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantive portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2. Wholly-foreign-owned enterprises established under the PRC law.

3. The non-voting deferred shares carry no rights to dividends and no rights to receive notice of or attend or vote at any general meeting of the company. The holders of the non-voting deferred shares shall be entitled to any surplus in return of capital in respect of one half of the balance of assets after the first HK$100,000,000,000,000 has been distributed to the holders of ordinary shares, in a winding up or otherwise the assets of the Company to be returned.

4. Pursuant to four verification reports, the paid-up capital of Linyi Sino Golf was increased from HK$54,561,228 to HK$98,000,000, which was fully paid up by the Group during the year ended 31 December 2008.

5. 臨沂順發 was established under the laws of the PRC with limited liability on 30 April 2008 with an operating period of 20 years. The registered capital of the Company was US$3,000,000 (equivalent to HK$23,400,000). No paid-up capital has been paid as at 31 December 2008. The unpaid registered capital should be contributed by the company within three years from the date of establishment of 臨沂順發.

6. 萍鄉順達隆 was established under the laws of the PRC with limited liability on 2 July 2008 with an operating period of 20 years. The registered capital of the Company was US$2,500,000 (equivalent to HK$19,500,000). No paid-up capital has been paid as at 31 December 2008. The unpaid registered capital should be contributed by the company within three years from the date of establishment of 萍鄉順達隆.

None of the subsidiaries had any debt securities outstanding as at the end of the year or at any time during the year.

39. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December 2008 HK$'000	Year ended 31 December 2007 HK$'000	Year ended 31 December 2006 HK$'000	Year ended 31 December 2005 HK$'000	Year ended 31 December 2004 HK$'000
			(Restated)	(Restated)	(Restated)
RESULTS					
TURNOVER	**446,659**	567,668	493,376	367,257	393,945
Cost of sales	**(344,229)**	(423,478)	(359,597)	(264,935)	(271,723)
Gross profit	**102,430**	144,190	133,779	102,322	122,222
Other operating income	**6,265**	7,661	5,781	11,742	8,510
Selling and distribution costs	**(12,654)**	(21,590)	(23,850)	(12,273)	(11,495)
Administrative expenses	**(55,584)**	(57,982)	(53,549)	(50,243)	(57,512)
Other expenses	**(10,541)**	(6,714)	(6,844)	(7,511)	(22,277)
Finance costs	**(15,875)**	(22,576)	(20,603)	(12,058)	(9,790)
PROFIT BEFORE TAX	**14,041**	42,989	34,714	31,979	29,658
Income tax expenses	**(748)**	(1,179)	(1,580)	(1,130)	(1,706)
PROFIT FOR THE YEAR	**13,293**	41,810	33,134	30,849	27,952
Attributable to:					
Equity holders of the Company	**13,312**	41,810	33,315	31,560	28,160
Minority interests	**(19)**	–	(181)	(711)	(208)
	13,293	41,810	33,134	30,849	27,952

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
TOTAL ASSETS	**585,494**	587,549	489,302	453,290	429,547
TOTAL LIABILITIES	**(329,064)**	(345,950)	(288,941)	(267,300)	(258,351)
MINORITY INTERESTS	**(2,502)**	(2,571)	(2,567)	(2,672)	(10,697)
	253,928	239,028	197,794	183,318	160,499