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SINO GOLF HOLDINGS LIMITED

順龍控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 00361)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
Results	2010	2009	Changes
	HK\$'000	HK\$'000	Increase/
	(unaudited)	(unaudited)	(Decrease)
Group turnover	200,966	138,017	45.6%
from golf equipment segment	182,205	112,292	62.3%
from golf bag segment	18,761	25,725	(27.1%)
Gross Profit	45,083	17,554	156.8%
EBITDA	26,071	(1,595)	1,734.5%
Profit (loss) attributable to owners of the parent	8,747	(15,872)	155.1%
	HK cents	HK cents	
Earnings (loss) per share attributable to owners of the parent			
– Basic	2.89	(5.25)	
– Diluted	2.85	N/A	
Interim dividend per ordinary share	–	–	

FINANCIAL HIGHLIGHTS *(Continued)*

Group

- With the pick up of new first-tier customers and the resumption in the market demand, the Group has achieved a remarkable surge in revenues and successfully reverted to profitability.
- The average gross profit margin attained 22.4%, up from 12.7% of the comparative preceding period.
- EBITDA soared to HK\$26.1 million from a negative amount of HK\$1.6 million for the comparative preceding period, mainly due to the strong rebound in sale volume.

Golf Equipment Segment

- The Shandong manufacturing facility in the People's Republic of China ("the PRC") made increased contribution to the Group taking advantage of greater production capacity and lower operating costs.
- The golf equipment business will grow further as certain other first-tier name brands are expected to be picked up by the Group.

Golf Bag Segment

- Total sales of the golf bag segment achieved a mild increase of 6.4% period on period. Nevertheless, the Group's turnover attributable to the golf bag segment showed a decrease by 27.1% after eliminating the inter-segmental golf bag sales of HK\$11,858,000 (2009: HK\$3,055,000), which were included in the sales price of golf club sets that incorporated golf bags as components and were classified as turnover of the golf equipment segment.

INTERIM RESULTS

The board of directors (the "Board") of Sino Golf Holdings Limited (the "Company") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2010 which have been reviewed by the Company's audit committee, together with the comparative figures for the six months ended 30 June 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	<i>Notes</i>	Six months ended 30 June	
		2010	2009
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	3	200,966	138,017
Cost of sales		(155,883)	(120,463)
Gross profit		45,083	17,554
Other operating income		1,902	2,535
Selling and distribution costs		(3,149)	(3,369)
Administrative expenses		(26,979)	(27,542)
Finance costs		(7,765)	(5,050)
Profit (loss) before taxation		9,092	(15,872)
Income tax expense	5	(358)	—
Profit (loss) for the period and total comprehensive income (expense) for the period	6	8,734	(15,872)
Profit (loss) for the period and total comprehensive income (expense) for the period attributable to:			
Owners of the parent		8,747	(15,872)
Non-controlling interests		(13)	—
		8,734	(15,872)
Earnings (loss) per share	8		
Basic		HK2.89 cents	HK(5.25) cents
Diluted		HK2.85 cents	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

		30 June 2010	31 December 2009
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		247,539	254,600
Prepaid lease payments		20,143	20,451
Goodwill		20,385	20,385
Club debentures		2,135	2,135
Deposits and other receivables		294	957
Prepayments for acquisition of property, plant and equipment		1,782	807
		292,278	299,335
Current assets			
Inventories		172,749	162,127
Trade and other receivables	9	87,189	72,850
Prepaid lease payments		597	597
Bank balances and cash		29,213	39,522
		289,748	275,096
Current liabilities			
Trade and other payables	10	67,263	65,675
Amounts due to minority shareholders of a subsidiary		462	462
Income tax payable		661	1,248
Bank borrowings – due within one year		209,112	194,794
Obligations under finance leases – due within one year		105	730
		277,603	262,909

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Net current assets	<u>12,145</u>	<u>12,187</u>
	<u>304,423</u>	<u>311,522</u>
Non-current liabilities		
Bank borrowings – due after one year	20,737	37,184
Loan from immediate holding company	23,020	23,678
Deferred taxation	<u>2,603</u>	<u>2,641</u>
	<u>46,360</u>	<u>63,503</u>
	<u>258,063</u>	<u>248,019</u>
Capital and reserves		
Share capital	30,220	30,220
Reserves	<u>225,359</u>	<u>215,297</u>
Equity attributable to owners of the parent	255,579	245,517
Non-controlling interests	<u>2,484</u>	<u>2,502</u>
Total equity	<u>258,063</u>	<u>248,019</u>

Notes:

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2009.

In the current interim period, the Group has applied for the first time some revised standards and amendments and interpretations (“HK(IFRIC)-INT”) (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning 1 January 2010. The adoption of the new HKFRSs has no material effect on the condensed consolidated financial statements for the current or prior accounting periods.

The Group has not early applied the following new and revised Hong Kong Accounting standards (“HKASs”), Hong Kong Financial Reporting Standards (“HKFRSs”), amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Amendments that are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 February 2010.

³ Effective for annual periods beginning on or after 1 July 2010.

⁴ Effective for annual periods beginning on or after 1 January 2011.

⁵ Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the condensed consolidated financial statements of the Group.

3. TURNOVER

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

4. SEGMENT INFORMATION

Management has determined the operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the directors of the Company) for the purpose of allocating resources to segments and assessing their performance.

For management purposes, the Group is currently organised into two operating divisions – golf equipment and golf bags.

Principal activities are as follows:

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

Information regarding the above segments is reported below.

(a) Segment revenue and results

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

	For the six months ended 30 June							
	Golf equipment		Golf bags		Eliminations		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment revenue:								
Sales to external customers	182,205	112,292	18,761	25,725	–	–	200,966	138,017
Inter-segment revenue	–	–	11,858	3,055	(11,858)	(3,055)	–	–
Other operating income	1,397	1,623	245	332	–	–	1,642	1,955
Total	<u>183,602</u>	<u>113,915</u>	<u>30,864</u>	<u>29,112</u>	<u>(11,858)</u>	<u>(3,055)</u>	<u>202,608</u>	<u>139,972</u>
Segment results	<u>17,689</u>	<u>(8,367)</u>	<u>2,364</u>	<u>224</u>	<u>–</u>	<u>–</u>	<u>20,053</u>	<u>(8,143)</u>
Interest income							260	580
Unallocated corporate expenses							(3,456)	(3,258)
Finance costs							<u>(7,765)</u>	<u>(5,051)</u>
Profit (loss) before taxation							<u>9,092</u>	<u>(15,872)</u>

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

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

(b) Segment assets

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

	Golf equipment		Golf bags		Consolidated	
	30.6.2010	31.12.2009	30.6.2010	31.12.2009	30.6.2010	31.12.2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)
Segment assets	<u>508,529</u>	<u>486,774</u>	<u>40,589</u>	<u>43,290</u>	<u>549,118</u>	<u>530,064</u>
Unallocated corporate assets						
– Club debentures					2,135	2,135
– Bank balances and cash					29,213	39,522
– Others					<u>1,560</u>	<u>2,710</u>
Total assets					<u>582,026</u>	<u>574,431</u>

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

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
– Hong Kong	350	–
– PRC Enterprise Income Tax (“EIT”)	46	–
	<u>396</u>	<u>–</u>
Deferred taxation	(38)	–
	<u>358</u>	<u>–</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 June 2010 and 2009.

Hong Kong Profits Tax has not been provided in the condensed consolidated interim financial statements as there was no estimated assessable profit derived from Hong Kong for the six months ended 30 June 2009.

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

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.* (廣州順興高爾夫球製品有限公司), Linyi Sino Golf Co., Ltd., Dongguan Qi Heng CTB Co., Ltd.* (東莞騏衡運動用品製造有限公司) and Xiamen Sino Talent Golf Manufacturing Co., Ltd. are entitled to exemption from PRC EIT in the first two years starting from the first profit-making year, followed by a 50% reduction in the next three years.

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

* The English names are for identification only.

6. PROFIT (LOSS) FOR THE PERIOD

The Group's profit (loss) for the period is arrived at after charging:

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Amortisation of prepaid lease payments	299	309
Bad debts directly written off	174	—
Cost of inventories sold	155,883	120,463
Depreciation of property, plant and equipment	11,315	10,421
Impairment loss recognised in respect of trade receivables	196	—
Loss on disposal of property, plant and equipment	—	512
Loss on deregistration of a subsidiary	8	—
Research and development costs	2,132	—
Write-off of inventories (included in administrative expenses)	—	1,411
	<u> </u>	<u> </u>

7. DIVIDENDS

No dividends were paid, declared or proposed during or subsequent to the reporting period. The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

8. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the parent is based on the following data:

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings (loss)		
Earnings (loss) for the purposes of basic and diluted earning (loss) per share	<u>8,747</u>	<u>(15,872)</u>
	Six months ended 30 June	
	2010	2009
	'000	'000
Number of share		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	302,200	302,200
Effective of dilutive potential ordinary share:		
Options	<u>4,500</u>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>306,700</u>	<u>302,200</u>

9. TRADE AND OTHER RECEIVABLES

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Trade receivables	53,380	42,002
Less: impairment losses recognised	<u>(13,740)</u>	<u>(13,544)</u>
	<u>39,640</u>	<u>28,458</u>
Prepayments	583	1,625
Deposits and other receivables	<u>46,966</u>	<u>42,767</u>
	<u>47,549</u>	<u>44,392</u>
	<u>87,189</u>	<u>72,850</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period 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.

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

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Neither past due nor impaired	34,646	16,396
1 to 3 months past due	4,714	10,120
4 to 6 months past due	69	48
7 to 12 months past due	100	1,894
Over 1 year past due	<u>111</u>	<u>—</u>
	<u>39,640</u>	<u>28,458</u>

10. TRADE AND OTHER PAYABLES

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Trade and bills payables	51,824	46,405
Customers' deposit received	2,808	2,973
Amount due to a director (<i>Note ii</i>)	–	1,160
Accrual and other payables	12,631	15,137
	<u>67,263</u>	<u>65,675</u>

Notes:

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

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Within 3 months	24,742	30,028
4 to 6 months	17,130	8,064
7 to 12 months	6,340	5,104
Over 1 year	3,612	3,209
	<u>51,824</u>	<u>46,405</u>

- (ii) The amount due to a director is unsecured, non-interest bearing and was settled during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The global economy has shown a general recovery from the recession caused by the financial tsunami. During the period, the golf industry rebounded moderately with major golf name brands pursuing a more aggressive strategy on bulk orderings in view of the improved market conditions. Despite the various uncertainties yet to be overcome, it is hopeful that the economic recovery could be sustained and last long enough to generate extra momentum to boost businesses.

With the successful pick up of new first-tier customers and a partial resumption in the market demand, our Group's business achieved a remarkable surge in the sales of golf equipment while realizing a mild increase in the golf bags volume. Though the market conditions have apparently improved, the economy remains fragile and susceptible to fluctuations. In the strive for continued growth and development, golf equipment manufacturers were endeavoring to exploit revenues while streamlining operations to rationalize costs. Notwithstanding a more favorable market sentiment prevailing, there is no assurance that the economy would continue to prosper without material fluctuations.

The Group's turnover for the period soared significantly, period on period, by over 45% to HK\$201 million. Gross profit grew to HK\$45.1 million from HK\$17.6 million for the comparative preceding period. Attributed to the increase in revenues, the Group has successfully reverted to profitability from the economic depression sustained since late 2008. With the strengthened customer base and enhanced manufacturing capability, our Group is better equipped to pursue its corporate goals to gain market share and enhance industry recognition. It is anticipated that the Group will procure business from other first-tier golf name brands in the short term to contribute extra revenues. Overall, we are seeing an encouraging progress towards our mission to provide one-stop premium services to the customers and uphold our role as a key market participant.

Financial Results

Consolidated turnover for the six months ended 30 June 2010 increased, period on period, by 45.6% to HK\$200,966,000. Profit attributable to owners of the parent amounted to HK\$8,747,000 in contrast to a loss of HK\$15,872,000 for the corresponding period in 2009. Basic earnings per share was HK2.89 cents for the period (2009: loss per share of HK5.25 cents). Diluted earnings per share was HK2.85 cents (2009: N/A). No diluted loss per share was presented in respect of the comparative preceding period, as no diluting events existed during that period. The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: nil).

During the first half of 2010, turnover of the golf equipment segment surged, period on period, by 62.3% to HK\$182,205,000 and accounted for 90.7% of the Group's turnover. Due to the effect of eliminating inter-segmental sales of HK\$11,858,000 (2009: HK\$3,055,000), the Group's turnover attributable to the golf bag segment decreased, period on period, by 27.1% to HK\$18,761,000, representing 9.3% of the consolidated turnover for the period. There was significant increase in the inter-segmental sales of golf bags mainly attributable to the sale of golf club sets comprising golf bags as components to

certain customers. Revenues from the sale of golf club sets were classified to form part of the turnover of the golf equipment segment. In terms of total sales, the golf bag segment has realized, period on period, a moderate increase of 6.4% indeed. With the strong rebound in sales volume, gross profit for the period climbed to HK\$45,083,000 from HK\$17,554,000 for the comparative preceding period. On the other hand, average gross profit margin also improved to 22.4% (2009: 12.7%) mainly attributable to the increased sales volume.

Other operating income for the period decreased to HK\$1,902,000 from HK\$2,535,000 for the comparative preceding period, mainly due to the drop in interest income and subcontracting fee income.

Selling and distribution costs for the period decreased slightly to HK\$3,149,000 from HK\$3,369,000 for the comparative preceding period, mainly attributable to less commission expenses incurred. Administrative expenses for the period amounted to HK\$26,979,000 and did not show material fluctuation compared to HK\$27,542,000 for the comparative preceding period. On the other hand, finance costs for the period went up to HK\$7,765,000 from HK\$5,050,000 for the comparative preceding period, primarily owing to the increase in term loan interest and factoring charges on export shipments.

Benefited from the significant rebound in turnover, the Group has rebutted the loss situation to make a profit of HK\$8,747,000 for the first half of 2010 in contrast to the loss of HK\$15,872,000 sustained for the comparative preceding period.

Golf Equipment Business

As the main operating segment of the Group, revenues from the golf equipment business accounted for 90.7% of the Group's turnover for the period (2009: 81.4%). With the increased contribution from business with the new first tier customers, golf equipment sales for the period soared to HK\$182,205,000, showing an increase of 62.3% period on period. The segment turnover comprised golf clubs sales of HK\$162,600,000 and components sales of HK\$19,605,000, representing 89.2% and 10.8% respectively. For the golf clubs sales, the proportion of club sets versus individual clubs was 83.6% and 16.4% respectively. As regards components sales, club heads accounted for 69.2% leaving shafts and accessories taking up the balance.

Since shipments commenced in late 2009, sales to the new first-tier customer, which carries the world's most prominent golf brand, grew significantly to make it one of the Group's top two customers in the current period. During the first half of 2010, sales to the top two customers amounted to HK\$140,692,000 to account for 77.2% of the segment turnover or 70.0% of the Group's turnover, of which sales to the Group's then largest customer increased 21% period on period. Golf equipment sales to other customers showed moderate rebound taking advantage of a general resumption in the market demand during the period. With the strengthened customer portfolio, our Group maintains a confident view on the continued development of the golf equipment business notwithstanding a relatively volatile economic environment. Turnover generated from the top five golf equipment customers aggregated to HK\$162,321,000, representing 89.1% of the segment turnover or 80.8% of the Group's turnover for the period.

During the period, the Shandong manufacturing facility has been producing golf clubs principally for the new first-tier customer that carries the world's most prominent golf brand. To cater for the anticipated order volume and coupled with the Group's medium-term plan to relocate a majority of its production to the northern part of the PRC, the capacity of the Shandong manufacturing facility will further be expanded from the existing output of about 160,000 units per month to 250,000 units per month by early next year. Attributed to the lower labor and operating cost structure, the Shandong manufacturing facility is endowed to bring additional contribution to the Group's profitability through enhanced output. Besides, several golf bags production lines have been set up at the Shandong manufacturing facility to fulfill orders for golf club sets that include golf bags as components. This serves to streamline overall production efficiency and help reduce costs associated with transporting completed golf bags over long distances. The Shandong manufacturing facility signifies a milestone in our Group's development and provides an advanced platform to upgrade our Group's profile to effectively serve those top tier golf name brands that are seeking competitive high quality supply sources.

Pursuant to sound corporate practices, the Group continued with its policy to hedge receivables through factoring and credit insurance arrangements. Besides, the Group has effectively monitored the performance of individual customers and tightened the credit terms granted to customers generally. During the period, the Group received further distribution of HK\$486,000 from the trustee of the Huffy Unsecured Claims Trust in respect of the debt owed by the reorganized Huffy. Our management will review the circumstances again at the year end to assess the recoverability of the outstanding balance.

During the first quarter of 2010, the Group experienced a labor shortage pressure for its operations in the Guangdong province, the PRC. In order to better fulfill customers' orders, the Group has engaged additional subcontracting work to facilitate the delivery requirements from customers. The labor issue has improved during the second quarter when the statutory minimum wage rates were revised up to help normalize the labor supply in the market. However, the incurrence of more subcontracting work has somewhat increased the production cost which has affected our profit margins. During the period, raw materials and component costs did not fluctuate materially and this helped stabilize the profit margins against rising labor cost.

Supported by a growing business with the new first-tier customer, the golf equipment segment strongly rebounded to make a segmental profit of HK\$17,689,000 for the period in contrast to the segmental loss of HK\$8,367,000 for the comparative preceding period. Taking into account the prevailing market conditions and the current order book status, the management keeps a confident view that the golf equipment segment will continue to grow in the second half year as business with certain other first-tier golf brands are already in the pipeline.

Golf Bag Business

With the improved market conditions, total sales of the golf bag segment for the first half of 2010 showed a moderate increase of 6.4% compared to the corresponding period in 2009. However, due to the effect of eliminating inter-segmental sales of HK\$11,858,000 (2009: HK\$3,055,000) in arriving at the segment turnover, the Group's turnover attributable to the golf bag segment decreased, period on period, by 27.1% to HK\$18,761,000 and represented 9.3% of the consolidated turnover for the period (2009: 18.6%). The revenue attributable to the inter-segmental sales of golf bags had been included in the sales price of the related golf club sets that incorporated golf bags as components and was classified as the turnover of the golf equipment segment.

Of the segment turnover, golf bag sales accounted for 73.4% or amounted to HK\$13,771,000, while accessories sales comprising mainly shoe bags aggregated to HK\$4,990,000 or 26.6%. There has not been significant fluctuation in the product mix throughout these years. During the period, sales to the largest golf bag customer increased mildly by about 5.9% to HK\$13,841,000, accounting for 73.8% of the segment turnover or 6.9% of the Group's turnover. Turnover from the top five golf bag customers aggregated to HK\$16,572,000, representing 88.3% of the segment sales or 8.2% of the Group's turnover for the period.

During the period, sales of the Japan line of products increased mildly, period on period, by 2.4% to HK\$14,209,000 while sales of the non-Japan line of products, comprising mostly golf bags of American design, decreased 61.6%, period on period, to HK\$4,552,000. This has been mainly due to the significant increase in the inter-segmental sales of golf bags, comprising mostly non-Japan line of products, which revenue had been included in the sales price of the related golf club sets and was classified as turnover of the golf equipment segment. Of the segment turnover, the proportion of the Japan line and the non-Japan line of products was 75.7% and 24.3% respectively with the Japan line of products dominating the sales mix. The Group has pursued a strategy to actively developing and exploring both the Japan line and the non-Japan line of golf bags with an aim to gain market share and broaden the customer base. We are determined to allocate adequate resources to tap market opportunities that bring us both the volume and margins.

Major raw materials cost for golf bag production such as PVC, PU and nylon demonstrated a moderate upward trend during the period while the accessories price like those of metal parts and plastic components fluctuated within mild ranges. On the other hand, the labor cost did increase to reflect the revisions made to the statutory minimum wage rates in easing the labor shortage problem. To strengthen its competitive advantage, the golf bag segment has reinforced the measures implemented to streamline operations and rationalize costs. Our Group is devoted to continually developing the high-end golf bags to uphold our significant influence in the golf bag sector.

Motivated by a more favorable market sentiment, the performance of the golf bag segment improved and achieved a segmental profit of HK\$2,364,000 during the first half of 2010, up from HK\$224,000 for the comparative preceding period. Given the prevailing market conditions and the current order book status, our management expects that the golf bag segment will develop steadily subject to a challenging environment going forward.

Prospects

The Group's business recovered steadily after the financial tsunami. Sales have surged and continued to rebound beyond the first half of 2010. With the increased orders from customers following a general pick up in the global economy, the Group has successfully reverted to profitability from losses sustained in 2009. Since shipments commenced in late 2009, business with the world's most prominent golf brand has grown significantly to provide the impetus needed of reinforcing the Group's recovery and development. Besides, the establishment of the Shandong manufacturing facility proved to be a crucial move to enhance our competitive advantage through elevating the Group's productivity and technological capability.

Though the world economy has shown a general recovery in 2010, it is uncertain how long this may last to boost the economies under a highly volatile business environment. The threat of further economic or financial fluctuations cannot be ruled out as there still lies ahead many challenges and uncertainties the fragile economies have to overcome. Our Group has maintained a strong customer network through which we are regularly furnished with ad hoc market information and trends. We are highly adaptive to effectively cope with the market changes and customers' needs, which enable us to outperform other industry peers and progress towards our corporate goal to provide customers with competitive one-stop premium services. The growth potential with new top-tier customers looks promising and it is expected that additional first-tier name brands will be added to broaden our customer base during the second half year.

Currently, the Group has procured customer orders approximating to HK\$210 million for the second half of 2010, of which about HK\$175 million relates to golf equipment with the balance for golf bags. Taking into account the orders yet to be received for the rest of the year, it is anticipated that sales for 2010 would increase substantially over that of 2009. In addition, business with new customers has been growing consistently to help strengthen our customer portfolio. The Group is making every effort to ensure timely fulfillment of customer orders so as to take greatest benefit from the recovery cycle. Based on the current ordering trend and the prevailing economic conditions, management maintains a cautious but confident view about the business outlook for the year of 2010. It is anticipated that the golf equipment business will continue to grow during the second half of 2010 whilst the golf bag business develops at a reasonable pace as market conditions further improve. The Group has established a strong relationship with its customers and we remain aggressive to continually exploit business opportunities to broaden and diversify our client portfolio. We will also keep ourselves alert of market developments to ensure an efficient response in capturing opportunities as well as managing challenges.

The Chairman's Statement in the Company's 2009 annual report included a description of certain risks and uncertainties that could have an effect on the Group's business, future performance or financial condition. We have evaluated the current circumstances and noted no material change in the risk factors that warrants separate disclosure.

Liquidity and Financial Resources

The Group remained generally relying on internally generated cash flows and banking facilities to finance its operations. To effectively manage and restrict its exposure to financial risks, the Group has adopted appropriate policies and guidelines to help detect the existence of the financial risks for prompt follow up and rectifications.

At 30 June 2010, bank balances and cash, which were mostly denominated in United States dollars, Hong Kong dollars and Renminbi, amounted to HK\$29.2 million (31 December 2009: HK\$39.5 million). The decrease in bank balances and cash was mainly attributable to funds utilized in operating activities as business volume rebounded. Notwithstanding that, the Group followed the practice of maintaining sufficient funds to run its operations and discharge the liabilities as they fall due.

Borrowings of the Group other than the loan from immediate holding company are mostly denominated in Hong Kong dollars, United States dollars and Renminbi that carry interest at a certain spread over HIBOR/LIBOR or the interest rate promulgated by the Peoples' Bank of China from time to time. At 30 June 2010, interest-bearing borrowings of the Group comprising bank loans and finance lease payable aggregated to HK\$230.0 million (31 December 2009: HK\$232.7 million), of which HK\$209.2 million (31 December 2009: HK\$195.5 million) was repayable within one year. The loan from immediate holding company of HK\$23.0 million (31 December 2009: HK\$23.7 million) is unsecured, interest-free and has been extended to mature in March 2012. Besides, certain bank loans from the PRC banks of HK\$77 million (31 December 2009: HK\$46.0 million) are secured by the land and buildings of the Group with a carrying value of HK\$152.6 million (31 December 2009: HK\$157.3 million). The gearing ratio, defined as bank loans and finance lease payable less bank balances and cash of HK\$200.8 million divided by the owners' equity of HK\$258.1 million, was 77.8% as at 30 June 2010 (31 December 2009: 77.9%). The gearing ratio at 30 June 2010 would be restated as 86.7% (31 December 2009: 87.5%) if the loan from immediate holding company was included in computing the ratio.

It is our corporate objective to maintain a financial position that is supportive of the Group's long-term development and growth. At 30 June 2010, the total assets and net asset value of the Group amounted to HK\$582.0 million (31 December 2009: HK\$574.4 million) and HK\$258.1 million (31 December 2009: HK\$248.0 million) respectively. Current and quick ratios as at 30 June 2010 were 1.04 (31 December 2009: 1.05) and 0.42 (31 December 2009: 0.43) respectively. Both the current ratio and quick ratio remain relatively stable and showed no material fluctuation. The Group continues to explore feasible means to rationalize and improve its financial position.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND CONTINGENT LIABILITIES

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

At 30 June 2010, the Group had no significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICIES

At 30 June 2010, the Group employed a total of around 2,500 employees in Hong Kong and the PRC. It is the Group's policy to maintain a harmonious relation with its employees through provision of competitive remuneration packages and career development opportunities. The employees were remunerated based on their duties, experience and performance as well as industrial practices. The remuneration packages are reviewed annually to assure fairness and appropriateness and discretionary bonuses may be awarded to employees based on individual performance.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors of the Company. The audit committee has reviewed with management the accounting policies and practice adopted by the Group and discussed auditing, internal controls, and financial reporting matters including review of the financial statements for the six months ended 30 June 2010.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the directors. Upon specific enquiry, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2010.

REMUNERATION COMMITTEE

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules throughout the six months ended 30 June 2010, except for certain deviations, which are explained below:

- a) The roles of the chairman and chief executive officer have not been separated. The deviation is deemed appropriate as the Board believes that vesting the roles of both chairman and chief executive officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. It also considers that the current structure does not impair the balance of power and authority between the Board and the management of the Company.
- b) The independent non-executive directors have not been appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye Laws.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

ACKNOWLEDGEMENT

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

By order of the Board
Chu Chun Man, Augustine
Chairman

Hong Kong, 30 August 2010

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