Sino Golf Holdings Limited
順 龍 控 股 有 限 公 司

(Incorporated in Bermuda with limited liability)
(Stock Code: 0361)

Annual Report **2007**

CONTENTS

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

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

PRINCIPAL BANKERS

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

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
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REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

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19th Floor, Delta House
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Shatin
New Territories
Hong Kong

QUALIFIED ACCOUNTANT

CO, Man Kwong, Rochester

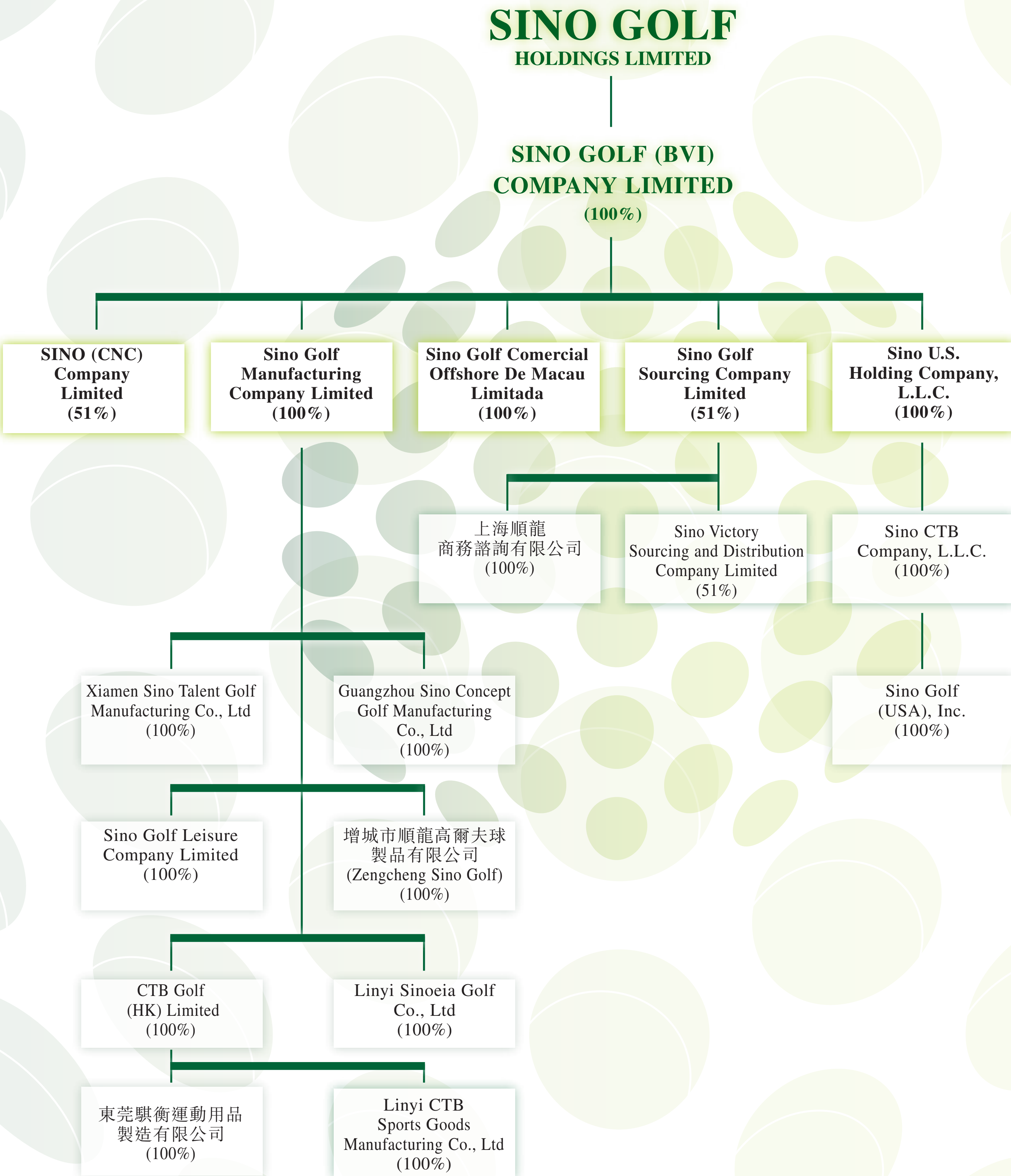
TICKER SYMBOL

Listed on The Stock Exchange of Hong Kong Limited
under the Share ticker number 361

WEBSITE

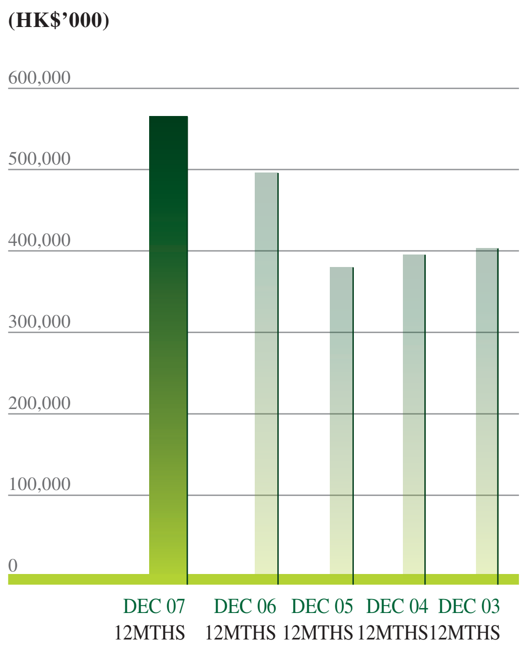
http://www.sinogolf.com

CORPORATE STRUCTURE

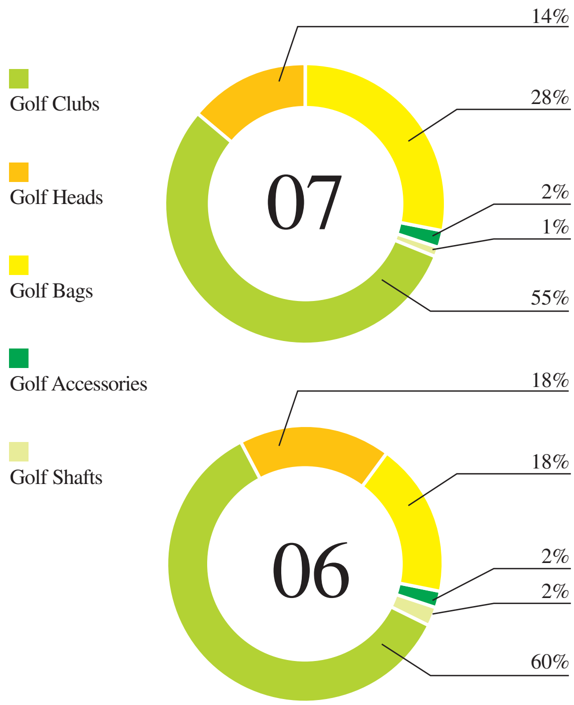


FINANCIAL HIGHLIGHTS

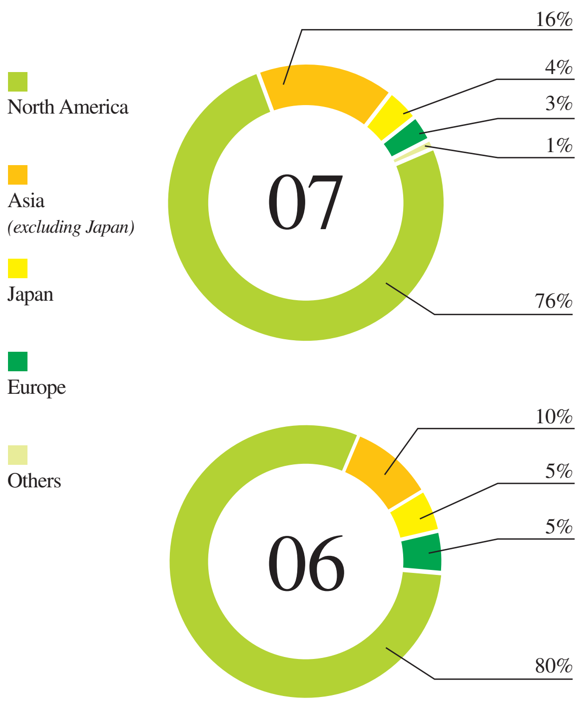
Turnover



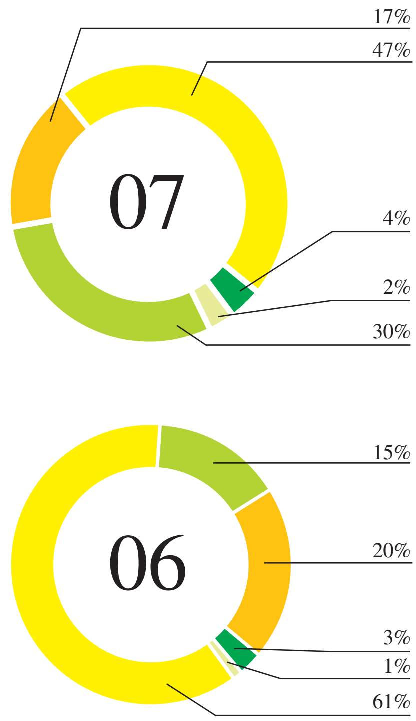
Turnover by Product



Turnover (Club) by Geographical Area



Turnover (Bag) by Geographical Area



CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of Sino Golf Holdings Limited (the "Company"), I am pleased to report to shareholders the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

Chu Chun Man, Augustine
CHAIRMAN

RESULTS AND DIVIDENDS

Consolidated turnover and net profit attributable to equity holders of the Company for the year amounted to HK$567,668,000 (2006: HK$493,376,000) and HK$41,810,000 (2006: HK$33,315,000) respectively. Basic and diluted earnings per share were HK13.8 cents (2006: HK11.0 cents) and HK13.8 cents (2006: 11.0 cents) accordingly.

The directors recommend the payment of a final dividend of HK2.5 cents per share for the year ended 31 December 2007 (2006: HK2.2 cents), which is subject to the approval by shareholders at the forthcoming annual general meeting, to those shareholders whose names appear on the register of members of the Company on 29 May 2008. Together with the interim dividend of HK2.0 cents per share declared and paid (2006: HK3.3 cents), the total annual dividend of HK4.5 cents (2006: HK5.5 cents) per share represents a payout ratio of about 32.6% (2006: 50.0%).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 27 May 2008 to Thursday, 29 May 2008 both days inclusive, during which period no transfer of shares will be effected. All share transfer, accompanied by the relevant share certificates, must be lodged with the Company's 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, 26 May 2008 in order to qualify for the final dividend proposed which will be payable on or about 12 June 2008.

BUSINESS REVIEW

Overview

The year of 2007 has brought considerable challenge for our Group. It is encouraging that the golf bag segment achieved record sales of approximately HK$160 million during the year and there was an increase of 1.4% in the golf equipment sales to about HK$408 million. Overall, the turnover of the Group increased by about 15% to approximately HK$568 million in 2007. With the focus on product innovation and successful marketing strategy, the golf bag business continued to expand to broaden its customer base. On the other hand, the golf equipment business had undergone a short-term consolidation during the first half of 2007, which was followed by a rebound in the second half of the year when new product models were launched.

Gross profit increased from HK$133.8 million (as restated) in 2006 to HK$144.2 million this year. As golf bag sales, which generally carried a lower profit margin than golf equipment sales, accounted for a greater proportion of the Group's turnover in the current year, the average gross profit margin was thereby diluted. Coupled with the impact of a general cost rise, the average gross profit margin declined from 27.1% (as restated) in 2006 to 25.4% for 2007. Profit attributable to equity holders of the Company for the year increased to HK$41,810,000 compared with HK$33,315,000 for the preceding year.

Driven by the Group's effective marketing programs, sales of the golf bag segment soared by 75% during the year. The growth of the non-Japan line of products, which comprised mainly golf bags of American style, was particularly prominent. Our strategy to focus on product innovation and customer service has laid the foundation for long-term growth, which has helped enhance the Group's competitive advantage to substantiate the continued development and expansion throughout these years. We are devoted to provide our customers with improved and better quality one-stop premium services.

During the year, both the materials cost and labor rates went up. Furthermore, currency fluctuation, especially the appreciation of the Renminbi, has brought additional cost burden for manufacturers operating in the Mainland China. Our Group managed to mitigate the adverse impact of cost rises by improving its output efficiency and administering more stringent cost controls. In addition, sales price of new product models had been adjusted to reflect the cost increase. Nevertheless, the average gross profit margin was undermined to the extent that certain cost increases were not fully recoverable through price revisions.

In 2007, golf equipment sales amounted to HK$407,966,000 representing 71.9% of the Group's annual turnover. Sales in the golf bag segment accounted for the remaining 28.1% or HK$159,702,000 of the total turnover. Within a competitive operating environment, the golf equipment and golf bag segments achieved segmental profits of approximately HK$56,223,000 and HK$8,480,000 respectively for the year. Both business segments have shown further development since the preceding year.

Golf Equipment Business

The golf equipment business continued to be the Group's largest business segment. Partly affected by a short-term consolidation in the first half of 2007, the dominance of golf equipment sales, as a percentage of the Group's annual turnover, has declined from 81.5% in 2006 to 71.9% for 2007. During the year, sales of golf equipment increased by about 1.4% to approximately HK$407,966,000 of which about HK$176,465,000 or 43.3% was realized during the first six months followed by a rebound in the second half year when the orders for new models were fulfilled.

Of the total segment sales, golf clubs sales accounted for about 70.5% or HK$287,597,000, while components sales including club heads, shafts and accessories took up the remaining 29.5% or HK$120,369,000. Within the golf clubs sales, the split between club sets and individual clubs was approximately 63.3% and 36.7% respectively. Sales of club sets, as a proportion of the total golf clubs sales, has gone up by more than twelve percentage points against the sale of individual clubs when compared to those of the preceding year.

Attributed to the satisfactory performance of the hybrid iron set program since its launch by the Group's largest customer a couple of years ago, sales to this customer increased to approximately HK$216,377,000 in 2007, representing about 53.0% of the segment sales or 38.1% of the Group's turnover for the year. During the year, sales to other major customers developed steadily with the addition of a number of new customers of good potential. Sales of golf equipment to the top five customers aggregated to approximately HK$315,940,000, representing about 77.4% of the segment sales or 55.7% of the Group's annual turnover. The impact of the short-term consolidation during the first half of 2007 was only temporary, as golf equipment sales rebounded remarkably upon the launch of new models during the second half of the year. Besides, our Group has made good progress towards starting a business relationship with certain prominent name brands in the golf market. It is anticipated that trial orders from the targeted name brands are likely to commence within 2008. Following the completion of the new golf club facility in Shandong Province, the P.R.C., the Group now possesses an enhanced platform designed specifically to meet the criteria for engaging in business with top tier golf clients. The Group's persistent investments in research and development have successfully enhanced our industry profile and recognition throughout the years. Our competitive advantage built on the capability to produce a variety of sophisticated high-end products and the ability to swiftly foresee and react market changes also reaffirms the Group's position as one of the key players in the golf industry.

As a common feature of the golf industry, the Group conducts its golf equipment business through a relatively concentrated customer portfolio comprising approximately 20 active customers. Accordingly, the Group has been able to closely monitor individual customers through effective credit controls and periodic review of their performance. Recoverability of trade debts was secured by non-recourse factoring or insurance of shipments to major customers. Besides, only customers with sound credit worthiness will be given credit terms and cash deposits are normally required from new customers. To properly confine bad debt risk to a minimum, any material delays in payments, or non-payments by customers were immediately addressed by the management including a decision to withhold shipments where necessary. During the year, the Group has received a distribution of approximately HK$718,000 from the trustee of the creditors of Huffy Corporation in accordance with its reorganization plan approved by the U.S. bankruptcy court in 2005. The amount so received had been applied as appropriate to reduce the remaining debt owed by Huffy Corporation that was brought forward prior to its reorganization in 2005. Sales by the Group to Huffy Corporation during the year amounted to approximately HK$8.6 million, which was settled according to terms and covered by insurance. Having considered the relevant factors, the management concurred that no further provision for impairment in value of the remaining debt owed by Huffy Corporation is required in the current year.

During the year, raw material prices and production costs including labor and energy expenses continued to escalate. As the Group received most of its revenues in the currency of United States dollars, the appreciation of the Renminbi further increased the Group's operating costs when foreign currency revenues were exchanged to discharge the Renminbi expenses. Given that price revisions were generally not feasible once the terms had been fixed, the profit margins on committed orders were thus squeezed. However, the Group has managed to revise sales price to recoup the cost increase when negotiating orders for new models. To secure uninterrupted production for timely deliveries, the Group has compromised to strike a balance between the purchase of raw materials, such as graphite sheets for shaft production, and the purchase of components direct from specified suppliers. The shift in the purchasing pattern to rely more on direct components purchase has restricted and limited the room to incorporate additional profit margins into the pricing of finished products. To mitigate the impact of cost rise as well as supply shortages, the Group has strategically compiled inventories of selected key materials so as to optimize costs and ensure materials availability for uninterrupted production.

Despite a short-term consolidation during the first half year, the golf equipment segment achieved a segmental profit of approximately HK$56,223,000 in 2007, representing an increase of about 14.9% compared to that of the preceding year. Having considered the current order book status and the prevailing market conditions, the management maintains a cautious but confident view for a further developed golf equipment business going forward.

Golf Bag Business

With the back up of the SOE compliant operation, the golf bag business continued to prosper and achieved record sales of approximately HK$159,702,000 in 2007, representing an increase of 75% over that of the preceding year. Turnover of the golf bag segment has reached a historic high to account for 28.1% of the Group's annual turnover. Of the total segment sales, golf bag sales accounted for about 85.0% and amounted to approximately HK$135,807,000, while sales of accessories comprising mainly shoe bags aggregated to approximately HK$23,895,000 or 15.0% of the segment sales. There has not been material change in the product mix percentage during the past couple of years. The golf bag segment has enjoyed unprecedented growth in recent years taking advantage of the SOE compliant qualification and our capability to produce high-end innovative products. During the year, sales to the largest golf bag customer increased by 71.4% to approximately HK$84,772,000, representing about 53.1% of the segment sales or 14.9% of the Group's turnover. Sales to the top five golf bag customers during the year aggregated to approximately HK$146,893,000 and accounted for about 92.0% of the segment sales or 25.9% of the Group's turnover.

Both the Japan line and non-Japan line of products grew substantially during the year. In particular, sales to a non-Japan line customer surged significantly to account for over 33% of the segment sales, making it the second largest segmental customer. Nevertheless, the Japan line of products continued to dominate the golf bag sector and took up over 59% of the segment sales. It is our Group's strategy to actively develop both the Japan line and non-Japan line of golf bags. We will continue to put emphasis on the Japan line of products that normally command higher prices and margins, while directing additional resources to further explore the non-Japan line of products that offer bulk sales opportunities, particularly in the American market.

The SOE compliant status has qualified our Group to engage in direct business with top tier customers, which generally designate such qualification as a prerequisite for purchase of goods from a supplier. This has helped bring in additional business for the Group and enables us to outperform other competitors. Our Group now plays a leading role in the golf bag sector and serves substantially all the major brand names in the market. We are committed to further develop the golf bag business to strengthen and increase our market share through continued product innovation and value added one-stop premium services.

During the year, price of key materials for golf bag production such as PVC, PU and nylon fluctuated mildly but prices of accessories like metal parts and components showed greater increment. In addition, labor costs continued to escalate due to volatility in the labor supply. Our Group combated against the impact of price hikes by administering more stringent cost control and improving its output efficiency. We also continued to strengthen and expand the Japan line of products that carry higher prices and margins to contribute to revenues.

Benefiting from the substantial growth in turnover, the golf bag segment achieved a 52.9% increase in segmental profit to approximately HK$8,480,000 for the year. Having considered the current order book status and the prevailing market conditions, the management maintains a confident view that the golf bag segment will continue to develop at a steady pace going forward.

Geographical Segments

There has not been major change in the geographical spread of the Group's business during the past couple of years. The Group shipped the majority of golf equipment products to the United States and substantial portion of the golf bags to Japan and the United States. Despite a short-term consolidation of golf equipment sales to the United States during the first half of 2007, the North American market continued to represent the largest geographical segment contributing approximately 62.4% of the Group's annual turnover. Other geographical regions including Japan, Europe and Other Countries generated about 16.5%, 3.4% and 17.7% of the Group's annual turnover respectively.

Following the short-term consolidation of golf equipment shipments to the United States, sales to the North American market, as a percentage of the Group's turnover, decreased from 68.6% in 2006 to 62.4% for 2007. With the satisfactory performance of both the Japan line and non-Japan line of golf bags, sales to the Japanese market increased moderately from 15.3% in 2006 to 16.5% of the Group's turnover in the current year. During the year, sales to other geographical regions covering Europe and Other Countries increased from 16.1% to 21.1% of the Group's turnover mainly attributable to the additional sales to certain Asian countries (other than Japan).

In monetary terms, sales to the North American market still increased by about 4.7% year on year to approximately HK$354,263,000 comprising about 87% golf equipment sales and 13% golf bags sales respectively. It is encouraging that sales of golf bags to the United States more than tripled the amount achieved in the preceding year. With the efforts devoted, sales to the Japanese market increased by about 24% to HK$93,528,000, of which approximately HK$74,281,000 or 79% represented golf bags sales with the remaining 21% constituting golf equipment sales. Sales to other geographical regions covering Europe and Other Countries increased by about 51% to approximately HK$119,877,000. It is a motivation to see satisfactory growth in both the Japanese market and geographical regions covering Europe and Other Countries.

Irrespective of a short-term consolidation in the golf equipment business, it is the Group's strategy to strengthen and further develop its business in the North America market so as to uphold our competitive advantage in the world's largest golf market. Concurrently, extra efforts and additional resources will be expended to tap the huge opportunities in the Japanese market both in the golf bag and golf equipment business for which the pace of outsourcing still lags behind its counterpart in the western world. Besides, our Group will also direct more attention to further exploring business in the geographical regions covering Europe and Other Countries particularly the Asian countries where golfing has become a more popular activity in recent years.

PROSPECTS AND RISK FACTORS

Prospects

Material price hikes in recent years have intensified the competition in the golf industry and brought mounting pressure upon golf product manufacturers. Our Group's persistent focus on product innovation and service fulfillment helped us to strengthen our competitive advantage and enabled us to outperform other competitors. It is the Group's mission to provide our customers with one-stop premium services with value added options. We have enjoyed unprecedented growth in the golf bag business during the past couple of years, and continued to develop the golf equipment business to take on new clients. Following the operation of the new golf club facility in Shandong Province, the P.R.C., there is a good chance that our Group may start engaging in business with some targeted name brands in the short term. We have made substantial progress in liaison over the details of our proposed cooperation with the targeted name brands. It is the Group's objective to further expand its market share and strengthen our position as one of the leading participants in the golf industry.

There are market concerns arising from the economic uncertainties brought about by the subprime mortgage crisis in the United States as well as the current crude oil price hikes. These factors may adversely affect the economies and the consumer markets of the countries to which the Group exports the majority of its products. However, we are careful to keep alert and will closely monitor the challenges that the golf industry may encounter in the near future. So far, there has been no major impact on our Group's business for 2008 in regard to the level of customers' orders and market feedbacks. In view of the cost rises, we have managed to revise the sales price of new models within limits acceptable to our customers. The Group also continues to pursue effective cost control measures to mitigate the impact of the cost rise. The operation of the new golf club facility in Shandong Province, the P.R.C., offers a distinct opportunity for our Group to further realize cost savings through the lower labor and operating cost level in northern part of China.

Following a rapid growth in golf bag sales in the past few years, the Group anticipates a year of consolidation with continued development for the golf bag business in 2008. Accordingly, it is expected that golf bag sales in 2008 should remain fairly stable. The SOE compliant operation of the golf bag facility helps strengthen the Group's competitive advantage and bring in new high-end clients that require SOE compliant productions. The non-Japan line of golf bag products will continue to develop, particularly in the North American market. Our Group is negotiating bulk orders with a prominent name brand, which may contribute extra revenue for the golf bag segment. As a strategy, the Group will further explore the Japan line products to maintain its significance in generating revenues and improving profit margins for the golf bag segment. At the appropriate time, the Group contemplates triggering a plan to shift its golf bag production also to Shandong Province, the P.R.C., to realize the cost savings derivable from the lower labor and operating costs in northern China. In view of the prevailing market outlook, the management holds a cautious but confident view for a strengthened and further developed golf bag business going forward.

Despite a short-term consolidation in 2007, the golf equipment business has been back on a growth track with stable development. With the Group's strong innovative capabilities and competitive advantage, we have made satisfactory progress in our liaison with certain top tier name brands. There is a good prospect that our Group may obtain trial orders from those name brands within 2008, as we are now actively engaged in the preparatory work and related negotiations. The operation of the new golf club facility represents an important milestone signifying our Group's enhancement to provide high standard services to top tier customers. It also ensures sufficient capacity is made available to fulfill the needs of both existing and new customers. Taking advantage of the lower cost level in northern part of China, our Group will benefit from further cost savings following the operation of the new golf club facility in 2008. Barring unforeseen circumstances, it is anticipated that the golf equipment business will develop steadily in 2008. In particular, it is likely that our Group may get more business from its major customer during the second half of 2008 as orders for certain models may be reallocated to our Group from other supply sources. The management adopts a cautious but confident view that the golf equipment business will develop at a satisfactory pace and broaden its customer base to take on top tier customers.

Shipments of the Group during the first quarter of 2008 amounted to approximately HK$122 million comprising golf equipment sales of HK$85 million and golf bag sales of HK$37 million, which compares to sales of approximately HK$112 million comprising golf equipment sales of HK$73 million and golf bag sales of HK$39 million for the corresponding period in 2007.

The Group will continue to put emphasis on the development of the North American and Japanese markets, which represent the world's largest golf markets from which our Group derives the majority of the revenues. We will utilize the vast networks of the golf equipment segment to further expand the golf bag business in the United States. There has been satisfactory growth in golf bag sales to the United States through the non-Japan line of products. We are also devoted to strengthening and further developing the Japan line of golf bag business and to directing additional resources to explore the golf equipment business in the Japanese market through the extensive golf bag networks. On the other hand, the Group has been working hard to tap the Asian market outside Japan where golfing activities are becoming more and more popular. Overall, the Group maintains great confidence in developing and growing our golf businesses going forward.

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 desirable to present a discussion to outline 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.

U.S. Economy and Currency Fluctuation

Since the Group exports the majority of its products to the United States, the status of the U.S. economy is a crucial factor that may potentially affect the Group's business. The current price hikes of crude oil may accelerate inflation and result in further increase in production costs. On the other hand, the subprime mortgage crisis in the United States has brought turmoil to the U.S. economy and may eventually lead to an economic downturn. This could adversely affect the consumer market demand and the volume of exports from China to the United States may suffer shrinkage as a consequence. Besides, the continued appreciation of the Renminbi currency may, indeed is likely to, adversely affect the competitive advantage of goods exported from China.

Interest Rates Movements

The Group generally utilizes banking facilities to finance its operations, which bears interest at floating rates. Movements in interest rates therefore affect the level of finance cost to be borne by the Group. Though the decreasing trend of interest rates since the later part of 2007 could result in some interest savings for the Group, any subsequent rise in interest rates due to credit crunch will however increase the finance burden of the Group. Although the Group has the option 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 2007, the largest customer individually represented over 53% of the turnover of the golf equipment segment or over 38% of the Group's annual turnover. The five largest customers in aggregate accounted for nearly 72% of the Group's turnover for the year. Although the Group endeavors to diversify and develop new high-end customers, there is no assurance that the existing key customers will continue to expand and contribute sufficient sales to support the growth expected of the Group before the contribution from new customers achieves 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.

Materials Cost and Sources of Supply

In recent years, the golf industry has been facing challenges from a trend of rising materials cost which appears to be continuing in the foreseeable future. While most manufacturers have managed to shift the cost rise to customers to the extent possible, such price adjustments only reflect the cost increase and do not bring additional profit margins. Such cost-driven price adjustments, unlike revenues generated from increased sales, would not contribute extra profits of significance for the Group.

Besides, there is an increased tendency for golf manufacturers to rely more on direct components purchase in light of the shortage in materials supply at a time of rising costs. The change in the purchasing pattern of materials and components would reduce the flexibility and choices of selecting suppliers and could undermine the gross profit margin achievable on golf equipment sales.

In addition to the above risk factors, the Group may also be subject to other risks and uncertainties that could arise when conditions change from time to time. The management is devoted to keeping alert of the possible risks and will adopt appropriate measures to mitigate the Group's exposure.

ACKNOWLEDGEMENT

On behalf of the Board, I hereby express my thanks to the Board members, the management and all employees for their commitment, hard work and loyalty. We appreciate their continued support as a key motivator for the Group's long-term development and success.

Chu Chun Man, Augustine
Chairman

Hong Kong
22 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

This statement provides supplementary information to the Chairman's Statement.

RESULTS OF OPERATIONS

Consolidated turnover of the Group for the year ended 31 December 2007 increased by about 15% year on year to approximately HK$567,668,000 (2006: HK$493,376,000). Net profit attributable to equity holders of the Company increased to approximately HK$41,810,000 (2006: HK$33,315,000). The growth in turnover came mainly as a result of the significant increase in sales of the golf bag segment by 75% and an increase of 1.4% in the golf equipment sales during the year. The Group has successfully enhanced its customer portfolio by taking on new high-end name brands from the golf bag sector while maintaining a satisfactory relationship with the existing major customers in the golf equipment segment.

Facing a trend of rising material and operating costs and in light of a 15% increase in annual turnover, the gross profit for the year increased to approximately 144,190,000 from HK$133,779,000 (as restated) for the preceding year. Given that the golf bag sales generally carry a lower profit margin than golf equipment sales, the significant increase in the golf bag sales, as a proportion of the Group's total turnover, has resulted in a dilution of average profit margins. Coupled with the impact of a general cost rise, the average gross profit margin declined from 27.1% (as restated) in 2006 to 25.4% in the current year. The Group has managed to mitigate the impact of cost rises through sales price revisions and stringent cost control measures.

Other income and gain for the year increased to approximately HK$7,661,000 from HK$5,781,000 (as restated) for preceding year, mainly owing to the rise in the sample charge and interest income.

Selling and distribution costs were reduced from HK$23,850,000 in 2006 to approximately HK$21,590,000 this year, primarily owing to a decrease in commission expenses. Administrative expenses for the year increased by about 8.2% year on year to approximately HK$57,982,000 from HK$53,549,000 for the preceding year, mainly attributable to a surge in payroll costs, rental expenses and the levy of a previously exempted land use tax in Mainland China. Other expenses for the year decreased from HK$6,844,000 in 2006 to approximately HK$6,714,000 and did not show material fluctuation.

Finance costs for the year increased to approximately HK$22,576,000 from HK$20,603,000 in 2006 principally owing to the increase in factoring charges and bank interests incurred during the year.

Profit attributable to equity holders of the Company for the year amounted to approximately HK$41,810,000, representing an increase of about 25.5% from that of 2006.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts prudent but effective policies to manage its funds. We generally rely 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 established appropriate policies and guidelines to help monitor and confine those risks within acceptable ranges.

Cash and cash equivalents, which were mostly denominated in United States dollars and Hong Kong dollars, increased moderately to approximately HK$80.1 million at 31 December 2007 (2006: HK$73.1 million). The Group follows a practice of maintaining sufficient funds to run its operations and discharge liabilities as they fall due. During the year, the Group refinanced certain matured bank loans to raise medium term funds for operating and capital expenditures. These included the appropriation of funds for the purchase of machinery and equipment and the compilation of selected inventories to safeguard uninterrupted production against possible supply shortages in materials. Partially affected by the appreciation in the exchange rate of the Renminbi, the value of inventory at the balance sheet date went up to approximately HK$161.6 million (2006: HK$151.1 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 2007, borrowings (including finance lease payable) aggregated to approximately HK$215.1 million (2006: HK$191.9 million), of which approximately HK$106.4 million (2006: HK$149.1 million) is repayable within one year. The level of borrowings increased mainly due to greater needs for funds to finance the increased business volume. The gearing ratio, defined as total bank borrowings and finance lease payable less cash and cash equivalents of approximately HK$135.0 million divided by the shareholders' equity of approximately HK$241.6 million, was 55.9% as at 31 December 2007 (2006: 59.3%). The gearing ratio has improved compared to the preceding corresponding balance sheet date.

Our Group is concerned with maintaining a reasonable and healthy financial position to support its on-going growth and development needs. At 31 December 2007 the net asset value of the Group amounted to approximately HK$241.6 million (2006: HK$200.4 million). Current and quick ratios as at 31 December 2007 were 1.35 (2006: 1.05) and 0.67 (2006: 0.43) respectively. Both the current ratio and quick ratio improved as a consequence of the refinancing of certain matured borrowings with medium term loans.

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 2007 was less than the Guaranteed Profit, SGMCL is entitled to a receivable of approximately HK$280,000 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 and other payables.

NEW GOLF CLUB FACILITY PROJECT

The construction of the new golf club facility in Shandong Province, the P.R.C., had substantially been completed in 2007. Following the training of the initial 300 plus new workers, it has been scheduled to run a partial trial production by end of April 2008. The new facility will only attain full scale of trial operation by June 2008 after the installation and completion of testing of machinery and equipment. At 31 December 2007, the Group invested in aggregate HK$77.6 million in the new golf club facility project which comprised land premium net of amortization of approximately HK$14.8 million and construction and project payments of approximately HK$62.8 million. Pre-operating expenses of approximately HK$3 million incurred during the year (2006: HK$1.6 million) were charged to the income statement.

At the initial phase of operation, the new golf club facility will start up mainly with the production of golf club heads. The shaft production and assembly operation will then be followed during the second half of 2008 when the labor force is enlarged to constitute a team of up to about 1,000 workers. We will continue to carry out staff trainings and upgrade production systems such as work in progress management. By that time, the monthly production is anticipated to reach a volume of 100,000 units, which represents nearly half of the designed capacity of the constructed facility. The production will further be stepped up in the following year to achieve the targeted monthly output of over 200,000 units as a norm. There is however enough room with completed infrastructure to further expand the production capacity should the business so require. During the set up process and initial phase of the production, it is envisaged that the operating costs of the new facility including the amortization of land and buildings will stay high when allocated over the volume of the actual output, which will take six to nine months time after commencement of the trial production to reach the targeted norm to contribute positively for the Group. The new golf club facility comes at the right time and designates a key milestone for our Group through which we enhance our industry status and get qualified to engage in business with potential top tier customers. The new facility will also provide the additional capacity necessary for fulfilling the growing needs from both existing and potential new customers. It is projected that the relocation of the bulk production to the new golf club facility shall be completed within 2010. Taking advantage of the lower operating and labor costs in Shandong Province, it is expected that the Group will 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 2007, the Group had no significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2007, the Group employed a total of over 3,900 employees in Hong Kong, Macau, the P.R.C. and the United States. It is the Group's policy to pursue and maintain a harmonious relationship with its employees through the provision of competitive remuneration packages and training opportunities. The employees were remunerated based on their performances, experiences and expertises as well as industry 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 50, is the chairman and one of the founders of the Group and is responsible for the strategic planning, corporate policy and overall management and marketing aspect of the Group. Augustine Chu holds a bachelor degree in commerce from the University of Calgary, Alberta, Canada and an executive master of business administration from the Chinese University of Hong Kong. He has over 24 years of experience in golf equipment manufacturing industry. Prior to establishing the Group, Augustine Chu was a senior management of a Taiwanese golf equipment manufacturer for about 3 years.

CHU Yuk Man, Simon ("Simon Chu"), aged 52, is the brother of Augustine Chu. He has over 10 years of experience in the golf equipment manufacturing industry. Simon Chu is responsible for the sales and marketing functions as well as the customer relation functions of the Group. Simon Chu graduated with a bachelor degree in science in the Leland Stanford Junior University in the United States and a master degree in business administration from the Chinese University of Hong Kong. Prior to joining the Group in November 1997, Simon Chu held an Asia Pacific director position with an international firm which is listed on NASDAQ in the United States.

CHANG Hua Jung, aged 46, graduated from an industrial institution in Taiwan. Mr. Chang has over 25 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 79, has over 45 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).

CHIU Lai Kuen, aged 48, 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 MBA degree from the Chinese University of Hong Kong. She is currently the Council Member of the HK Institute of Certified Public Accountants, Vice Chairman of the HK Chinese Orchestra, Past President of ISACA (HK Chapter). Ms Chiu is also appointed by the government to serve on the Antiquities Advisory Board. 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 52, is a Taiwanese. He is the chairman of Approach Golf International Co., Ltd, which is a golf processing factory. Mr. Hsieh has over 33 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 45, is the operations director and company secretary of the Group 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 35, 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 11 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 38, is the senior marketing manager of the Group. Ms. Lee has over 15 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 44, is the assistant general manager of the Group's production department. He joined the Group in December 1990 and is currently in charge of the overall production of one of the subsidiaries. Mr. He has more than 17 years of experience in the golf manufacturing industry.

XIE Zi Peng, aged 40, 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 45, is the assistant general manager of the Group's research and development department. He joined the Group in February 2000 and is currently in-charge of the overall research and development activities. Mr. Hung has more than 20 years experience in golf manufacturing industry.

REPORT OF THE DIRECTORS

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 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 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 53 to 116.

An interim dividend of HK2.0 cents per ordinary share was paid on 24 September 2007. The directors recommend the payment of a final dividend of HK2.5 cents per ordinary share in respect of the year to shareholders whose name appears on the register of members on 29 May 2008. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

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 pages 117 and 118. 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 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year 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 and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company's reserves available for distribution, amounted to HK$25,942,000, in accordance with the Companies Act 1981 of Bermuda, of which HK$7,555,000 has been proposed as a final dividend for the year. 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$1,288,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 72% of the total sales for the year and sales to the largest customer included therein amounted to 38%. 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, Chiu Lai Kuen, Susanna and Hsieh Ying Min 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 37 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 2007, the interests and short positions of the director 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				Percentage of the Company's issued share capital
Name of director	Directly beneficially owned	Through spouse or minor children	Through controlled corporation#	Total	
CHU Chun Man, Augustine	1,126,263	1,500,000	171,543,775	174,170,038	57.63%
CHU Yuk Man, Simon	636,237	–	–	636,237	0.21%
	1,762,500	1,500,000	171,543,775	174,806,275	57.84%

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

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

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.

(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%

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

(ii) Long positions in shares and underlying shares of associated corporations: *(continued)*

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 2007, 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.

SHARE OPTION SCHEME *(continued)*

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 2007**	**Expired during the year**	**At 31 December 2007**	**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
Other employees						
In aggregate	1,100,000	1,100,000	–	9-6-05	4-7-05 to 8-6-07	0.83
Others						
In aggregate	3,000,000	–	3,000,000	3-8-06	3-8-06 to 31-7-08	0.70
	5,100,000	1,100,000	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 2007, 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 issued 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	15,600,000	5.16%
Webb David Michael		Directly beneficially owned	2,606,000	0.86%
Hung Tze Nga, Cathy	*(c)*	Through spouse	171,544,038	56.77%
Hung Tze Nga, Cathy		Directly beneficially owned	1,000,000	0.33%

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 2007, 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 2007, 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 2007	Minimum holding in the issued share capital of the Company	Final maturity of the loan facilities
HK$30 million	51%	May 2010
HK$40 million	over 50%	May 2010
HK$23 million	40%	October 2010

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chu Chun Man, Augustine
Chairman

Hong Kong
22 April 2008

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 2007, 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 issuer; and be responsible for directing and supervising the issuer's affairs.

Code provisions	Comply?	Governance Practices for Sino Golf
• At least four Board meetings a year.	✓	• The Board met five times during the year. • Details of Directors' attendance records in 2007: **Attendance** **Executive Directors** CHU Chun Man, Augustine *(Chairman)* 5/5 CHU Yuk Man, Simon 5/5 CHANG Hua Jung 4/5 **Independent Non-Executive Directors** HSIEH Ying Min 4/5 CHOY Tak Ho 5/5 CHIU Lai Kuen, Susanna 3/5
• 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.
• 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.

Code provisions	Comply?	Governance Practices for Sino Golf
• 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.

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 should ensure Directors to receive adequate information in a timely manner.	✓	• 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.

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 page 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
- Related business (Golf manufacturing) – HSIEH Ying Min
- I.T. and Corporate Governance – CHIU Lai Kuen, Susanna

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.

According to clauses 87(1) and 87(2) of the Company's Bye-Laws, Ms. Chiu Lai Kuen, Susanna and Mr. Hsieh Ying Min will retire and offer themselves for re-election at the 2008 annual general meeting.

The Board recommended the re-appointment of the Directors standing for re-election at the 2008 annual general meeting of the Company.

The Company's circular dated 30 April 2008 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 an issuer and of the conduct, business activities and development of that issuer.

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.
• 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 issuer's performance and monitoring the reporting of performance.	✓	• 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 2007.
• Directors should ensure that they can give sufficient time and attention to the affairs of the issuer.		

Code provisions	Comply?	Governance Practices for Sino Golf
• 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 2007. • The Company also has established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines") 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 by the 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.	✓	• The Remuneration Committee with written terms of reference was set up on 23 September 2005. It 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.

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, performances 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 2007 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 2007:

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 responsibilities 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 "Report of the Auditors" 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 in respect of audit services and non-audit services for the year ended 31 December 2007 amounted to HK$1,500,000 and HK$320,000 respectively.

Internal Controls

Code Principle

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

Our 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 expertises and one of them is a qualified accountant who gave valuable recommedations 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 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 the 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 are 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.
• 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, Ernst & Young is reappointed as the external auditors for 2008.
• 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 issuer may, in confidence, raise concerns about possible improprieties. – Oversee the issuer's relation with the external auditor.	✓	• 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 controls and financial reporting matters including a review of the financial statements for the year ended 31 December 2007.

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, compliance officer (if any), 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 two meetings during the year ended 31 December 2007 to review the financial results and reports, financial reporting and compliance procedures, the internal control and risk management, the report of External Auditor 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 2007 has been reviewed by the Audit Committee.

Details of attendance records of Audit Committee Meetings in 2007:–

Independent Non-Executive Directors	Attendance
CHIU Lai Kuen, Susanna *(Chairman)*	2/2
CHOY Tak Ho	2/2
HSIEH Ying Min	2/2

D. Delegation by the Board

Management functions

Code Principle

An issuer 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 issuer.

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.	✓	• 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.
• Formalize the functions reserved to the Board and those delegated to management	✓	
Recommended Best Practice		
• Issuers 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' authorities 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 works 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 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 three other Directors including an Independent Non-Executive Director were present in the 2007 Annual General Meeting to answer questions raised by the shareholders.

Voting by poll

Code Principle

The issuer 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 issuer.

Code provisions	Comply?	Governance Practices for Sino Golf
• The general meeting circulars should disclose the procedures and rights of shareholders to demand a poll.	✓	• 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 2007 AGM. • The Share Registrars of the Company was appointed as scrutineer. • Poll results were published in major Hong Kong newspapers on the business day following the meeting and posted on the websites of the Stock Exchange and the Company.
• Ensure that votes cast are properly counted and recorded.		
• Chairman of meeting should adequately explain the poll procedures at the commencement of the meeting.		

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

To the shareholders of Sino Golf Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Sino Golf Holdings Limited set out on pages 53 to 116, which comprise the consolidated and company balance sheets as at 31 December 2007, 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 FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these 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 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the 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 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 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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 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.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
22 April 2008

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	**2007**	2006
		HK$'000	*HK$'000*
			(Restated)
REVENUE	*5*	**567,668**	493,376
Cost of sales		**(423,478)**	(359,597)
Gross profit		**144,190**	133,779
Other income and gain	*5*	**7,661**	5,781
Selling and distribution costs		**(21,590)**	(23,850)
Administrative expenses		**(57,982)**	(53,549)
Other expenses		**(6,714)**	(6,844)
Finance costs	*7*	**(22,576)**	(20,603)
PROFIT BEFORE TAX	*6*	**42,989**	34,714
Tax	*10*	**(1,179)**	(1,580)
PROFIT FOR THE YEAR		**41,810**	33,134
Attributable to:			
Equity holders of the parent	*11*	**41,810**	33,315
Minority interests		**–**	(181)
		41,810	33,134
DIVIDENDS	*12*		
Interim		**6,044**	9,973
Proposed final		**7,555**	6,648
		13,599	16,621
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*13*		
Basic		**HK13.8 cents**	HK11.0 cents
Diluted		**HK13.8 cents**	HK11.0 cents

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**196,169**	156,674
Prepaid land lease payments	15	**21,725**	20,765
Goodwill	16	**25,723**	25,723
Deposits and other receivables	17	**3,539**	–
Prepayments for acquisition of items of property, plant and equipment		**22,359**	29,517
Total non-current assets		**269,515**	232,679
CURRENT ASSETS			
Inventories	19	**161,557**	151,062
Trade receivables	20	**47,445**	16,295
Prepaid land lease payments	15	**528**	459
Prepayments, deposits and other receivables	21	**28,435**	15,702
Cash and cash equivalents	23	**80,069**	73,105
Total current assets		**318,034**	256,623
CURRENT LIABILITIES			
Trade and bills payables	24	**84,099**	53,967
Other payables and accruals	25	**42,265**	37,811
Due to minority shareholders of a subsidiary	26	**462**	454
Tax payable		**1,715**	2,090
Interest-bearing bank and other borrowings	27	**106,383**	149,059
Total current liabilities		**234,924**	243,381
NET CURRENT ASSETS		**83,110**	13,242
TOTAL ASSETS LESS CURRENT LIABILITIES		**352,625**	245,921
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**108,693**	42,842
Deferred tax liabilities	29	**2,333**	2,718
Total non-current liabilities		**111,026**	45,560
Net assets		**241,599**	200,361

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	**2007**	2006
		HK$'000	*HK$'000*
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*30*	**30,220**	30,220
Reserves	*32(a)*	**201,253**	160,926
Proposed final dividend	*12*	**7,555**	6,648
		239,028	197,794
Minority interests		**2,571**	2,567
Total equity		**241,599**	200,361

Chu Chun Man, Augustine
Director

Chu Yuk Man, Simon
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

		Attributable to equity holders of the parent										
	Notes	**Issued capital**	**Share premium account**	**Contributed surplus**	**Asset revaluation reserve**	**Exchange fluctuation reserve**	**Share option reserve**	**Retained profits**	**Proposed final dividend**	**Total**	**Minority interests**	**Total equity**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 30)		*(note 32(a))*								
At 1 January 2006		30,220	57,270	10,564	24,843	4,175	83	44,075	12,088	183,318	2,672	185,990
Changes in fair value of leasehold land and buildings		–	–	–	(483)	–	–	–	–	(483)	–	(483)
Exchange realignment		–	–	–	–	3,393	–	–	–	3,393	76	3,469
Total income and expense for the year recognised directly in equity		–	–	–	(483)	3,393	–	–	–	2,910	76	2,986
Profit for the year		–	–	–	–	–	–	33,315	–	33,315	(181)	33,134
Total income and expense for the year		–	–	–	(483)	3,393	–	33,315	–	36,225	(105)	36,120
Equity-settled share option expense	*31*	–	–	–	–	–	312	–	–	312	–	312
2005 final dividend declared		–	–	–	–	–	–	–	(12,088)	(12,088)	–	(12,088)
2006 interim dividend	*12*	–	–	–	–	–	–	(9,973)	–	(9,973)	–	(9,973)
Proposed 2006 final dividend	*12*	–	–	–	–	–	–	(6,648)	6,648	–	–	–
At 31 December 2006 and 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 realignment and total income for the year recognised directly in equity		–	–	–	–	12,116	–	–	–	12,116	–	12,116
Profit for the year		–	–	–	–	–	–	41,810	–	41,810	–	41,810
Total income and expense for the year		–	–	–	–	12,116	–	41,810	–	53,926	–	53,926
Capital contribution to a subsidiary by a minority shareholder		–	–	–	–	–	–	–	–	–	4	4
Equity-settled share option expense	*31*	–	–	–	–	–	(83)	83	–	–	–	–
2006 final dividend declared		–	–	–	–	–	–	–	(6,648)	(6,648)	–	(6,648)
2007 interim dividend	*12*	–	–	–	–	–	–	(6,044)	–	(6,044)	–	(6,044)
Proposed 2007 final dividend	*12*	–	–	–	–	–	–	(7,555)	7,555	–	–	–
At 31 December 2007		30,220	57,270*	10,564*	24,360*	19,684*	312*	89,063*	7,555	239,028	2,571	241,599

* These reserve accounts comprise the consolidated reserves of HK$201,253,000 (2006: HK$160,926,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**42,989**	34,714
Adjustments for:			
Finance costs	7	**22,576**	20,603
Interest income	5	**(862)**	(821)
Depreciation	6	**16,635**	13,557
Equity-settled share option expense	6	**–**	312
Recognition of prepaid land lease payments	6	**528**	493
Loss/(gain) on disposal of items of property, plant and equipment	6	**75**	(150)
Write-off of items of property, plant and equipment	6	**463**	103
Impairment of trade receivables	6	**–**	822
Write-off of trade receivables	6	**80**	–
Write-off of other receivables	6	**350**	–
		82,834	69,633
Increase in inventories		**(10,285)**	(27,092)
Decrease/(increase) in trade receivables		**(30,953)**	9,982
Decrease/(increase) in prepayments, deposits and other receivables		**(16,496)**	11,366
Increase in trade and bills payables		**28,097**	8,323
Increase/(decrease) in other payables and accruals		**2,741**	(4,576)
Increase in amounts due to minority shareholders of a subsidiary		**8**	454
Cash generated from operations		**55,946**	68,090
Interest received		**862**	821
Tax paid in Mainland China		**(483)**	(469)
Hong Kong profits tax refunded/(paid)		**(1,456)**	797
Net cash inflow from operating activities		**54,869**	69,239
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(16,855)**	(15,149)
Proceeds from disposal of items of property, plant and equipment		**195**	844
Prepayments for acquisition of items of property, plant and equipment		**(21,712)**	(29,517)
Decrease in other receivables		**221**	–
Increase in non-pledged time deposit with original maturity of more than three months when acquired		**(7,906)**	–
Net cash outflow from investing activities		**(46,057)**	(43,822)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution to a subsidiary by a minority shareholder		**4**	–
New bank loans		**136,106**	102,991
Repayment of bank loans		**(111,664)**	(91,553)
Interest paid		**(21,286)**	(20,325)
Dividends paid		**(12,692)**	(22,061)
Interest element of finance lease payments		**(228)**	(106)
Capital element of finance lease payments		**(1,267)**	(555)
Net cash outflow from financing activities		**(11,027)**	(31,609)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(2,215)**	(6,192)
Cash and cash equivalents at beginning of year		**73,105**	79,141
Effect on foreign exchange rate changes, net		**1,273**	156
CASH AND CASH EQUIVALENTS AT END OF YEAR		**72,163**	73,105
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS *(note)*			
Cash and bank balances	23	**66,900**	73,105
Non-pledged time deposit with original maturity of less than three months when acquired		**5,263**	–
		72,163	73,105

Note:

Reconciliation of cash and cash equivalents

		2007 HK$'000	2006 HK$'000
Cash and bank balances and non-pledged time deposit with original maturity of less than three months when acquired		**72,163**	73,105
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	23	**80,069**	73,105

BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**111,500**	109,823
CURRENT ASSETS			
Prepayments, deposits and other receivables	21	**1,705**	1,705
Bank balances		**287**	137
Total current assets		**1,992**	1,842
CURRENT LIABILITIES			
Other payables and accruals	25	**60**	155
NET CURRENT ASSETS		**1,932**	1,687
Net assets		**113,432**	111,510
EQUITY			
Issued capital	30	**30,220**	30,220
Reserves	32(b)	**75,657**	74,642
Proposed final dividend	12	**7,555**	6,648
Total equity		**113,432**	111,510

Chu Chun Man, Augustine
Director

Chu Yuk Man, Simon
Director

1. CORPORATE INFORMATION

Sino Golf Holdings Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at Room 1901, 19/F., Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

During the year, the Group was involved in the following principal activities:

- manufacture and trading of golf equipment, and related components and parts; and
- manufacture and trading of golf bags, other accessories, and related components and parts.

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.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for periodic remeasurement of leasehold land and buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 39 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees for identified services provided in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [5]
HKFRS 2 Amendments	*Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [5]
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions* [2]
HK(IFRIC)-Int 12	*Service Concession Arrangements* [4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* [4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2009

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised to separate owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the revised standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKAS 27 has been revised to require a change in the ownership interest of a subsidiary to be accounted for as an equity transaction. The revised standard will not have impact on goodwill nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary. The revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interest.

HKFRS 2 has been amended to restrict the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. The amended standard states that the award which does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact in the period that an acquisition occurs, and future reported results. The revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interests.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005
Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write-off 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	2% to 5%
Leasehold improvements	10% to 20%
Plant and machinery	10% to 20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Leases

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

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

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the 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) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing bank and other borrowings)

Financial liabilities are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities at amortised cost (including interest-bearing bank and other borrowings) *(continued)*

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

(a) from the sale of goods and sample, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) tooling charges, in the period in which the services are rendered.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model, further details of which are given in note 31 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions *(continued)*

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the 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 Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the participating employees’ salaries and charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

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

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of judgements and 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, are discussed below.

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.

Impairment of trade and other 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 is determined based on the assessment of the recoverability of trade receivables. The identification of impairment requires management's estimation about the collectibility 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.

4. SEGMENT INFORMATION

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

The Group's operating businesses can be divided into golf equipment segment and golf bag segment which are structured and managed separately 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.

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

Group

	Golf equipment		Golf bag		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**407,966**	402,188	**159,702**	91,188	**–**	–	**567,668**	493,376
Intersegment revenue	**–**	4,475	**4,634**	11,079	**(4,634)**	(15,554)	**–**	–
Other revenue	**2,368**	3,093	**4,431**	1,867	**–**	–	**6,799**	4,960
Total	**410,334**	409,756	**168,767**	104,134	**(4,634)**	(15,554)	**574,467**	498,336
Segment results	**56,223**	48,949	**8,480**	5,547			**64,703**	54,496
Interest income							**862**	821
Finance costs							**(22,576)**	(20,603)
Profit before tax							**42,989**	34,714
Tax							**(1,179)**	(1,580)
Profit for the year							**41,810**	33,134

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Golf equipment		Golf bag		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities								
Segment assets	**459,281**	373,977	**86,926**	55,504	**(40,432)**	(13,284)	**505,775**	416,197
Corporate and other unallocated assets							**81,774**	73,105
Total assets							**587,549**	489,302
Segment liabilities	**77,051**	56,078	**73,495**	51,528	**(40,432)**	(13,284)	**110,114**	94,322
Corporate and other unallocated liabilities							**235,836**	194,619
Total liabilities							**345,950**	288,941
Other segment information:								
Depreciation	**13,894**	11,640	**2,741**	1,917			**16,635**	13,557
Impairment of trade receivables	**–**	822	**–**	–			**–**	822
Write-off of trade receivables	**80**	–	**–**	–			**80**	–
Capital expenditure	**43,185**	43,270	**4,550**	6,744			**47,735**	50,014

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

Group

	North America		Europe		Asia (excluding Japan)		Japan		Others		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:												
Sales to external customers	**354,263**	338,244	**19,325**	21,265	**91,190**	57,157	**93,528**	75,616	**9,362**	1,094	**567,668**	493,376

	Hong Kong and Macau		Mainland China		Others		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:										
Segment assets	**575,516**	427,845	**502,430**	363,821	**21,570**	13,710	**(593,741)**	(389,179)	**505,775**	416,197
Capital expenditure	**2**	322	**47,733**	49,692	**–**	–	**–**	–	**47,735**	50,014

5. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold after allowances for goods returns and trade discounts received and receivable during the year.

An analysis of revenue, other income and gain is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
		(Restated)
Revenue		
Sale of goods	**567,668**	493,376
Other income and gain		
Bank interest income	**862**	821
Rental income	**1,974**	1,974
Sample income	**2,104**	18
Tooling charges	**1,765**	2,143
Gain on disposal of items of property, plant and equipment	**–**	150
Others	**956**	675
	7,661	5,781

During the year, the Group considered it more appropriate to reclassify certain revenue items, including rental income, testing income and tooling charges to other income and gain in order to better reflect the underlying nature and allow a more appropriate presentation of the Group's results. Accordingly, the relevant comparative amount of HK$4,126,000, in aggregate, was reclassified to conform with the current year's presentation.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2007	2006
	HK$'000	*HK$'000*
Auditors' remuneration	**1,500**	1,330
Cost of inventories sold	**266,263**	243,293
Depreciation	**16,635**	13,557
Employee benefits expense (including directors' remuneration – note 8):		
Wages, salaries, bonuses and allowances	**88,506**	84,262
Equity-settled share option expense	**–**	312
Retirement benefits scheme contributions*	**5,041**	2,187
	93,547	86,761
Foreign exchange differences, net	**(11)**	1,141
Recognition of prepaid land lease payments	**528**	493
Minimum lease payments under operating leases in respect of land and buildings	**8,400**	7,541
Research and development costs	**4,834**	3,015
Loss on derecognition of interest rate swaps	**–**	172
Loss/(gain) on disposal of items of property, plant and equipment	**75**	(150)
Write-off of items of property, plant and equipment**	**463**	103
Impairment of trade receivables**	**–**	822
Write-off of trade receivables**	**80**	–
Write-off of other receivables**	**350**	–

* At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits schemes in future years (2006: Nil).

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

7. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Loss on derecognition of interest rate swaps	**–**	172
Factoring and bank charges	**11,712**	11,077
Interest on bank loans wholly repayable within five years	**10,636**	9,248
Interest on finance leases	**228**	106
	22,576	20,603

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Fees	**270**	270
Other emoluments:		
Salaries	**3,480**	3,698
Bonuses	**1,060**	620
Housing benefits	**1,440**	1,440
Employee share option benefits	**–**	78
Retirement benefits scheme contributions	**24**	24
	6,004	5,860
	6,274	6,130

During the year ended 31 December 2006, one of the directors was granted share options in respect of his service to the Group under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options which had been recognised in the income statement over the vesting period, was determined as at the date of grant, and the amount included in the financial statements for the prior year was included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION *(continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007 *HK$'000*	2006 *HK$'000*
Choy Tak Ho	**120**	120
Hsieh Ying Min	**50**	50
Chiu Lai Kuen, Susanna	**100**	100
	270	270

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) Executive directors

	Salaries *HK$'000*	Bonuses *HK$'000*	Housing benefits *HK$'000*	Employee share option benefits *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Total *HK$'000*
2007						
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**
	3,480	**1,060**	**1,440**	**–**	**24**	**6,004**
2006						
Chu Chun Man, Augustine	1,560	200	840	–	12	2,612
Chu Yuk Man, Simon	1,200	300	600	–	12	2,112
Takanori Matsuura*	218	–	–	–	–	218
Chang Hua Jung	720	120	–	78	–	918
	3,698	620	1,440	78	24	5,860

* Takanori Matsuura passed away on 13 August 2006.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: three) executive directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2006: two) non-director, highest paid employees for the year are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Salaries and allowances	**2,178**	2,284
Performance related bonuses	**170**	230
Retirement benefits scheme contributions	**12**	12
	2,360	2,526

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

	Number of employees	
	2007	2006
HK$1,000,001 to HK$1,500,000	**2**	2

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**1,200**	1,761
Overprovision in prior years	**(203)**	–
Current – Elsewhere	**567**	560
Deferred *(note 29)*	**(385)**	(741)
Tax charge for the year	**1,179**	1,580

10. TAX *(continued)*

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:

Group – 2007

	Hong Kong		Mainland China		Others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	**12,403**		**(18,663)**		**49,249**		**42,989**	
Tax at the statutory tax rate	**2,171**	**17.5**	**(6,159)**	**33.0**	**7,351**	**14.9**	**3,363**	**7.8**
Different tax rate for specific provinces or local tax authority	**–**		**363**		**–**		**363**	
Adjustments in respect of current tax of previous periods	**(203)**		**–**		**–**		**(203)**	
Income not subject to tax	**(1,790)**		**(2,454)**		**(7,351)**		**(11,595)**	
Expenses not deductible for tax	**434**		**9,909**		**–**		**10,343**	
Tax losses utilised from previous periods	**–**		**(1,092)**		**–**		**(1,092)**	
Tax charge at the Group's effective tax rate	**612**	**4.9**	**567**	**3.0**	**–**	**–**	**1,179**	**2.7**

Group – 2006

	Hong Kong		Mainland China		Others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	13,942		(7,250)		28,022		34,714	
Tax at the statutory tax rate	2,440	17.5	(2,392)	33.0	4,203	15.0	4,251	12.2
Different tax rate for specific provinces or local tax authority	–		(245)		–		(245)	
Income not subject to tax	(1,629)		(1,065)		(4,373)		(7,067)	
Expenses not deductible for tax	209		827		170		1,206	
Tax losses not recognised	–		3,435		–		3,435	
Tax charge at the Group's effective tax rate	1,020	7.3	560	7.7	–	–	1,580	4.6

Under the income tax law of the People's Republic of China ("PRC"), all PRC subsidiaries of the Group are subject to the state corporate income tax (the "State CIT") at rates of 24% or 30% on the taxable income as reported in their statutory accounts, which are prepared in accordance with accounting principles generally accepted in PRC.

10. TAX *(continued)*

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. and Xiamen Sino Talent Golf Manufacturing Co., Ltd., are entitled to a full State CIT exemption for the first two profitable years and a 50% reduction in the next three years, commencing from the first profitable year.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which became effective from 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of HK$14,614,000 (2006: HK$17,020,000) which has been dealt with in the financial statements of the Company (note 32(b)).

12. DIVIDENDS

	2007 ***HK$'000***	2006 *HK$'000*
Interim – HK2.0 cents (2006: HK3.3 cents) per ordinary share	**6,044**	9,973
Proposed final – HK2.5 cents (2006: HK2.2 cents) per ordinary share	**7,555**	6,648
	13,599	16,621

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of HK$41,810,000 (2006: HK$33,315,000) and the weighted average number of 302,200,000 (2006: 302,200,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of 302,883,000 (2006: 302,147,000) ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares that would be issued at no consideration assuming all outstanding share options of the Company were exercised to subscribe for ordinary shares of the Company at the beginning of the year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December 2007							
At 1 January 2007, net of accumulated depreciation	85,495	4,303	43,678	1,699	1,142	20,357	156,674
Additions	1,153	370	14,216	502	613	30,881	47,735
Disposals	–	–	(270)	–	–	–	(270)
Write-off	(9)	–	(450)	(4)	–	–	(463)
Depreciation provided during the year	(4,076)	(699)	(10,640)	(704)	(516)	–	(16,635)
Transfers	2,429	29	2,226	87	–	(4,771)	–
Exchange realignment	4,619	256	2,717	95	48	1,393	9,128
At 31 December 2007, net of accumulated depreciation	89,611	4,259	51,477	1,675	1,287	47,860	196,169
At 31 December 2007:							
Cost or valuation	112,074	7,762	115,963	4,985	4,761	47,860	293,405
Accumulated depreciation	(22,463)	(3,503)	(64,486)	(3,310)	(3,474)	–	(97,236)
Net carrying amount	89,611	4,259	51,477	1,675	1,287	47,860	196,169
Analysis of cost or valuation:							
At cost	9,420	7,762	115,963	4,985	4,761	47,860	190,751
At 31 December 2006 valuation	102,654	–	–	–	–	–	102,654
	112,074	7,762	115,963	4,985	4,761	47,860	293,405

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

	Leasehold land and buildings *HK$'000*	Leasehold improve-ments *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December 2006							
At 1 January 2006:							
Cost or valuation	99,985	5,809	82,041	3,792	3,742	8,909	204,278
Accumulated depreciation	(14,250)	(1,892)	(43,395)	(1,806)	(2,556)	–	(63,899)
Net carrying amount	85,735	3,917	38,646	1,986	1,186	8,909	140,379
At 1 January 2006, net of accumulated depreciation	85,735	3,917	38,646	1,986	1,186	8,909	140,379
Additions	1,632	1,136	12,703	412	470	11,988	28,341
Disposals	(694)	–	–	–	–	–	(694)
Write-off	–	–	(100)	(3)	–	–	(103)
Deficit on revaluation	(483)	–	–	–	–	–	(483)
Depreciation provided during the year	(3,262)	(818)	(8,227)	(723)	(527)	–	(13,557)
Transfers	761	–	–	–	–	(761)	–
Exchange realignment	1,806	68	656	27	13	221	2,791
At 31 December 2006, net of accumulated depreciation	85,495	4,303	43,678	1,699	1,142	20,357	156,674
At 31 December 2006:							
Cost or valuation	102,654	7,035	94,935	4,260	3,978	20,357	233,219
Accumulated depreciation	(17,159)	(2,732)	(51,257)	(2,561)	(2,836)	–	(76,545)
Net carrying amount	85,495	4,303	43,678	1,699	1,142	20,357	156,674
Analysis of cost or valuation:							
At cost	–	7,035	94,935	4,260	3,978	20,357	130,565
At 31 December 2006 valuation	102,654	–	–	–	–	–	102,654
	102,654	7,035	94,935	4,260	3,978	20,357	233,219

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

At 31 December 2007, certain of the Group's leasehold land and buildings were revalued individually as at 31 December 2006 by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK$102,654,000 based on their existing use. Such leasehold land and buildings were not revalued at 31 December 2007. In the opinion of directors, there was no significant change in valuations of these leasehold land and buildings from their carrying amount as at 31 December 2007.

Had these properties been carried at historical cost less accumulated depreciation and impairment losses, their carrying amount would have been approximately HK$67,109,000 (2006: HK$62,164,000) in aggregate.

The net book 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 2007 amounted to HK$4,624,000 (2006: HK$5,748,000).

Certain of the Group's property, plant and equipment are leased to a related party, further details of which are included in note 37(a) to the financial statements.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying amount at 1 January	**21,224**	21,195
Recognised during the year	**(528)**	(493)
Exchange realignment	**1,557**	522
Carrying amount at 31 December	**22,253**	21,224
Current portion	**(528)**	(459)
Non-current portion	**21,725**	20,765

The Group's leasehold land is held under medium term leases and is situated in Mainland China.

16. GOODWILL

	Group
	HK$'000
Cost and carrying amount at 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007	25,723

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Golf equipment cash-generating unit; and
- Golf bag cash-generating unit.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Golf equipment		Golf bag		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Carrying amount of goodwill	**12,389**	12,389	**13,334**	13,334	**25,723**	25,723

The recoverable amounts of the above cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections of the above cash-generating units is 7% (2006: 12%).

Management has determined that the budgeted gross margin based on past performance and its expectation for market development. The discount rate used is before tax and reflects specific rates relating to each of the units.

17. DEPOSITS AND OTHER RECEIVABLES

Included in the deposits and other receivables is an amount of HK$1,167,000 (2006: Nil) which 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 financial assets included in the balance related to receivables for which there was no recent history of default.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**15,717**	15,717
Due from subsidiaries	**95,783**	94,106
	111,500	109,823

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

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Percentage of equity interest attributable to the Company Indirect	Principal activities
Sino Golf (BVI) Company Limited	British Virgin Islands/ Hong Kong	US$101	100	–	Investment holding
Sino Golf Manufacturing Company Limited ("SGMCL")	Hong Kong	HK$2 (ordinary) HK$3,842,700 (non-voting deferred) **	–	100	Investment holding and trading of golf equipment and accessories
增城市順龍高爾夫球製品有限公司*	PRC	HK$99,999,000	–	100	Manufacture and trading of golf equipment and accessories

18. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Guangzhou Sino Concept Golf Manufacturing Co., Ltd.*	PRC	HK$30,000,000	–	100	Manufacture and trading of golf equipment and accessories
CTB Golf (HK) Limited ("CTB")	Hong Kong	HK$10,000,000 (ordinary) HK$2,730,000 (preference)	–	100	Trading of golf bags and accessories
東莞騏衡運動用品製造有限公司*	PRC	HK$20,311,618	–	100	Manufacture and trading of golf bags
Xiamen Sino Talent Golf Manufacturing Co., Ltd.*	PRC	US$4,000,000	–	100	Manufacture and trading of golf equipment
Linyi Sinoeia Golf Co., Ltd.*	PRC	HK$59,911,383	–	100	Manufacture and trading of golf equipment and accessories
Sino Golf Leisure Company Limited	Hong Kong	HK$1,000,000	–	100	Golf leisure promotion
Sino U.S. Holding Company, L.L.C.	United States of America ("U.S.A")	US$100	–	100	Investment holding
Sino CTB Company, L.L.C.	U.S.A.	US$500,000	–	100	Investment holding
Sino Golf (USA), Inc.	U.S.A.	US$1,000	–	100	Trading of golf bags
Sino Golf Comercial Offshore De Macao Limitada	Macau	MOP100,000	–	100	Trading of golf equipment and accessories
Sino (CNC) Company Limited	Hong Kong	HK$10,000	–	51	Inactive

18. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Linyi CTB Sports Goods Manufacturing Co., Ltd	PRC	US$5,000,000#	–	100	Inactive
Sino Golf Sourcing Company Limited	Hong Kong	HK$1,000	–	51	Investment holding and provision of trading services
上海順龍商務資訊有限公司*	PRC	US$140,000	–	51	Provision of consulting and trading services
Sino Golf Victory and Distribution Company Limited	Hong Kong	HK$1,000	–	51	Provision of trading services

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

** 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.

As at 31 December 2007, the share capital contributed by the Group to Linyi CTB Sports Goods Manufacturing Co., Ltd was pending for completion of capital verification procedures under the PRC regulations.

19. INVENTORIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**56,497**	60,149
Work in progress	**39,288**	35,734
Finished goods	**65,772**	55,179
	161,557	151,062

20. TRADE RECEIVABLES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**57,285**	27,066
Impairment	**(9,840)**	(10,771)
	47,445	16,295

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. Trade receivables are non-interest-bearing.

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**10,771**	9,949
Impairment losses recognised *(note 6)*	**–**	822
Amount written off as uncollectible	**(931)**	–
	9,840	10,771

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$9,840,000 (2006: HK$10,771,000) with a carrying amount of HK$11,124,000 (2006: HK$12,748,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

20. TRADE RECEIVABLES *(continued)*

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Neither past due nor impaired	**24,242**	7,212
1 to 3 months past due	**18,484**	4,330
4 to 6 months past due	**964**	16
7 to 12 months past due	**2,030**	2,500
Over 1 year past due	**1,725**	2,237
	47,445	16,295

Receivables that were neither past due nor impaired relate to a number of diversified 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.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**6,351**	2,257	**145**	–
Deposits and other receivables	**22,048**	13,315	**1,560**	1,705
Loan to a director *(note 22)*	**36**	130	**–**	–
	28,435	15,702	**1,705**	1,705

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. LOAN TO A DIRECTOR

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

Group

Name	**31 December 2007**	**Maximum amount outstanding during the year**	**1 January 2007**
	HK$'000	*HK$'000*	*HK$'000*
Chang Hua Jung	36	130	130

The loan granted is unsecured, interest-free and repayable on demand.

23. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**66,900**	73,105	**287**	137
Time deposits	**13,169**	–	**–**	–
Cash and cash equivalents	**80,069**	73,105	**287**	137

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$22,758,000 (2006: HK$18,068,000). The RMB is not freely convertible into other currencies, however, under Mainland China's 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are generally made for periods of one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

24. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the date of receipt of goods, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 3 months	**69,821**	46,310
4 to 6 months	**10,855**	6,933
7 to 12 months	**3,039**	428
Over 1 year	**384**	296
	84,099	53,967

The trade payables are non-interest-bearing and are normally settled on 30 to 90 days terms.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accruals and other payables	**42,265**	36,826	**60**	155
Due to a related party *(note 26)*	**–**	985	**–**	–
	42,265	37,811	**60**	155

Other payables are non-interest-bearing and have an average term of three months.

The amount due to a related party was unsecured, interest-free and fully repaid during the year.

26. DUE TO MINORITY SHAREHOLDERS OF A SUBSIDIARY

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

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2007			2006		
Group	**Effective interest *rate (%)***	***Maturity***	***HK$'000***	Effective interest *rate (%)*	*Maturity*	*HK$'000*
Current						
Finance lease payables *(note 28)*	**4.38 – 6.82**	**2008**	**1,344**	5.03 – 5.73	2007	1,269
Bank loans – unsecured	**4.00 – 6.60**	**2008**	**105,039**	4.71 – 6.07	2008	147,790
			106,383			149,059
Non-current						
Finance lease payables *(note 28)*	**4.38 – 6.82**	**2009 – 2010**	**2,126**	5.03 – 5.73	2008 – 2010	3,468
Bank loans – unsecured	**4.00 – 6.60**	**2009 – 2010**	**106,567**	4.71 – 6.07	2008 – 2009	39,374
			108,693			42,842
			215,076			191,901

	Group	
	2007	2006
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**105,039**	147,790
In the second year	**75,908**	37,517
In the third to fifth years, inclusive	**30,659**	1,857
	211,606	187,164
Other borrowings repayable:		
Within one year	**1,344**	1,269
In the second year	**1,379**	2,331
In the third to fifth years, inclusive	**747**	1,137
	3,470	4,737
	215,076	191,901

27. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

Notes:

(a) All the Group's bank and other borrowings are denominated in Hong Kong dollars.

(b) All bank and other borrowings of the Group bear interest at floating interest rates.

(c) The carrying amounts of the Group's borrowings approximate to their fair values which have been calculated by discounting the expected future cash flows at prevailing interest rates.

(d) As at 31 December 2007, the Company has provided guarantees in relation to bank loans granted to certain subsidiaries up to HK$215,076,000 (2006: HK$305,034,000).

(e) As at 31 December 2006, the Group did not comply with certain financial covenants as set out in the banking facility agreements entered into with two banks. The loans with these two banks of approximately HK$6.2 million and HK$25.5 million were recorded as current liabilities in the balance sheet as of 31 December 2006. As a consequence of the above, a bank loan of approximately HK$40 million with another bank, which was also recorded as current liabilities in the balance sheet as of 31 December 2006, might trigger the cross default event pursuant to the relevant agreement.

During the year, the Group repaid the two bank loans of approximately HK$6.2 million and HK$25.5 million in accordance with the original repayment schedule. As at 31 December 2007, the Group complied with all loan covenants stipulated in respective banking facility agreements and all bank loans were classified in accordance with their original maturity dates.

28. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its golf equipment manufacturing business. These leases are classified as finance leases and have remaining lease terms of 22 months to 31 months.

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

Group

	Minimum lease payments 2007 *HK$'000*	Minimum lease payments 2006 *HK$'000*	**Present value of minimum lease payments 2007** *HK$'000*	Present value of minimum lease payments 2006 *HK$'000*
Amounts payable:				
Within one year	**1,480**	1,488	**1,344**	1,269
In the second year	**1,450**	1,484	**1,379**	2,331
In the third to fifth years, inclusive	**759**	2,226	**747**	1,137
Total minimum finance lease payments	**3,689**	5,198	**3,470**	4,737
Future finance charges	**(219)**	(461)		
Total net finance lease payables	**3,470**	4,737		
Portion classified as current liabilities *(note 27)*	**(1,344)**	(1,269)		
Non-current portion *(note 27)*	**2,126**	3,468		

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

29. DEFERRED TAX LIABILITIES

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

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation *HK$'000*	**Revaluation of land and buildings** *HK$'000*	**Total** *HK$'000*
At 1 January 2007	335	2,383	2,718
Deferred tax credited to the income statement during the year *(note 10)*	(321)	(64)	(385)
Deferred tax liabilities at 31 December 2007	14	2,319	2,333
At 1 January 2006	1,076	2,383	3,459
Deferred tax credited to the income statement during the year *(note 10)*	(741)	–	(741)
Deferred tax liabilities at 31 December 2006	335	2,383	2,718

The Group has tax losses arising in Hong Kong of approximately HK$830,000 (2006: HK$830,000) that are available indefinitely, and nil tax loss in Mainland China (2006: HK$3,660,000) that are available for a maximum of five years, for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these unused tax losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

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

30. SHARE CAPITAL

Shares

	2007	2006
	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

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the 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.

31. SHARE OPTION SCHEME *(continued)*

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 of Hong Kong Limited (the "Stock Exchange") on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange 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.

The following share options were outstanding under the Scheme during the year:

	2007 Weighted average exercise price *HK$ per share*	**2007** Number of options *'000*	2006 Weighted average exercise price *HK$ per share*	2006 Number of options *'000*
At 1 January	**0.73**	**5,100**	1.47	18,380
Granted during the year	**–**	**–**	0.70	4,000
Expired during the year	**0.83**	**(1,100)**	1.51	(17,280)
At 31 December	**0.70**	**4,000**	0.73	5,100

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follows:

2007

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
4,000	**0.70**	**3 August 2006 to 31 July 2008**

31. SHARE OPTION SCHEME *(continued)*

2006

Number of options	**Exercise price***	**Exercise period**
'000	*HK$ per share*	
1,100	0.83	4 July 2005 to 8 June 2007
4,000	0.70	3 August 2006 to 31 July 2008
5,100		

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

The fair value of equity-settled share options granted in the prior year of HK$312,000 was estimated as at the date of grant, using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2006
Expected volatility (%)	30.00
Risk-free interest rate (%)	4.14
Expected life of option (year)	2.00
Stock asset price (HK$)	0.68
Option strike price (HK$)	0.70

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

At the balance sheet date, the Company had 4,000,000 share options outstanding under the Scheme. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 4,000,000 additional ordinary shares of the Company and an additional share capital of HK$400,000 and share premium of HK$2,400,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 4,000,000 share options outstanding under the Scheme, which represented approximately 1.32% of the Company's shares in issue as at that date.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 56.

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

(b) Company

	Share premium account	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 2006	57,270	15,516	83	1,062	12,088	86,019
Equity-settled share option expense	–	–	312	–	–	312
Profit for the year	–	–	–	17,020	–	17,020
2005 final dividend declared	–	–	–	–	(12,088)	(12,088)
2006 interim dividend *(note 12)*	–	–	–	(9,973)	–	(9,973)
Proposed 2006 final dividend *(note 12)*	–	–	–	(6,648)	6,648	–
At 31 December 2006 and 1 January 2007	57,270*	15,516*	395*	1,461*	6,648	81,290
Transfer to retained profits	–	–	(83)	83	–	–
Profit for the year	–	–	–	14,614	–	14,614
2006 final dividend declared	–	–	–	–	(6,648)	(6,648)
2007 interim dividend *(note 12)*	–	–	–	(6,044)	–	(6,044)
Proposed 2007 final dividend *(note 12)*	–	–	–	(7,555)	7,555	–
At 31 December 2007	57,270*	15,516*	312*	2,559*	7,555	83,212

32. RESERVES *(continued)*

(b) Company *(continued)*

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

* Theses reserve accounts comprise the reserves of HK$75,657,000 (2006: HK$74,642,000) in the balance sheet.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

In the prior year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$5,208,000.

34. CONTINGENT LIABILITIES

At the balance sheet date, the Company had the following contingent liabilities:

	2007	2006
	HK$'000	*HK$'000*
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	**485,130**	607,860

As at 31 December 2007, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$215,076,000 (2006: HK$305,034,000).

At the balance sheet date, the Group had no significant contingent liabilities.

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its plant and machinery (note 14) and subleases certain properties under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants and lessees to pay security deposits.

As at 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants and lessees falling due as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**1,880**	1,919
In the second to fifth years, inclusive	**150**	2,216
	2,030	4,135

(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.

As at 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**6,189**	5,510
In the second to fifth years, inclusive	**8,106**	8,015
After five years	**–**	1,419
	14,295	14,944

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Leasehold land and buildings	**15,144**	24,376
Plant and machinery	**4,176**	4,562
Furniture, fixtures and equipment	**–**	168
	19,320	29,106

At the balance sheet date, the Company had no capital commitments (2006: Nil).

37. RELATED PARTY TRANSACTIONS

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

	Notes	**2007**	2006
		HK$'000	*HK$'000*
Purchases of raw materials from Nikko Bussan Co., Ltd. ("Nikko Bussan")	*(i)*	**–**	11
Sales of finished goods to Nikko Bussan	*(ii)*	**–**	5,845
Rental expenses paid to Progolf Manufacturing Company Limited ("Progolf") and Oriental Leader Limited ("Oriental")	*(iii)*	**1,440**	1,440
Rental income from Sino Sporting Company Limited ("Sino Sporting")	*(iv)*	**186**	287

37. RELATED PARTY TRANSACTIONS *(continued)*

(a) *Notes: (continued)*

(i) Takanori Matsuura*, a then director of the Company, had a beneficial interest in Nikko Bussan. The purchase prices of raw materials and club heads were determined based on the agreement between the parties.

(ii) The sales in the prior year constituted continuing connected transactions as defined in Chapter 14A of Listing Rules. The selling prices of finished goods were determined based on a cost plus basis.

(iii) 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.

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

* *Mr. Takanori Matsuura passed away on 13 August 2006 and his legacies have not yet been arranged.*

(b) Compensation of key management personnel of the Group:

Key management personnel of the Group includes all the directors and the five highest paid employees. Details of compensation of directors and the five highest paid employees are included in notes 8 and 9 to the financial statements, respectively.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets

At the balance sheet date, all financial assets of the Group and of the Company were categorised as loans and receivables as shown below:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Due from subsidiaries	**–**	–	**95,783**	94,106
Deposits and other receivables	**3,539**	–	**–**	–
Trade receivables	**47,445**	16,295	**–**	–
Financial assets included in prepayments, deposits and other receivables	**22,084**	13,445	**1,560**	1,705
Cash and cash equivalents	**80,069**	73,105	**287**	137
	153,137	102,845	**97,630**	95,948

Financial liabilities

At the balance sheet date, all financial liabilities of the Group and of the Company were categorised as financial liabilities at amortised cost as shown below:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade and bills payables	**84,099**	53,967	**–**	–
Financial liabilities included in other payables and accruals	**23,225**	21,345	**60**	155
Interest-bearing bank and other borrowings	**215,076**	191,901	**–**	–
	322,400	267,213	**60**	155

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, finance leases, other interest-bearing borrowings, and cash and term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

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

For Hong Kong dollar floating-rate borrowings, assuming that the amount of liability outstanding at the balance sheet date was outstanding for the whole year, a 100 basis-point increase/decrease in interest rates at 31 December 2007 and 2006 would have increased/decreased the Group's profit before tax by approximately HK$105,000 and HK$101,000, respectively, with all other variables held constant.

Foreign currency risk

Foreign exchange risk is the risk of loss arising from adverse movements in foreign exchange rates relating to transactions denominated in foreign currencies. The foreign exchange risk to which the Group is exposed primarily relates to sales and purchases that are denominated in currency other than the functional currency of the entity in concern and such risk originates mainly from the currencies of RMB and United States dollars.

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising mainly from RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic development and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of the RMB against the Hong Kong dollar may have impact on the operating results of the Group. In addition, since the rate of exchange between Hong Kong dollars and United States dollars is controlled within a narrow range, the Group does not expect material foreign currency risk exposure in respect thereof.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk *(continued)*

The Group's foreign exchange position is monitored on an ongoing basis in order to minimise the impact from the fluctuation of foreign currency. The Group currently does not maintain a foreign currency hedging policy. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar and RMB exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	2007			2006		
	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit for the year**	**Increase/ (decrease) in equity**	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit for the year	Increase/ (decrease) in equity
	%	***HK$'000***	***HK$'000***	*%*	*HK$'000*	*HK$'000*
United States dollar	**5.0**	**624**	**–**	5.0	(1,761)	–
RMB	**5.0**	**(509)**	**984**	5.0	(382)	378
United States dollar	**(5.0)**	**(624)**	**–**	(5.0)	1,761	–
RMB	**(5.0)**	**509**	**(984)**	(5.0)	382	(378)

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 short term deposits placed with highly-rated financial institutions and bear minimal risk. To date, the Group has not sustained any losses on cash equivalents.

The Group markets its products primarily to the OEM and ODM customers in the United States, Europe and Japan. The Group limits its exposure to credit risk by prudently selecting customers and by diversifications. 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 2007 and 2006. At the balance sheet date, 83% (2006: 68%) of the Group's trade receivables were due from the Group's three largest debtors.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

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.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Liquidity risk

Liquidity risk represents the risk that funds will not be available to meet liabilities when they fall due, and it arises from the mismatches of the amount and maturity of assets and those of liabilities. The Group keeps sufficient cash to meet the operating needs and manages liquidity risk by monitoring the working capital through cash flow projections to ensure that all liabilities due and known funding requirements can be met. The liquidity risk is further mitigated by the availability of standby or unutilised banking facilities for contingency purposes. As at 31 December 2007, the Group's total banking facilities amounted to HK$662 million (2006: HK$550 million), of which HK$337 million (2006: HK$237 million) were not utilised.

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

Group

	2007			
	On demand/ less than 3 months	**3 to less than 12 months**	**1 to 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Trade and bills payables	**84,099**	**–**	**–**	**84,099**
Other payables	**23,225**	**–**	**–**	**23,225**
Due to minority shareholders of a subsidiary	**462**	**–**	**–**	**462**
Finance lease payables	**330**	**1,014**	**2,126**	**3,470**
Interest-bearing bank and other borrowings	**41,313**	**63,726**	**106,567**	**211,606**
	149,429	**64,740**	**108,693**	**322,862**

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

	2006			
	On demand/ less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	1 to 5 years *HK$'000*	Total *HK$'000*
Trade and bills payables	53,967	–	–	53,967
Other payables	21,345	–	–	21,345
Due to minority shareholders of a subsidiary	454	–	–	454
Finance lease payables	311	958	3,468	4,737
Interest-bearing bank and other borrowings	57,935	89,855	39,374	187,164
	134,012	90,813	42,842	267,667

Company

	2007 *HK$'000*	2006 *HK$'000*
Other payables – on demand	**60**	155

Capital 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 shareholder 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 or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

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 75%. Net debt includes interest-bearing bank and other borrowings, less cash and cash equivalents. Total capital includes equity attributable to equity holders of the parent and minority interest. The gearing ratios as at the balance sheet dates were as follows:

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Group

	2007	2006
	HK$'000	*HK$'000*
Interest-bearing bank and other borrowings	**215,076**	191,901
Less: Cash and cash equivalents	**(80,069)**	(73,105)
Net debt	**135,007**	118,796
Equity attributable to equity holders	**239,028**	197,794
Minority interest	**2,571**	2,567
Total capital	**241,599**	200,361
Gearing ratio	**56%**	59%

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2008.

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 2007	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
REVENUE	**567,668**	493,376	367,257	393,945	400,708
Cost of sales	**(423,478)**	(359,597)	(264,935)	(271,723)	(272,580)
Gross profit	**144,190**	133,779	102,322	122,222	128,128
Other income and gain	**7,661**	5,781	11,742	8,510	10,891
Selling and distribution costs	**(21,590)**	(23,850)	(12,273)	(11,495)	(18,776)
Administrative expenses	**(57,982)**	(53,549)	(50,243)	(57,512)	(48,157)
Other expenses	**(6,714)**	(6,844)	(7,511)	(22,277)	(12,781)
Finance costs	**(22,576)**	(20,603)	(12,058)	(9,790)	(10,142)
PROFIT BEFORE TAX	**42,989**	34,714	31,979	29,658	49,163
Tax	**(1,179)**	(1,580)	(1,130)	(1,706)	(5,281)
PROFIT FOR THE YEAR	**41,810**	33,134	30,849	27,952	43,882
Attributable to:					
Equity holders of the parent	**41,810**	33,315	31,560	28,160	43,398
Minority interests	**–**	(181)	(711)	(208)	484
	41,810	33,134	30,849	27,952	43,882

FIVE YEAR FINANCIAL SUMMARY *(continued)*

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**587,549**	489,302	**453,290**	429,547	402,442
TOTAL LIABILITIES	**(345,950)**	(288,941)	**(267,300)**	(258,351)	(211,449)
MINORITY INTERESTS	**(2,571)**	(2,567)	**(2,672)**	(10,697)	(10,905)
	239,028	197,794	**183,318**	160,499	180,088