Sino Golf Holdings Limited

順龍控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00361

2011
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. CO, Man Kwong

AUTHORISED REPRESENTATIVES

Mr. CHU Chun Man, Augustine
Mr. CHU Yuk Man, Simon

AUDITORS

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

INTERNAL CONTROL REVIEW ADVISOR

SHINEWING Risk Services Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

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

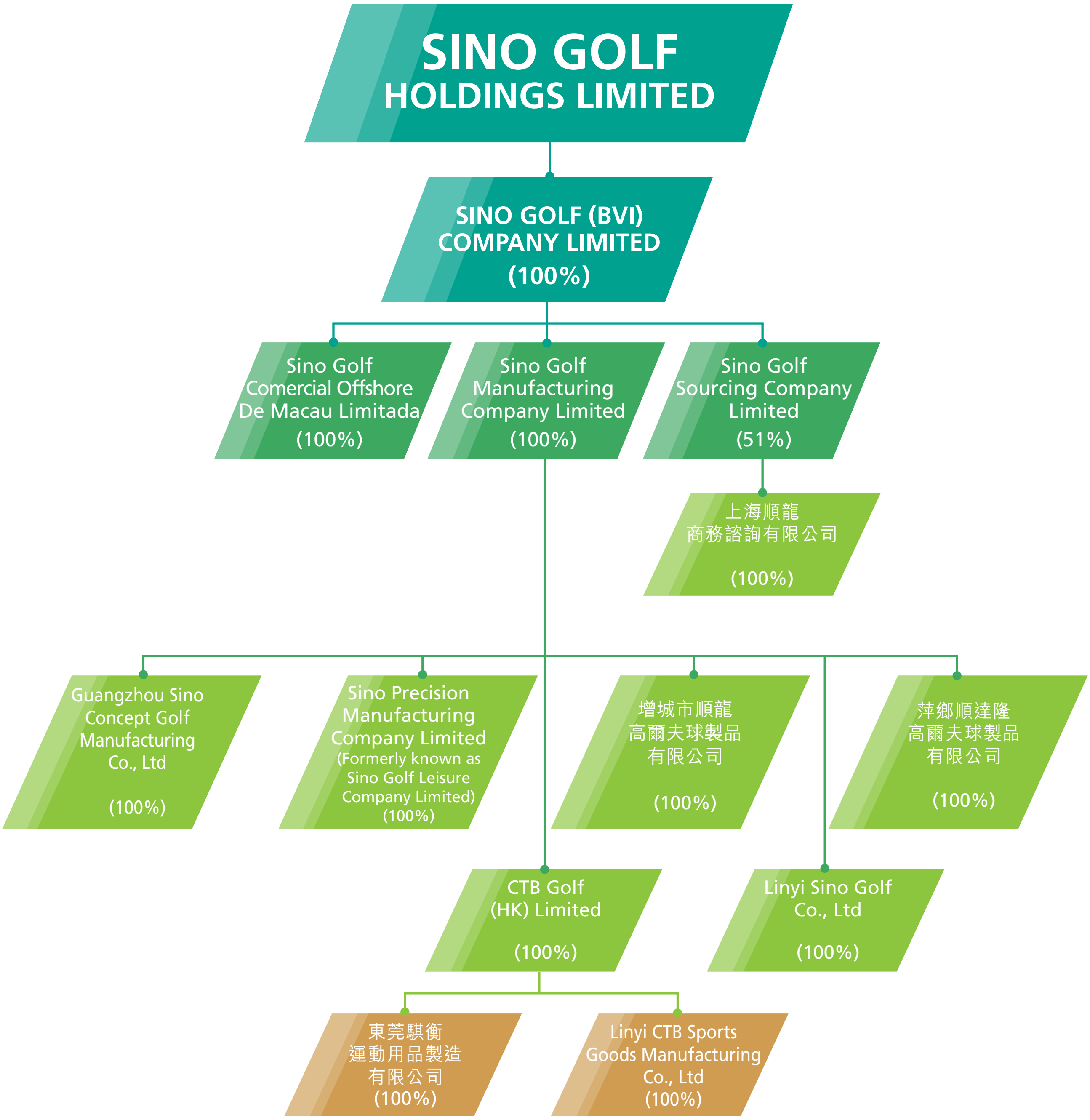
TICKER SYMBOL

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

WEBSITE

http://www.sinogolf.com

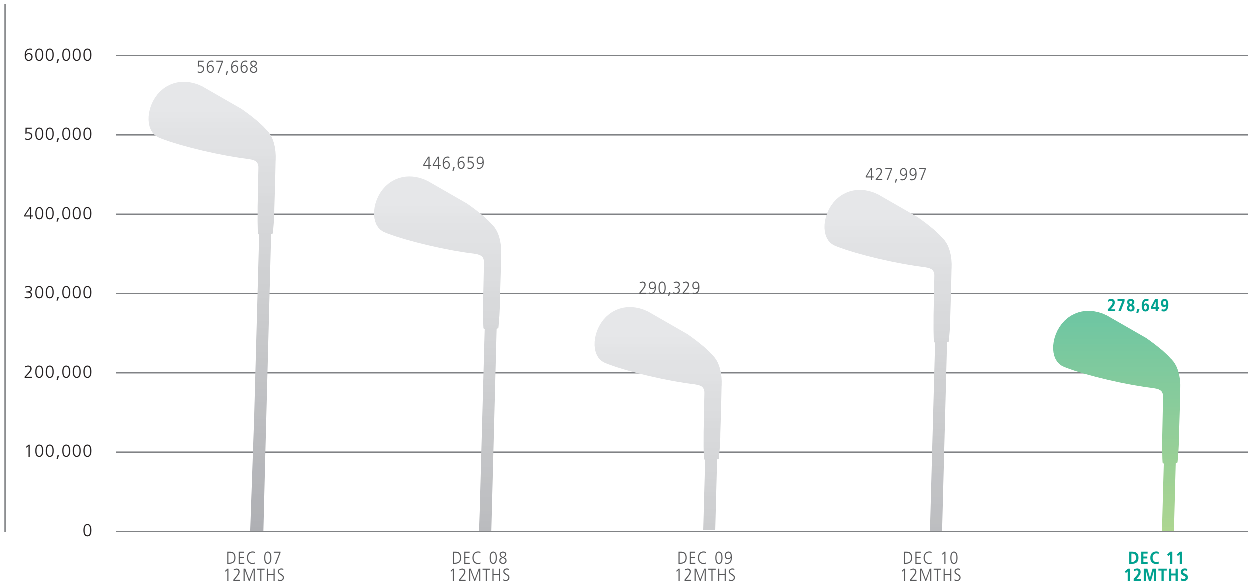
CORPORATE STRUCTURE



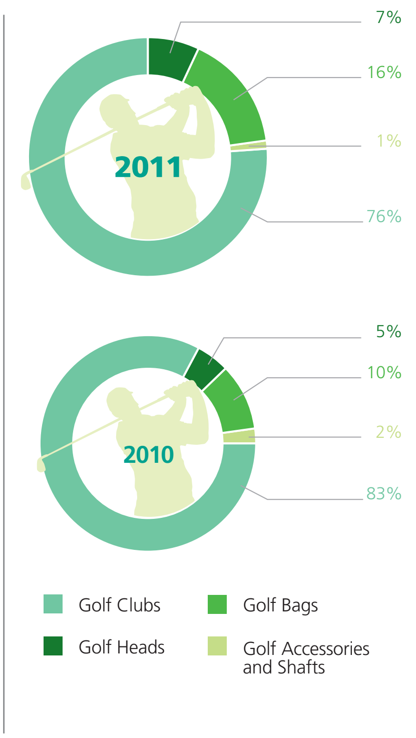
FINANCIAL HIGHLIGHTS

Turnover

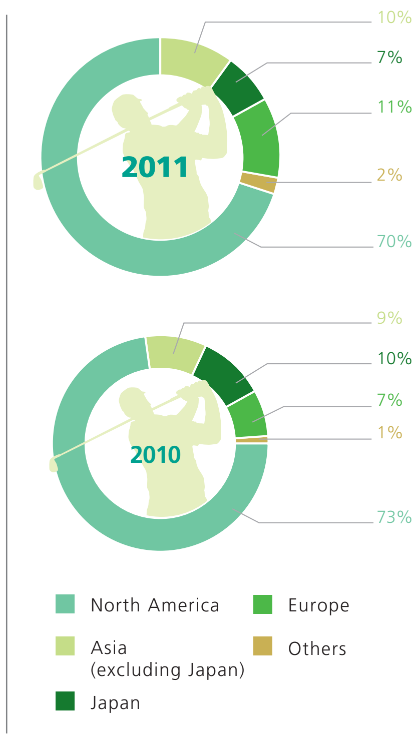
(HK$'000)



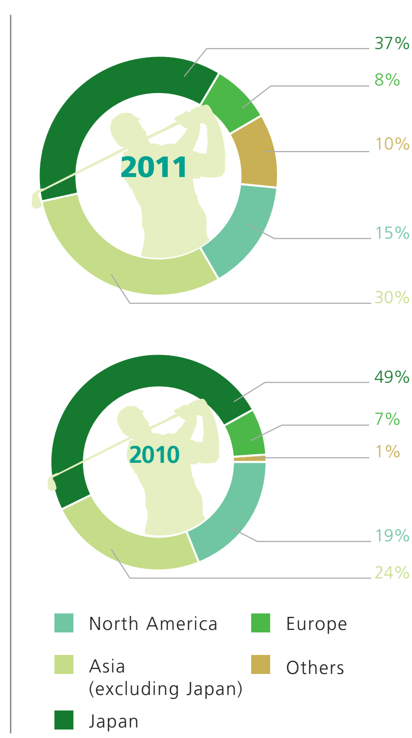
Turnover by Product



Turnover (Club) by Geographical Area



Turnover (Bag) by Geographical Area



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of Sino Golf Holdings Limited (the "Company"), I hereby present to shareholders the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011.

Chu Chun Man, Augustine
Chairman

CHAIRMAN'S STATEMENT

RESULTS AND DIVIDENDS

Consolidated turnover of the Group decreased to HK$278,649,000 for the year ended 31 December 2011 (2010: HK$427,997,000). Loss for the year attributable to owners of the Company amounted to HK$16,242,000 (2010: profit of HK$11,588,000). Loss per share was HK5.06 cents (2010: earnings per share of HK3.83 cents) whereas diluted loss per share was also HK5.06 cents (2010: diluted earnings per share of HK3.78 cents).

The Board has not recommended the payment of a dividend for the year (2010: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 4 June 2012 to Tuesday, 5 June 2012, both days inclusive, for the purpose of establishing the entitlement of shareholders to vote at the forthcoming annual general meeting. During the period, no transfer of shares will be effected. All share transfer, accompanied by the relevant share certificates, shall be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4 p.m. on Friday, 1 June 2012.

BUSINESS REVIEW

Overview

The volatile economic environment prevailing during the year has hampered our business and resulted in a substantial decline in the Group's turnover in 2011. Facing the economic uncertainties, market participants generally pursued a more prudent strategy through lowering the order quantities or rescheduling the shipment time to minimize the risk under a fluctuating global economy. Absent an obvious rebound in the market demand as anticipated, the business sentiment remained stagnant during the second half of the year. Despite our effort to fulfill orders timely to preserve and recognize revenues, the Group suffered a sales curtailment inevitably when a major customer rescheduled the launch and delivery time of certain programs to the first quarter of 2012.

The Group's turnover plummeted, year over year, by 34.9% in 2011 to HK$278,649,000 (2010: HK$427,997,000). Gross profit for the year was reduced to HK$43,836,000 from HK$89,820,000 for 2010 in commensurate with the reduced revenue level. Average gross profit margin fell by 5.3% to 15.7% mainly due to the recovery of fixed costs and other non-recurring expenses through the depressed turnover. To combat the volatile economy, the Group reinforced its cost control measures to optimize expenditures so as to mitigate the impact caused by the shrinkage in revenues. The broadened customer base and the enhanced manufacturing capability have helped strengthen our competitive edge during a period of economic instability. Driven by our mission to provide one-stop premium services to customers, the Group has persistently focused and committed on product innovation and customers' fulfillment aiming to gain market share as well as industry recognition. Our Group is determined to achieve long-term development and endeavors to procure additional business from the first-tier name brands to generate extra revenues. We maintain a confident though cautious view on the business outlook of the ensuing year as we anticipate a partial rebound when major customers resume and expedite the launch of new products during the later part of 2012.

During the year, the Renminbi currency appreciated moderately to intensify the cost burden attributable to Renminbi expenditures such as wages and factory overheads incurred at our manufacturing facilities in China. To mitigate the impact of cost hikes, the Group strengthened the implementation of its rationalization measures with an aim to streamline operations to optimize and reduce expenditures to the extent feasible.

In 2011, the golf equipment and components sales aggregated to HK$234,822,000 (2010: HK$384,225,000) representing 84.3% (2010: 89.8%) of the Group's turnover. Sales of the golf bags and accessories, after eliminating inter-segmental sales of HK$12,993,000 (2010: HK$26,317,000), amounted to HK$43,827,000 (2010: HK$43,772,000) to account for the remaining 15.7% of the Group's turnover for the year (2010: 10.2%). Suffering a plummet in revenues, both the golf equipment and the golf bag segments deteriorated in performance to record separately a segmental loss of HK$498,000 and a segmental profit of HK$1,182,000 for the year (2010: segmental profits of HK$33,968,000 and HK$3,185,000, respectively).

Golf Equipment Business

The golf equipment segment retained its role as the main operating segment to account for 84.3% of the Group's turnover for the year (2010: 89.8%). Adversely affected by the economic downturn, the golf equipment sales dropped significantly in 2011 by 38.9% to HK$234,822,000 compared to HK$384,225,000 for 2010. The segment turnover comprised golf clubs sales of HK$210,492,000 (2010: HK$352,963,000) and components sales of HK$24,330,000 (2010: HK$31,262,000), representing 89.6% (2010: 91.9%) and 10.4% (2010: 8.1%), respectively. Of the golf clubs sales, the proportion of club sets versus individual clubs was 81.8% (2010: 87.4%) and 18.2% (2010: 12.6%), respectively. For the components sales, club heads accounted for 83.0% (2010: 70.9%) with shafts and other accessories taking up the remaining 17.0% (2010: 29.1%).

During the year, sales to the largest segmental customer that carries the world's most prominent golf brand decreased by 44.9% to HK$91,377,000 (2010: HK$165,940,000), which represents 38.9% (2010: 43.2%) of the segment turnover or 32.8% (2010: 38.8%) of the Group's turnover for the year. Sales to other customers generally decreased by differing extent to further erode revenues. Turnover generated from the top five golf equipment customers aggregated to HK$218,823,000 (2010: HK$348,662,000), representing 93.2% (2010: 90.7%) of the segment turnover or 78.5% (2010: 81.5%) of the Group's turnover for the year. With the broadened customer base, the Group is determined to continually develop the golf equipment business to take on new first-tier name brands to uphold our role as a key market player.

It has been the Group's strategy to realize as much benefit and savings as would be achievable through its Shandong manufacturing facility that operates under a lower cost environment in the northern part of China. Since the inception, the Shandong manufacturing facility has kept on expanding to account for about two-third of the Group' production of golf clubs other than shafts for the current year. It is further planned to relocate the shaft production from our Guangdong manufacturing facility to the Shandong manufacturing facility in 2012. This arrangement aims to centralize the overall production of golf clubs and related components at one integrated facility to achieve greater efficiency and save cost. To further streamline the operations, a limited volume of golf bags production has been set up at the Shandong manufacturing facility to fulfill those orders of golf club sets that incorporate golf bags as accessories. This helps reduce the moving cost and eliminate the risk associated with transporting bulk quantities of golf bags over a long distance from the Group's Guangdong manufacturing facility for packaging into golf club sets at the Shandong manufacturing facility for export to customers. The Shandong manufacturing facility has strengthened our competitive advantage and provides an effective platform to facilitate the Group to solicit new business from those top tier golf name brands that are seeking alternative high quality supply sources.

CHAIRMAN'S STATEMENT

During the year, the Group disposed to an independent third party of its entire equity interest in the subsidiary, which owns the Xiamen manufacturing facility in China, for a cash consideration of RMB18,000,000. The production role of the Xiamen manufacturing facility has been taken up by the Shandong manufacturing facility with greater productivity and contribution. Details of the transaction had been set out in the announcements of the Company made on 17 February 2011 and 23 February 2011, respectively. A loss of approximately HK$2,456,000 was recorded upon completion of the disposal. The proceeds from the disposal were applied for providing funds for the Group's working capital.

Following the relocation of the majority of the Group's production to the Shandong manufacturing facility, there is less demand for the production output of the Group's manufacturing facilities located in southern China. It is therefore desirable to seek opportunities to realize the redundant capacities for the benefit of the Group and the shareholders. Further to the disposal of the subsidiary holding the Xiamen manufacturing facility, the Group has subsequently entered into agreements in March 2012 to dispose of its two manufacturing facilities in Guangdong Province, China for a total cash consideration of RMB37,500,000. Details of the transactions were set out in an announcement of the Company dated 9 March 2012. Proceeds from the disposal of the properties will be applied to reduce bank debts and provide general working capital for the Group.

To assure good quality and due recoverability of trade debts, the Group pursues the sound practice to procure factoring and insurance for its major receivables. Besides, the Group has tightened the credit terms in recent years to not exceeding 60 days and further requires deposits from new customers to avoid excess exposure. Our management seeks to maintain a strict control in doing business with individual customers and feels satisfied with the overall quality of trade receivables. At 31 December 2011, there was only an impairment provision of HK$65,000 that represents 0.34% of the outstanding trade receivables.

During the year, raw materials and components cost fluctuated moderately given the appreciation in the Renminbi currency, which brought inflationary pressure for the domestic purchases. On the other hand, the stringent cost control measures adopted by the Group have effectively mitigated the impact of a rising trend in labor cost and other expenditures such as energy and fuels that helped reduce margin erosions.

Hard hit by the shrinkage in sales volume, the golf equipment segment has recorded a segmental loss of HK$498,000 for the year (2010: profit of HK$33,968,000). Taking into account the prevailing market conditions and the current order book status, the management anticipates the golf equipment segment to achieve a partial rebound in the ensuing year though it will continue to operate under a fluctuating economy and face intense competition. We remain confident with caution and are devoted to further develop and explore the golf equipment business with an aim to rebuild sales volume and resume growth.

Golf Bag Business

Impacted by the economic downturn, the total sales of the golf bag segment decreased, before elimination of the inter-segmental sales of HK$12,993,000 (2010: HK$26,317,000), by 18.9% in 2011 to HK$56,820,000 (2010: HK$70,089,000). Notwithstanding the drop in the total segment sales, the segment turnover defined to comprise only the sales of golf bags and accessories to external customers increased slightly in 2011 to HK$43,827,000 (2010: HK$43,772,000) and accounted for 15.7% of the Group's turnover for the year (2010: 10.2%). The inter-segmental sales of golf bags dropped substantially as a result of the shrinkage in customers' orders of golf club sets that incorporated golf bags as accessories, sales of which had been classified to constitute the turnover of the golf equipment segment.

Of the segment turnover for the year, golf bag sales amounted to HK$30,086,000 (2010: HK$32,786,000) or represent 68.6% (2010: 74.9%), whereas accessories sales comprising mainly shoe bags aggregated to HK$13,741,000 (2010: HK$10,986,000) to account for the remaining 31.4% (2010: 25.1%). There has not been material change in the product mix percentage throughout the years. During the year, sales to the largest golf bag customer stayed at similar level as last year and amounted to HK$26,917,000 (2010: HK$26,916,000), which represents 61.4% (2010: 61.5%) of the segment turnover or 9.7% (2010: 6.3%) of the Group's turnover for the year. Turnover from the top five golf bag customers aggregated to HK$38,311,000 (2010: HK$36,577,000), representing 87.4% (2010: 83.6%) of the segment turnover or 13.7% (2010: 8.5%) of the Group's turnover for the year.

Analyzed alternatively, the segment turnover for the year was made up of sales of the Japan line of products and the non-Japan line of products in the percentage of 61.9% (2010: 62.4%) and 38.1% (2010: 37.6%), respectively. During the year, sales of the Japan line of products decreased marginally by 0.7% to HK$27,147,000 (2010: HK$27,327,000) whereas sales of the non-Japan line of products, comprising mostly golf bags of American design, increased slightly by 1.4% to HK$16,680,000 (2010: HK$16,445,000). The Group is devoted to seize opportunities to continually develop both the Japan line and the non-Japan line of golf bags that can bring us the business volume or reasonable profit margins.

During the year, the prices of major raw materials for the golf bag production such as PVC, PU and nylon increased moderately whilst the accessories price for items like metal parts and plastic components fluctuated within limited range. On the other hand, the labor cost and production overheads such as energy and fuels did move up moderately to intensify the overall cost burden. To maintain our position as a key market player, the golf bag segment reinforced the various measures it has implemented to streamline the operations to enhance efficiency and rationalize costs. It is our strategy to continually develop and specialize in the business of high-end golf bags that offers room for greater margins to sustain the Group's long-term growth in the golf bag segment.

Operating in a stagnant economic environment, the performance of the golf bag segment worsened to record a segmental profit of HK$1,182,000 for the year (2010: HK$3,185,000), down 62.9% from the previous year. In consideration of the prevailing market conditions and the current ordering trend, the management anticipates the golf bag segment to continue to develop steadily with an aim to resume growth notwithstanding a volatile economic environment with various challenges.

Geographical Segments

There have not been significant fluctuations in the geographical distribution of the Group's business throughout the years. About two-third of the Group's turnover for the year were for shipments to customers in North America, mainly the United States, whilst shipments to other geographical regions covered Japan; Asia (excluding Japan); Europe; and others. Being the world's largest golf market, North America continued to dominate and accounted for 61.1% of the Group's turnover in 2011 (2010: 67.4%). Other geographical regions covering Japan, Asia (excluding Japan), Europe; and others contributed 11.8%, 13.4%, 10.7% and 3.0% of the Group's turnover for the year, respectively (2010: 14.5%; 10.1%; 7.2%; and 0.8%, respectively).

In terms of percentages of the Group's turnover, sales to the North American market and the Japan market decreased, year over year, by 6.3% and 2.7% to 61.1% and 11.8% in 2011, respectively. As more effort has been made to seize opportunities to develop and explore other markets, sales to regions covering Asia (excluding Japan); Europe and others grew in importance and increased, as a percentage of the Group's turnover, to 13.4%; 10.7% and 3.0%, respectively in 2011 (2010: 10.1%; 7.2% and 0.8%, respectively).

In monetary terms, sales to the North American market fell 41.0% in 2011 to HK$170,193,000 (2010: HK$288,346,000), comprising golf equipment and golf bag sales in the proportion of 96.2% (2010: 97.1%) and 3.8% (2010: 2.9%), respectively. Sales to the Japan market also decreased by 46.6% in 2011 to HK$33,017,000 (2010: HK$61,848,000) due mainly to the impact of the earthquake incident that took place in Japan in March 2011. With our effort to tap opportunities for other markets, sales to other geographical regions covering Asia (excluding Japan); Europe and others merely decreased in aggregate by 3% in 2011 to HK$75,439,000 (2010: HK$77,803,000).

It is the corporate strategy to strengthen our position in the North American market through continuing to explore the business opportunities with the major customers as well as other first-tier name brands looking for competitive high quality supply sources. Being the largest golf market in Asia, the Group remains devoted to persistently develop and tap opportunities in the Japan market both for the golf bag and golf equipment segments. To facilitate the long-term goal to enhance our market share, the Group is determined to continually develop business in the geographical regions covering, Asia (excluding Japan); Europe; and others, particularly the Asian market where the golf activities have become increasingly more popular and economical.

CHAIRMAN'S STATEMENT

PROSPECTS AND RISK FACTORS

Prospects

The year of 2011 has been a challenging year for the Group. Irrespective of our effort to fulfill orders timely in striving to recognize as much revenues as achievable, the Group nevertheless suffered a sales curtailment for the year when a major customer rescheduled the launch of certain programs to the ensuing financial period. Both the golf equipment and the golf bag segments recorded a remarkable drop in the sales volume prior to the elimination of inter-segmental sales of golf bags that constituted the components of the golf club sets, sales of which had been appropriately classified to the turnover of the golf equipment segment. To mitigate the adverse impact caused by the retarded sales, the Group reinforced its cost control measures to help optimize the expenditures and continued to shift more production to the Shandong manufacturing facility to further reduce manufacturing cost.

With a strong customer network through which our Group communicates to keep abreast of the market trends and ad hoc incidents, we are devoted to grasp every opportunity to create business ideas and make proposals. Our Group has been working hard to attempt to start doing business with a prominent golf name brand in 2012 for which we have submitted prototypes pending feedback. Besides, we consider the growth potential of the existing major customers huge, with which our Group has set a target for long-term development and co-operation. We also expect to continue to take on additional new name brands to strengthen our customer portfolio for the Group's long-term value and interest.

To facilitate the long-term development, the Group has started to get participation in producing certain tools product that employs the same casting technology as that being used for our golf heads production. Shipments of the tools product have commenced in the first quarter of 2012 and we anticipate more orders of tools product to come. This project serves as a diversification option that offers an alternative utilization of the Group's production resources to generate extra revenue especially during the slack period for golf equipment.

Including actual shipments made after the yearend, the Group has procured, to-date, customer orders exceeding HK$150 million for 2012 with additional orders to be added from time to time. Our Group has endeavored to grasp opportunities to create business while continuing to develop the existing client portfolio for long-term growth. Based on the current ordering trend and the prevailing market conditions, the management maintains a confident though cautious view about the business outlook for 2012. It is envisaged that the golf equipment business may achieve a partial rebound whereas the golf bag business should manage to perform reasonably given a dynamic and volatile economic environment. We will also keep ourselves alert of the market developments and changes to ensure a prompt and rightful response for the Group's interest.

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 an outline of those factors that could affect the Group's future performance and/or financial condition. These factors could cause the Group's future performance and/or financial condition to differ materially from those of the prior years or from management's expectations or estimates.

Status of The United States Economy and Currency Fluctuations

As the Group is principally engaged in exporting the majority of its products to the United States, any fluctuation or adverse change in the economy of the United States might have an effect on the Group's business. The potential conflicts arising from (i) the imbalance of trade between the PRC and the United States, and (ii) the alleged under-valuation of the RMB currency could eventually lead to trade barriers and protectionism practices if not properly dealt with and resolved by the respective governments. Besides, the tendency of a stronger RMB currency may affect the competitiveness of the PRC exporters if the RMB currency further appreciates.

Interest Rates Movements

The Group utilizes banking facilities to finance its operations, which usually bear interest at floating rates. Movements in the applicable interest rates will affect the level of finance cost to be borne by the Group. Though interest rates are currently at a relatively low level, any upward revision of the interest rates will increase the finance cost of the Group. Notwithstanding that the Group may consider entering into interest rate swap contracts to hedge interest payments, there is no assurance that such interest rate swaps would result in any significant savings for the Group.

Reliance on Key Customers

In 2011, sales to the largest customer represented 38.9% of the turnover of the golf equipment segment or 32.8% of the Group's annual turnover. The five largest customers in aggregate accounted for about 87.0% of the Group's turnover for the year. It is the Group's objective to diversify to maintain a healthy and balanced customer portfolio and we have reasonably achieved this. Due to the reliance on a few customers, it is inevitable that incidents with material adverse impact on the Group's key customers may also adversely affect the Group's business.

Materials Cost and Supply Sources

As materials cost constitutes the major cost component of the Group's products, any significant price fluctuations or supply shortages may pose threats to erode profit margins even if we could adjust sales prices to recover the cost increase to some extent. Besides, the trend of more reliance on the component makers and those suppliers specified by customers may limit the choice and flexibility in selecting competitive suppliers by the Group that might undermine and erode our profit margins over the time.

In addition to the risk factors mentioned above, the Group is subject to other risk factors and uncertainties that could arise as market conditions may change from time to time. The management keeps alert on the existence of any other risks and will adopt prompt measures to mitigate the Group's exposure as deemed necessary.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my gratitude to the Board members, the management and our employees for their hard work, loyalty and continued support. We treasure their contribution and commitments as a key motivator of the Group's long-term development and success.

Mr. Chu Chun Man, Augustine
Chairman

Hong Kong
30 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

This statement provides supplementary information to the chairman's statement.

RESULTS OF OPERATIONS

Impacted by the volatile economy, the Group's business was adversely affected as customers generally pursued a more prudent strategy in placing orders or scheduling the launch and delivery time. The Group's turnover plummeted, year over year, by 34.9% in 2011 to HK$278,649,000 (2010: HK$427,997,000). Loss for the year attributable to owners of the Company amounted to HK$16,242,000 (2010: profit of HK$11,588,000). Basic loss per share was HK5.06 cents for the year (2010: earnings per share of HK3.83 cents). Diluted loss per share was also HK5.06 cents as there were no dilutive potential ordinary shares in respect of the year (2010: Diluted earnings per share of HK3.78 cents). The directors do not recommend the payment of a dividend for the year (2010: Nil).

During the year, turnover of the golf equipment segment decreased by 38.9% to HK$234,822,000 (2010: HK$384,225,000) whilst the turnover of the golf bag segment, defined to comprise only the sales to external customers, increased slightly to HK$43,827,000 (2010: HK$43,772,000). Prior to the elimination of inter-segmental sales of HK$12,993,000 (2010: HK$26,317,000), the total sales of the golf bag segment had decreased by 18.9% in 2011 to HK$56,820,000 (2010: HK$70,089,000), which represents the actual change in the business volume of the golf bag segment under the depressed economy. The inter-segmental sales of golf bags decreased significantly during the year mainly due to the drop in the orders of golf club sets that incorporated golf bags as accessories. Revenues from the sale of such golf club sets were classified to constitute the turnover of the golf equipment segment as deemed appropriate.

Other operating income for the year increased to HK$3,062,000 from HK$2,238,000 in 2010, mainly due to the increase in tooling and handling charge income.

Selling and distribution costs for the year decreased to HK$5,331,000 from HK$9,550,000 in 2010, primarily attributable to the reduction in commission payments and transportation charges given a curtailed business volume.

Benefited from the savings achieved through the Group's cost control measures, administrative expenses for the year decreased to HK$47,143,000 from HK$53,002,000 in 2010, mainly attributable to the reduction in staff costs, rentals and insurance expenses. Included in the administrative expenses was a loss of HK$2,456,000 for the disposal of a subsidiary that holds the Xiamen manufacturing facility (2010: Nil).

Finance costs for the year was reduced to HK$10,433,000 from HK$15,282,000 in 2010, primarily owing to the decrease in term loan interest and export factoring charges.

Hampered by the depressed economy, the Group has sustained a loss attributable to owners of the Company of HK$16,242,000 for the year in contrast to a profit of HK$11,588,000 recorded for 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

It is the Group's objective to continually strengthen and rationalize its financial position to well support our long-term development and growth. We have progressed satisfactorily in this direction through the resources and funds contributed or made available from the internally generated cash flows; banking facilities and the financial support in the form of unsecured interest-free loans extended by the ultimate holding company and the immediate holding company to enable the Group to reduce its reliance on bank borrowings at times of economic depression. During the year, the Group utilized the funds provided by the ultimate holding company to further reduce the bank borrowings, which was followed by a rights issue in November 2011 to effectively capitalize part of the loan from the ultimate holding Company to increase the equity of the Group. The rights issue was made on the basis of one rights share for every two existing shares at a subscription price of HK$0.39 per rights share to raise approximately HK$59,807,000 before expenses. Details of the rights issue had been set out in the rights issue prospectus dated 3 November 2011 and the announcements of the Company made on 21 October 2011 and 22 November 2011, respectively. To properly manage the exposure to financial risks, the Group has adopted appropriate policies and guidelines to facilitate timely identification and prompt treatment of any detected financial risks.

At 31 December 2011, bank balances and cash, which were mostly denominated in United States dollars, Hong Kong dollars and Renminbi, amounted to HK$39,074,000 (2010: HK$43,316,000). The bank balances and cash decreased mainly because of less trade receivables realized during the year given the reduced sales revenues. At 31 December 2011, the inventories of the Group amounted to HK$161,906,000 (2010: HK$173,817,000). It is the Group's objective to maintain adequate inventories to meet its production requirement and review periodically to regulate the inventory level for appropriateness. We are devoted to properly consume and deal with compiled inventories to assure the realization of assets through the business cycle. The Group has managed to realize and clear up some compiled inventories worth approximately HK$20 million during the first quarter of 2012 to help rationalize the inventory level. The Group has pursued the policy to maintain adequate funds to run its operations and discharge the liabilities as and when they fall due.

Borrowings of the Group other than the loans from the immediate holding company and the ultimate holding company are mostly denominated in Hong Kong dollars, United States dollars and Renminbi that carry interest on HIBOR/LIBOR plus basis or at the interest rate promulgated by the Peoples' Bank of China from time to time. At 31 December 2011, interest-bearing borrowings comprising bank borrowings and obligations under finance leases aggregated to HK$132,462,000 (2010: HK$213,289,000), of which HK$122,279,000 (2010: HK$199,000,000) was repayable within one year. The loan from the immediate holding company of HK$23,678,000 at 31 December 2011 was unsecured, interest-free and has been extended to mature in March 2013 (2010: HK$23,678,000), whereas the loan from the ultimate holding company of HK$11,524,000 at 31 December 2011 was unsecured, interest free and repayable on demand (2010: HK$16,640,000). On the other hand, bank loans from certain PRC banks of HK$81,768,000 at 31 December 2011 (2010: HK$85,882,000) were secured by the land and buildings of the Group with a carrying value of HK$187,686,000 (2010: HK$182,388,000). The gearing ratio, defined as bank borrowings and obligations under finance leases less bank balances and cash of HK$93,388,000 divided by the shareholders' equity of HK$313,095,000, was 29.8% as at 31 December 2011 (2010: 64.5%). The gearing ratio at 31 December 2011 would be restated as 41.1% (2010: 79.8%) if the loans from the immediate holding company and the ultimate holding company were included in computing the ratio.

It is the corporate objective to maintain a financial position that is supportive of the Group's long-term development and growth. At 31 December 2011, the total assets and the net asset value of the Group amounted to HK$532,267,000 (2010: HK$593,565,000) and HK$313,095,000 (2010: HK$263,400,000) respectively. Current and quick ratios as at 31 December 2011 were 1.51 (2010: 1.04) and 0.62 (2010: 0.44) respectively. Both the current ratio and quick ratio showed remarkable improvement as a result of the realization of certain non-current assets and the substantial reduction in bank borrowings. The Group is devoted to continue to explore effective means to rationalize and further improve its financial position.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND CONTINGENT LIABILITIES

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

At 31 December 2011, the Group had no significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2011, the Group employed a total of approximately 1,830 employees mainly located in Hong Kong and the PRC. It is the Group's strategy to establish and maintain a harmonious relationship with its employees through provision of competitive remuneration packages and career development opportunities. The employees are remunerated based on their duties, experience and performance as well as industrial practices. The remuneration packages are reviewed annually to assure fairness and competitiveness 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 54, is the chairman of the Company and a founder 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 28 years of experience in golf equipment manufacturing industry. He also serves various positions in the public sector including a membership of the 9th of The Chinese People's Political Consultative Conference (CPPCC) – Guangdong Province.

CHU Yuk Man, Simon ("Simon Chu"), aged 56, is the elder brother of Augustine Chu. He has over 14 years of experience in the golf equipment manufacturing industry. Simon Chu is responsible for the sales and marketing functions as well as the customer relation functions of the Group. Simon Chu graduated with a bachelor degree in science in the Leland Stanford Junior University in the United States and an executive master degree in business administration from the Chinese University of Hong Kong. Prior to joining the Group in November 1997, Simon Chu held an Asia Pacific director position with an international firm which is listed on NASDAQ in the United States.

CHANG Hua Jung, aged 50, graduated from an industrial institution in Taiwan. Mr. Chang has over 29 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 83, has over 49 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 EVA Precision Industrial Holdings Limited (stock code: 838). During the year 2010, Mr. Choy resigned as an independent non-executive director of two listed companies, namely Multifield International Holdings Limited (stock code: 898) and Oriental Explorer Holdings Limited (stock code: 430). Save as disclosed, Mr. Choy did not hold any directorships in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

CHIU Lai Kuen, **Susanna**, aged 52, is a director of Li & Fung Development (China) Ltd, responsible for China relations and business development. Ms. Chiu is a qualified Chartered Accountant from England, and holds an executive master of business administration from the Chinese University of Hong Kong. She is currently the Vice President of the HK Institute of Certified Public Accountants and Past President of ISACA (China HK Chapter). Ms. Chiu is appointed by the government to serve on the Antiquities Advisory Board and Equal Opportunities Commission. She is also a member of the Shannxi Committee of the Chinese People's Political Consultative Conference. 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 56, is a Taiwanese. Mr. Hsieh has over 37 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, aged 49, is the operations director and company secretary of the Company and is responsible for the financing activity, investors' relation, operations management and strategic planning of the Group. Mr. Co joined the Group in September 2002. Prior to that, he worked in an international accounting firm for over 6 years before joining the commercial field for more than 12 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.

LEE May Yee, aged 42, is the senior marketing manager of the Group. Ms. Lee has over 19 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 48, is the assistant general manager of the Group's production department. He joined the Group in December 1990 and is currently in charge of the overall production of a golf bag subsidiary. Mr. He has more than 20 years of experience in the golf manufacturing industry.

HUNG Yi Chuan, aged 49, is the assistant general manager of the Group's production department. He joined the Group in February 2000 and is currently in-charge of the overall production of a golf equipment subsidiary. Mr. Hung has more than 24 years experience in golf manufacturing industry.

REPORT OF THE DIRECTORS

The directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2011.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in Note 41 to the consolidated 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 loss for the year ended 31 December 2011 and the state of affairs of the Group at that date are set out on pages 46 to 48 of the annual report.

The directors do not recommend the payment of dividend in respect of the year.

Summary Financial Information

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements is set out on page 104 of the annual report. This summary does not form part of the audited consolidated 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 18 to the consolidated 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 33 and 34 to the consolidated financial statements, respectively.

Pre-emptive Rights

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

Purchase, Redemption or Sale of Listed Securities of the Company

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

Reserves

Details of movements in the reserves of the Company during the year are set out in Note 40 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2011, the Company's reserves available for distribution amounted to HK$55,154,000. In accordance with the Companies Act 1981 of Bermuda, the Company's contributed surplus may be distributed in certain circumstances. In addition, the Company's share premium account, in the amount of HK$102,385,000, may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 87.0% of the total sales for the year and sales to the largest customer included therein amounted to 32.8%. 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, Mr. CHU Chun Man, Augustine and Mr. CHU Yuk Man, Simon 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 Mr. CHOY Tak Ho, Ms. CHIU Lai Kuen, Susanna and Mr. 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 16 to 17 of the annual report.

REPORT OF THE DIRECTORS

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 shareholders' approval at general meeting, the Company's board of directors was authorised to fix the directors' 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 39 to the consolidated 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 2011, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(I) LONG POSITIONS IN ORDINARY SHARES OF THE COMPANY:

	Number of shares held, capacity and nature of interest				
Name of director	**Directly beneficially owned**	**Through spouse**	**Through controlled corporations#**	**Total**	**Percentage of the Company's issued share capital**
Mr. CHU Chun Man, Augustine	3,489,394	150,000	287,074,657	290,714,051	63.19%
Mr. CHU Yuk Man, Simon	954,355	–	–	954,355	0.21%
	4,443,749	150,000	287,074,657	291,668,406	63.40%

\# (i) Of which, 257,315,662 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 Mr. Chu Chun Man, Augustine and approximately 1.21% of its issued share capital are owned by Mr. 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 Mr. Chu Chun Man, Augustine, approximately 21.71% by Mr. Chu Yuk Man, Simon and 14.29% by another family member. The interests of Mr. Chu Chun Man, Augustine, and Mr. Chu Yuk Man, Simon, in the 257,315,662 shares of the Company therefore duplicate with those of CM Investment Company Limited and A & S Company Limited.

(ii) The remaining 29,758,995 shares of the Company are held by Fortune Belt Limited, a company incorporated in the British Virgin Islands with limited liability, which is beneficially owned as to 62.5% by Mr. Chu Chun Man, Augustine, as to 22.5% by Mr. Chu Yuk Man, Simon and as to 15% by Ms. Chu Irene Ching Yee, the sister of Mr. Chu Chun Man, Augustine and Mr. Chu Yuk Man, Simon. The interests of Mr. Chu Chun Man, Augustine, and Mr. Chu Yuk Man, Simon in the 29,758,995 shares of the Company therefore duplicate with that of Fortune Belt 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
Mr. CHU Chun Man, Augustine	Sino Golf Manufacturing Company Limited	Company's subsidiary	Non-voting deferred shares	1,190,607	Directly beneficially owned	30.98%
Mr. CHU Yuk Man, Simon	Sino Golf Manufacturing Company Limited	Company's subsidiary	Non-voting deferred shares	414,297	Directly beneficially owned	10.78%
Mr. CHANG Hua Jung	Sino Golf Manufacturing Company Limited	Company's subsidiary	Non-voting deferred shares	3,600	Directly beneficially owned	0.09%

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

Save as disclosed above, as at 31 December 2011, 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.

REPORT OF THE DIRECTORS

Directors' Rights to Acquire Shares

Save as disclosed in the share option scheme disclosures in Note 34 to the consolidated 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 34 to the consolidated financial statements.

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

	Number of share options					
Category of participant	**At 1 January 2010 and 31 December 2010**	**Exercised during the year**	**Outstanding at 31 December 2011**	**Date of grant of share options***	**Exercise period of share options**	**Exercise price of share options** HK$ per share**
Employees						
In aggregate	1,500,000	(1,500,000)	–	2 November 2009	2 November 2009 to 1 November 2011	0.37
Business associates						
In aggregate	3,000,000	(3,000,000)	–	2 November 2009	2 November 2009 to 1 November 2011	0.37
	4,500,000	(4,500,000)	–			

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.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$0.56 per share.

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

At 31 December 2011, 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 or as otherwise notified to the Company:

Long Positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
CM Investment Company Limited		Directly beneficially owned	257,315,662	55.93%
A & S Company Limited	(a)	Through a controlled corporation	257,315,662	55.93%
Fortune Belt Limited		Directly beneficially owned	29,758,995	6.47%
Ms. Hung Tze Nga, Cathy	(b)	Through spouse	290,564,051	63.16%
		Directly beneficially owned	150,000	0.03%
			290,714,051	63.19%

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

Save as disclosed above, as at 31 December 2011, 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.

REPORT OF THE DIRECTORS

Auditors

Messr. SHINEWING (HK) CPA Limited ("SHINEWING") was appointed auditors of the Company on 24 December 2008 and the consolidated financial statements for the past four years ended 31 December 2011 were audited by SHINEWING.

SHINEWING retires and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chu Chun Man, Augustine
Chairman

Hong Kong
30 March 2012

CORPORATE GOVERNANCE REPORT

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

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 2011, except for a few 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 THE COMPANY'S PRACTICES

A. DIRECTOR

THE BOARD

CODE PRINCIPLE

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

Code provisions	Comply?	Governance Practices for the Company
• At least four Board meetings a year.	✓	• The Board met eleven times during the year. • Details of Directors' attendance records in 2011: **Attendance** **Executive Directors** Mr. CHU Chun Man, Augustine *(Chairman)* 11/11 Mr. CHU Yuk Man, Simon 11/11 Mr. CHANG Hua Jung 7/11 **Independent Non-Executive Directors** Mr. HSIEH Ying Min 6/11 Mr. CHOY Tak Ho 7/11 Ms. CHIU Lai Kuen, Susanna 6/11
• 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.

CORPORATE GOVERNANCE REPORT

Code provisions	Comply?	Governance Practices for the Company
• 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 the 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.	✓	• The Company'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 the Company 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 the Company
• 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 an 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 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.

CORPORATE GOVERNANCE REPORT

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

BOARD COMPOSITION

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

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

The relationships among the members of the Board are disclosed under "Biographical Details of Directors and Management" on pages 16 to 17 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.

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group and that the consolidated financial statements are prepared in accordance with the statutory requirements and applicable accounting standards.

Code provisions	Comply?	Governance Practices for the Company
• 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.

The Company'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 the Company) – Mr. CHU Chun Man, Augustine (Chairman)
- Business line – Mr. CHU Yuk Man, Simon (Director, Marketing and Customer Relation)
- Production and Research Development – Mr. CHANG Hua Jung (Director, Production and Research Development)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

APPOINTMENTS, RE-ELECTION AND REMOVAL

CODE PRINCIPLE

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

Code provisions	Comply?	Governance Practices for the Company
• 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, Mr. Chu Chun Man, Augustine and Mr. Chu Yuk Man, Simon will retire and offer themselves for re-election at the 2012 annual general meeting.

The Board recommended the re-appointment of the Directors standing for re-election at the 2012 annual general meeting of the Company.

The Company's circular regarding to the notice of 2012 annual general meeting contains detailed information of the Directors standing for re-election.

NOMINATION COMMITTEE

There is no Nomination Committee under the Board of Directors of the Company. The task of nominating directors is directly dealt with by the Board as appropriate. During the year, there was no newly-appointed directors to the Board and there was one meeting of the Board held for the purpose of nominating the retiring directors for re-election at the AGM convened on 2 June 2011.

Pursuant to the new requirements of the Listing Rules, the Board has established a Nomination Committee on 22 February 2012 with specific Terms of Reference. There are 5 members of the Nomination Committee of which 3 members are Independent Non-Executive Directors.

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 Company.

Code provisions	Comply?	Governance Practices for the Company
• 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 the Company's 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 2011.
• Directors should ensure that they can give sufficient time and attention to the affairs of the Company.		

Code provisions	Comply?	Governance Practices for the Company
• 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 2011. • The Company also has established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines" and "Code for Securities Transactions by Directors and Employees") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. • No incident of non-compliance of the Employees Written Guidelines and Code for Securities Transactions by Directors and Employees was noted by the Company.

SUPPLY OF AND ACCESS TO INFORMATION

CODE PRINCIPLE

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

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

REMUNERATION COMMITTEE

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

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

The Remuneration Committee met once during the year ended 31 December 2011 and reviewed the remuneration policy and structure of the Company and confirmed, approved and ratified the remuneration packages of the Directors and the senior management for the year under review.

Details of attendance records of Remuneration Committee meetings in 2011:

Executive Directors	**Attendance**
Mr. CHU Chun Man, Augustine	1/1
Mr. CHU Yuk Man, Simon	1/1
Independent Non-Executive Directors	
Mr. HSIEH Ying Min *(Chairman)*	1/1
Mr. CHOY Tak Ho	1/1
Ms. 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 the Company
• 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 their responsibility for preparing the accounts; there should be a statement by the auditors regarding their reporting responsibilities in the auditors' report.	✓	• A Statement of Director Responsibilities for the consolidated financial Statements is set out in this Annual Report on page 44. • The statement of the external auditors about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on page 44.
• 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 2011 amounted to HK$830,000 and HK$370,000 respectively.

INTERNAL CONTROLS

CODE PRINCIPLE

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

Code provisions	Comply?	Governance Procedures for the Company
• The Directors should at least annually conduct a review of the effectiveness of the system of internal controls. • The Board should, in particular, consider the adequacy of resources, qualifications and experience of staff who participate in the accounting and financial reporting functions, and their training programmes and budgets.	✓	• 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. • Adequate accounting personnel were engaged to carry out the accounting and financial reporting functions. Senior staff possesses professional accounting qualifications and periodically attends seminars to update developments in the accountancy profession.

At the Company, 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

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

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

The Group has well-defined lines of authority and control responsibilities within the organization structure to ensure the work activities are consistent with organizational objectives. Each post 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 through the websites of the Exchange and the Company 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 improve the necessary information systems in response to the Group's business strategy, or process and application objectives.

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

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

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

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

4. *CONTROL ACTIVITIES*

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

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

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

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

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

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

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

- Significant accounting estimates and unusual transactions are 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 internal audit department is in place 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.

CORPORATE GOVERNANCE REPORT

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 the Company
• Minutes be kept by a duly appointed secretary; and should be sent to all committee members within a reasonable time.	✓	• Draft minutes prepared by the Company Secretary are sent to members generally within 14 days of each meeting.
• A former partner of the existing auditors should not sit on the Audit Committee.	✓	• None of the three Audit Committee members are former partners of the external auditors.
• The terms of reference of Audit Committee (containing the minimum prescribed duties) be made available on request and on the Company's website.	✓	• Full terms of reference are available on request and on the Company's website.
• Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or the dismissal of the external auditors, there should be a statement from the Audit Committee explaining its recommendation and the reason(s) why the Board has taken a different view.	✓	• Audit Committee recommended to the Board (which in turn endorsed the view) that, subject to shareholders' approval at the forthcoming AGM, SHINEWING (HK) CPA Limited, be reappointed as the external auditors for 2012.
• 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 the Company's expense.
• 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 auditors.	✓	• The arrangement is included in the Company's Code of Conduct – Employees/Directors. • The Audit Committee oversees the relationship of management with the external auditors.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-Executive Directors of the Company. It has reviewed with management the accounting policies and practice adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the consolidated financial statements for the year ended 31 December 2011.

The main duties of the Audit Committee include the following:

(a) To review the consolidated financial statements and reports and consider any significant or unusual items raised by the responsible accounting and internal audit personnel or external auditors before submission to the Board.

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

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

The Audit Committee held three meetings during the year ended 31 December 2011 to review the financial results and reports, financial reporting and compliance procedures, the internal control and risk management, the report of External Auditors to the Audit Committee in relation to the audit of the consolidated financial statements of the Group and the re-appointment of the external auditors.

The Company's annual results for the year ended 31 December 2011 has been reviewed by the Audit Committee.

Details of attendance records of Audit Committee Meetings in 2011:

Independent Non-Executive Directors	**Attendance**
Ms. CHIU Lai Kuen, Susanna *(Chairman)*	3/3
Mr. CHOY Tak Ho	3/3
Mr. HSIEH Ying Min	2/3

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 Company.

Code provisions	Comply?	Governance Practices for the Company
• 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		
• Companies should have formal letters of appointment for Directors setting out the key terms and conditions relative to their appointment.	✓	• A formal appointment letter, setting out the key terms and conditions relative to their appointment, will be prepared for each newly appointed Director.

BOARD COMMITTEES

CODE PRINCIPLE

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

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

E. COMMUNICATION WITH SHAREHOLDERS

EFFECTIVE COMMUNICATION

CODE PRINCIPLE

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

Code provisions	Comply?	Governance Practices for the Company
• 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. Companies should arrange for the notice to shareholders to be sent at least 20 clear business days before the AGM and 10 clear business days for all other general meetings.	✓	• The Chairman of the Board and two Independent Non-Executive Directors were present in the 2011 Annual General Meeting to answer questions raised by the shareholders. • Notice of 2011 AGM were sent to shareholders 27 clear business days before the meeting.

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

VOTING BY POLL

CODE PRINCIPLE

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

Code provisions	Comply?	Governance Practices for the Company
• Chairman of meeting should adequately explain the poll procedures at the commencement of the meeting and then answer any questions from shareholders regarding voting by way of a poll.	✓	• Poll procedures were explained by the Chairman at the commencement of the AGM proceedings. The Chairman of the meeting has demanded poll on each and every resolution put to the vote in the 2011 AGM. • Poll results were posted on the websites of the Stock Exchange and the Company on the business day following the meeting.

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

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

We have audited the consolidated financial statements of Sino Golf Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 103, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Chuen Fai
Practising Certificate Number: P05589

Hong Kong
30 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	9	**278,649**	427,997
Cost of sales		**(234,813)**	(338,177)
Gross profit		**43,836**	89,820
Other operating income	9	**3,062**	2,238
Selling and distribution costs		**(5,331)**	(9,550)
Administrative expenses		**(47,143)**	(53,002)
Impairment loss recognised in respect of property, plant and equipment		**–**	(2,248)
Finance costs	11	**(10,433)**	(15,282)
(Loss) profit before taxation		**(16,009)**	11,976
Income tax expense	12	**(262)**	(418)
(Loss) profit for the year	13	**(16,271)**	11,558
Other comprehensive income			
Exchange difference arising on translation		**5,149**	2,438
Income tax relating to revaluation of leasehold land and buildings		**75**	76
Other comprehensive income, net of income tax		**5,224**	2,514
Total comprehensive (expenses) income for the year		**(11,047)**	14,072
(Loss) profit for the year attributable to:			
Owners of the Company		**(16,242)**	11,588
Non-controlling interests		**(29)**	(30)
		(16,271)	11,558
Total comprehensive (expenses) income for the year attributable to:			
Owners of the Company		**(11,018)**	14,102
Non-controlling interests		**(29)**	(30)
		(11,047)	14,072
(Loss) earnings per share	14		
Basic		**(HK5.06 cents)**	HK3.83 cents
Diluted		**(HK5.06 cents)**	HK3.78 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	18	**225,205**	246,787
Prepaid lease payments	19	**12,845**	20,279
Goodwill	20	**14,820**	20,385
Club debentures	21	**2,135**	2,135
Deposits and other receivables	22	**877**	616
Prepayments for the acquisition of property, plant and equipment		**762**	1,697
		256,644	291,899
Current assets			
Inventories	23	**161,906**	173,817
Trade and other receivables	24	**66,831**	83,901
Prepaid lease payments	19	**416**	632
Bank balances and cash	25	**39,074**	43,316
		268,227	301,666
Assets classified as held for sale	26	**7,396**	–
		275,623	301,666
Current liabilities			
Trade and other payables	27	**48,386**	72,133
Amounts due to non-controlling shareholders of a subsidiary	28	**462**	462
Income tax payable		**170**	1,398
Bank borrowings	29	**121,626**	199,000
Obligations under finance leases	30	**653**	–
Loan from ultimate holding company	31	**11,524**	16,640
		182,821	289,633
Net current assets		**92,802**	12,033
Total assets less current liabilities		**349,446**	303,932
Non-current liabilities			
Bank borrowings	29	**8,422**	14,289
Loan from immediate holding company	31	**23,678**	23,678
Deferred taxation	32	**2,490**	2,565
Obligations under finance leases	30	**1,761**	–
		36,351	40,532
		313,095	263,400

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Capital and reserves			
Share capital	33	**46,005**	30,220
Reserves		**264,652**	230,713
Equity attributable to owners of the Company		**310,657**	260,933
Non-controlling interests		**2,438**	2,467
Total equity		**313,095**	263,400

The consolidated financial statements on pages 46 to 103 were approved and authorised for issue by the board of directors on 30 March 2012 and are signed on its behalf by:

Chu Chun Man, Augustine
Director

Chu Yuk Man, Simon
Director

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Other reserve HK$'000 (Note i)	Contributed surplus HK$'000 (Note ii)	Legal reserve HK$'000 (Note iii)	Assets revaluation reserve HK$'000	Statutory surplus reserve HK$'000 (Note iv)	Exchange fluctuation reserve HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010	30,220	57,270	1,652	10,564	–	26,253	–	33,476	463	85,619	245,517	2,502	248,019
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	11,588	11,588	(30)	11,558
Other comprehensive income for the year	–	–	–	–	–	76	–	2,438	–	–	2,514	–	2,514
Total comprehensive income (expenses) for the year, net of tax	–	–	–	–	–	76	–	2,438	–	11,588	14,102	(30)	14,072
Deemed contribution by immediate holding company arising from non-interest bearing loan (Note 31)	–	–	1,314	–	–	–	–	–	–	–	1,314	–	1,314
Eliminated on deregistration of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(5)	(5)
Transfers	–	–	–	–	48	–	17	–	–	(65)	–	–	–
At 31 December 2010	30,220	57,270	2,966	10,564	48	26,329	17	35,914	463	97,142	260,933	2,467	263,400
Loss for the year	–	–	–	–	–	–	–	–	–	(16,242)	(16,242)	(29)	(16,271)
Other comprehensive income for the year	–	–	–	–	–	75	–	5,149	–	–	5,224	–	5,224
Total comprehensive income (expenses) for the year, net of tax	–	–	–	–	–	75	–	5,149	–	(16,242)	(11,018)	(29)	(11,047)
Exercise of shares options (Note 33)	450	1,678	–	–	–	–	–	–	(463)	–	1,665	–	1,665
Issue of shares upon rights issue (Note 33)	15,335	44,472	–	–	–	–	–	–	–	–	59,807	–	59,807
Transaction costs attributable to issue of shares	–	(1,035)	–	–	–	–	–	–	–	–	(1,035)	–	(1,035)
Deemed contribution by immediate holding company arising from non-interest bearing loan (Note 31)	–	–	1,315	–	–	–	–	–	–	–	1,315	–	1,315
Disposal of a subsidiary (Note 35)	–	–	–	–	–	(870)	–	(140)	–	–	(1,010)	–	(1,010)
At 31 December 2011	46,005	102,385	4,281	10,564	48	25,534	17	40,923	–	80,900	310,657	2,438	313,095

Note i: The other reserve represents the capital contribution from the Company's immediate holding company in the form of a non-interest bearing loan. The amounts are estimated by discounting the nominal value of the non-interest bearing loan to the Group at an effective interest rate.

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

Note iii: In accordance with the Macau Commercial Code, the Company's subsidiary incorporated in Macau is required to appropriate 25% of its net profit to a legal reserve until the balance of the reserve reaches 50% of its respective Company's registered capital. The legal reserve is not distributable to shareholders.

Note iv: As stipulated by regulations in the People's Republic of China (the "PRC"), certain subsidiaries in the PRC are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) to a statutory surplus reserve fund until the balance of the fund reaches 50% of its registered capital and thereafter any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior year losses, or for conversion into registered capital on the condition that the statutory surplus reserve fund shall be maintained at a minimum of 25% of the registered capital after such utilisation.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before taxation		**(16,009)**	11,976
Adjustments for:			
Amortisation of prepaid lease payments		**640**	632
Bad debts directly written off on other receivables		**350**	–
Bad debts directly written off on trade receivables		**59**	174
Depreciation of property, plant and equipment		**17,788**	22,276
Finance costs		**10,433**	15,282
Impairment loss recognised in respect of trade receivables		**–**	99
Impairment loss recognised in respect of property, plant and equipment		**–**	2,248
Interest income		**(61)**	(307)
Loss on deregistration of subsidiaries	35	**–**	48
Loss on disposal of a subsidiary	35	**2,456**	–
Loss on disposal of property, plant and equipment		**709**	768
Operating cash flows before movements in working capital		**16,365**	53,196
Decrease (increase) in inventories		**11,911**	(11,690)
Decrease (increase) in trade and other receivables		**30,779**	(11,372)
Decrease in trade and other payables		**(27,510)**	(1,987)
Cash generated from operations		**31,545**	28,147
Enterprise Income Tax paid		**(1,521)**	–
Hong Kong Profits Tax refunded (paid)		**31**	(268)
NET CASH FROM OPERATING ACTIVITIES		**30,055**	27,879
INVESTING ACTIVITIES			
Proceeds from disposal of a subsidiary	35	**7,002**	–
Proceeds from disposal of property, plant and equipment		**1,225**	265
Interest income		**61**	307
Withdrawal of bank deposits		**59**	22,508
Purchase of property, plant and equipment		**(5,029)**	(7,040)
Prepayments for acquisition of property, plant and equipment		**(762)**	(1,697)
Decrease in deposit and other receivables		**(261)**	341
Placing of bank deposits		**(61)**	(59)
NET CASH FROM INVESTING ACTIVITIES		**2,234**	14,625

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
FINANCING ACTIVITIES			
Repayments of bank borrowings		**(146,792)**	(153,563)
Interest and factoring charges paid		**(9,489)**	(13,968)
(Repayment to) loan from ultimate holding company		**(5,116)**	16,640
Repayments of obligations under finance leases		**(365)**	(730)
New bank borrowings raised		**63,476**	134,887
Proceeds from issue of shares		**60,437**	–
NET CASH USED IN FINANCING ACTIVITIES		**(37,849)**	(16,734)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(5,560)**	25,770
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**42,273**	16,017
Effect of foreign exchange rate changes		**1,241**	486
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by		**37,954**	42,273
Bank balances and cash	25	**39,013**	43,257
Bank overdrafts	29	**(1,059)**	(984)
		37,954	42,273

1. GENERAL

Sino Golf Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in Bermuda under the Bermuda Companies Act. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company, the immediate holding company of the Company is CM Investment Company Limited, which is incorporated in the British Virgin Islands ("BVI") and the ultimate holding company is A & S Company Limited, which is incorporated in the BVI.

The addresses of the registered office and principal place of business of the Company are disclosed in the section "Corporate Information" to the annual report.

The functional currency of the Company and its subsidiaries (collectively referred to as the "Group") is United States dollars ("US$") and for those subsidiaries established in the PRC is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") for the convenience of users of the consolidated financial statements as the Company is a listed company in Hong Kong.

The principal activities of the Company is investment holding and the principal activities of its subsidiaries are set out in Note 41.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendments to HKFRS 1	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
Hong Kong Accounting Standards ("HKAS") 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
HK(IFRIC)-Interpretation ("Int") 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The directors of the Company anticipate that the application of other new and revised HKFRSs has had no material impact on the Group's performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

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

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First–time Adopters[1]
Amendments to HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans[2]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

AMENDMENTS TO HKFRS 7 DISCLOSURES – TRANSFERS OF FINANCIAL ASSETS

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors of the Company anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

HKFRS 9 FINANCIAL INSTRUMENTS

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

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

HKFRS 9 FINANCIAL INSTRUMENTS (continued)

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

NEW AND REVISED STANDARDS ON CONSOLIDATION AND DISCLOSURES

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC) – Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

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

NEW AND REVISED STANDARDS ON CONSOLIDATION AND DISCLOSURES (continued)

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors of the Company have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

HKFRS 13 FAIR VALUE MEASUREMENT

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

AMENDMENTS TO HKAS 1 – PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the time basis.

The amendments to HKAS 1 are effective for the annual period beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The consolidated financial statements have been prepared on the historical cost basis, except for certain leasehold land and buildings and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

(A) BASIS OF CONSOLIDATION

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

ALLOCATION OF TOTAL COMPREHENSIVE INCOME (EXPENSE) TO NON-CONTROLLING INTERESTS

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

(B) INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

(C) GOODWILL

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(C) GOODWILL (continued)

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

(D) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment other than leasehold land and buildings held for use in the production or supply of goods, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Leasehold land and buildings held for use in the production or supply of goods are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any revaluation increase arising on revaluation of leasehold land and buildings is recognised in other comprehensive income and accumulated in the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset.

Depreciation is recognised so as to write off the cost or fair value of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in process for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(E) PREPAID LEASE PAYMENTS

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, amortisation is charged to consolidated statement of comprehensive income over the period of the rights using the straight-line method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(F) CLUB DEBENTURES

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

(G) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(H) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

FINANCIAL ASSETS

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

EFFECTIVE INTEREST METHOD

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

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

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including deposits, trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(H) FINANCIAL INSTRUMENTS (continued)

IMPAIRMENT LOSS ON FINANCIAL ASSETS

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(H) FINANCIAL INSTRUMENTS (continued)

EFFECTIVE INTEREST METHOD

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

OTHER FINANCIAL LIABILITIES

Other financial liabilities including trade and other payables, amounts due to non-controlling shareholders of a subsidiary, bank borrowings, obligation under finance leases and loan from ultimate/immediate holding company are subsequently measured at amortised cost, using the effective interest method.

EQUITY INSTRUMENTS

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

FINANCIAL GUARANTEE CONTRACTS

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation in accordance with the revenue recognition policy.

TRANSACTIONS WITH OWNERS

The Group applies a policy of treating loans from shareholders as transactions between owners in their capacity as owners. No gain or loss is recognised in the profit or loss from the non-interesting bearing loans. Any deemed contribution from the shareholder arising from the non-interest bearing loan is recognised directly in the consolidated statement of changes in equity.

DERECOGNITION

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(H) FINANCIAL INSTRUMENTS (continued)

DERECOGNITION (continued)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when and only when the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(I) CASH AND CASH EQUIVALENTS

Bank balances and cash in the consolidated statement of financial position comprise cash at bank and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalent consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

(J) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(K) IMPAIRMENT LOSSES ON ASSETS OTHER THAN GOODWILL (SEE THE ACCOUNTING POLICIES IN RESPECT OF GOODWILL ABOVE)

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(K) IMPAIRMENT LOSSES ON ASSETS OTHER THAN GOODWILL (SEE THE ACCOUNTING POLICIES IN RESPECT OF GOODWILL ABOVE) (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit and loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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

(L) REVENUE RECOGNITION

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

I) SALE OF GOODS

Revenue from sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Deposits and instalments from purchasers prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

II) INTEREST INCOME

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

III) SERVICE INCOME

Service income is recognised when services are provided.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(M) LEASING

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

THE GROUP AS LESSOR

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

THE GROUP AS LESSEE

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

LEASEHOLD LAND AND BUILDINGS

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

(N) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(O) RESEARCH AND DEVELOPMENT COSTS

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

(P) RETIREMENT BENEFIT COSTS

Payments to state-managed retirement benefit schemes and the mandatory provident fund scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(Q) TAXATION

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(R) FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange fluctuation reserve (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in equity under the heading of exchange fluctuation reserve.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

CRITICAL JUDGMENT IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

The following are the critical judgments, apart from those involving estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effects on the amounts recognised in the consolidated financial statements.

LEGAL TITLE OF BUILDINGS

Despite the Group has paid the full purchase consideration as detailed in Note 18, certain of the Group's rights to the use of the building and land were not granted formal titles from the relevant government authorities. The directors of the Company are of the opinions that the risks and rewards of using these assets have been transferred to the Group and the absence of formal titles to these buildings and land use rights do not impair the value of the relevant properties to the Group.

KEY SOURCES OF ESTIMATION UNCERTAINTY

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

ESTIMATED IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of impairment testing on goodwill are set out in Note 20(b).

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual values and the useful lives of the property, plant and equipment and if the expectation differs from the original estimates, such differences may impact the depreciation in the year and the estimates will be changed in the future period.

IMPAIRMENT LOSS RECOGNISED IN RESPECT OF PROPERTY, PLANT AND EQUIPMENT

The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue with a stable growth rate and a suitable discount rate. During the year ended 31 December 2011, no impairment loss in respect of property, plant and equipment was recognised. During the year ended 31 December 2010, an impairment loss of approximately HK$2,248,000 was recognised.

INCOME TAXES

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

IMPAIRMENT LOSS RECOGNISED IN RESPECT OF TRADE RECEIVABLES

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. At 31 December 2011, the carrying amount of trade receivables was approximately HK$18,620,000 (2010: HK$28,499,000), net of impairment losses of approximately HK$65,000 (2010: HK$522,000).

NET REALISABLE VALUE OF INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to make the sale. The cost of inventories is written down to the net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The amount written off to the consolidated statement of comprehensive income is the difference between the carrying value and net realisable value of inventories. In determining whether the cost of inventories can be recovered, significant judgment is required. In making this judgment, the Company evaluates, amongst other factors, the duration, extent and means by which the amount will be recovered. These estimates are based on the current market and past experience in sales of similar products. It could change significantly as a result of changes in customer preferences and competitor actions in response to changes in market condition. At 31 December 2011, the carrying amount of inventories was approximately HK$161,906,000 (2010: HK$173,817,000). No impairment loss was provided for in both years.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes amounts due to non-controlling shareholders of a subsidiary disclosed in Note 28, bank borrowings disclosed in Note 29, obligations under finances leases disclosed in Note 30, loan from ultimate/immediate holding company disclosed in Note 31 and bank balances and cash disclosed in Note 25 and equity attributable to owners of the Company, comprising issued share capital and reserves.

5. CAPITAL RISK MANAGEMENT (Continued)

The Group monitors its capital by using a gearing ratio, which consists of net debt divided by the total equity. The Group's policy is to maintain the gearing ratio at not more than 100% (2010: 100%), which is determined and reviewed with reference to the funding needs of the Group periodically. Net debt includes amounts due to non-controlling shareholders of a subsidiary, bank borrowings, obligations under finance leases, and loan from ultimate and immediate holding companies less bank balances and cash. Total equity includes equity attributable to the owners of the Company and non-controlling interests. The gearing ratios as at the end of the reporting period were as follows:

	2011 HK$'000	2010 HK$'000
Amounts due to non-controlling shareholders of a subsidiary	**462**	462
Bank borrowings	**130,048**	213,289
Obligations under finance leases	**2,414**	–
Loan from ultimate holding company	**11,524**	16,640
Loan from immediate holding company	**23,678**	23,678
Less: Bank balances and cash	**(39,074)**	(43,316)
Net debts	**129,052**	210,753
Equity attributable to owners of the Company	**310,657**	260,933
Non-controlling interests	**2,438**	2,467
Total equity	**313,095**	263,400
Gearing ratio	**41%**	80%

6. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	2011 HK$'000	2010 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash)	**82,458**	93,977
Financial liabilities		
Financial liabilities at amortised cost	**213,463**	323,849

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES

The Group's major financial instruments include deposit, trade and other receivables, bank balances and cash, trade and other payables, amounts due to non-controlling shareholders of a subsidiary, bank borrowings, obligations under finance leases and loan from ultimate/immediate holding company are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

CURRENCY RISK

Several subsidiaries of the Company have foreign currency purchases, which expose the Group to foreign currency risk. 5% (2010: 19%) of the Group's purchase are denominated in currencies other than the functional currency of the group entity making the purchase.

The carrying amounts of the Group's foreign currency denominated monetary liabilities at the reporting date are as follows:

	Liabilities	
	2011	2010
	HK$'000	HK$'000
RMB	**429**	1,478

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

SENSITIVITY ANALYSIS

The Group is mainly exposed to RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in US$ against RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an decrease in post-tax loss (2010: increase in post-tax profit) where US$ strengthen 5% against the relevant currency. For a 5% weakening of US$ against the relevant currency, there would be an equal and opposite impact on the loss/profit, and the balances below would be negative. The analysis is performed on the same basis for the year ended 31 December 2010.

	RMB	
	2011	2010
	HK$'000	HK$'000
Impact on loss (profit) for the year	**17**	62

This is mainly attributable to the exposure on outstanding trade and other payables denominated in RMB at the end of the reporting period.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

INTEREST RATE RISK

The interest income is derived from the Group's current and short-term time deposits that carry interest at the respective banking deposit rate of the banks located in the PRC and Hong Kong.

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 29 for details of these borrowings) for the year ended 31 December 2011. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings (see Note 29 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's bank balances are short-term in nature and the exposure of the interest rate risk is minimal and no sensitivity to interest rate risk is presented.

The Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of base lending rate published by the People's Bank of China and the Hong Kong Interbank Offered Rate.

SENSITIVITY ANALYSIS

As of 31 December 2011, it is estimated that a general 100 basis point increase or decrease in interest rates, with all other variables held constant, would increase or decrease the Group's post-tax loss (2010: decrease or increase the Group's post-tax profit) for the year ended and retained profits by approximately HK$703,000 (2010: HK$1,064,000).

The above sensitivity analysis has been determined assuming that a change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents directors' assessment of a reasonably possible change in interest rates over the period until the next reporting period. The analysis was performed on the same basis for year ended 31 December 2010.

CREDIT RISK

At 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks in Hong Kong with high credit ratings assigned by international credit-ratings agencies and authorised banks in the PRC with high credit ratings.

The Group's concentration of credit risk is 36% and 85% (2010: 25% and 75%) of the total trade receivables is due from the Group's largest customer and the five largest customers, respectively.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

CREDIT RISK (continued)

The Group's concentration of credit risk by geographical locations is mainly in the North America, which accounted for 79% (2010: 69%) of the total trade receivables as at 31 December 2011.

LIQUIDITY RISK

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	At 31 December 2011				
	Within one year or on demand HK$'000	More than one year less than two years HK$'000	More than two years less than five years HK$'000	Total contractual undiscounted cash flow HK$'000	Carry amount HK$'000
Non-derivative financial liabilities					
Trade and other payables	45,337	–	–	45,337	45,337
Amounts due to non-controlling shareholders of a subsidiary	462	–	–	462	462
Bank borrowings	128,621	7,122	1,583	137,326	130,048
Obligation under finance lease	744	744	1,117	2,605	2,414
Loan from ultimate holding company	11,524	–	–	11,524	11,524
Loan from immediate holding company	–	25,185	–	25,185	23,678
	186,688	33,051	2,700	222,439	213,463

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

LIQUIDITY RISK (continued)

	At 31 December 2010				
	Within one year or on demand HK$'000	More than one year less than two years HK$'000	More than two years less than five years HK$'000	Total contractual undiscounted cash flow HK$'000	Carry amount HK$'000
Non-derivative financial liabilities					
Trade and other payables	69,780	–	–	69,780	69,780
Amounts due to non-controlling shareholders of a subsidiary	462	–	–	462	462
Bank borrowings	203,393	6,310	8,692	218,395	213,289
Loan from ultimate holding company	16,640	–	–	16,640	16,640
Loan from immediate holding company	–	25,185	–	25,185	23,678
	290,275	31,495	8,692	330,462	323,849

8. FAIR VALUE

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions as input.

The directors of the Company consider that the other carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their short-term maturities.

The directors of the Company also consider that the fair value of the long-term portion of financial liabilities approximates to their carrying amount as they are carried at amortised cost by using the effective interest rate method.

9. TURNOVER AND OTHER OPERATING INCOME

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

Analysis of the Group's revenue for the year is as follows:

	2011 HK$'000	2010 HK$'000
Turnover		
Sales of golf equipment and related components and parts	**234,822**	384,225
Sales of golf bags, other accessories and related components and parts	**43,827**	43,772
	278,649	427,997
Other operating income		
Interest income	**61**	307
Rental income	**–**	84
Sale of scrap materials	**201**	91
Sample income	**131**	103
Sundry income	**2,058**	1,376
Tooling income	**611**	277
	3,062	2,238
Total revenues	**281,711**	430,235

10. SEGMENT INFORMATION

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

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

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

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

10. SEGMENT INFORMATION (Continued)

(A) SEGMENT REVENUES AND RESULTS

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

For the year ended 31 December

	Golf equipment		Golf bags		Eliminations		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**234,822**	384,225	**43,827**	43,772	**–**	–	**278,649**	427,997
Inter-segment revenue	**–**	–	**12,993**	26,317	**(12,993)**	(26,317)	**–**	–
Other operating income	**2,353**	1,573	**648**	358	**–**	–	**3,001**	1,931
Total	**237,175**	385,798	**57,468**	70,447	**(12,993)**	(26,317)	**281,650**	429,928
Segment results	**(498)**	33,968	**1,182**	3,185			**684**	37,153
Interest income							**61**	307
Unallocated corporate income							**–**	–
Unallocated corporate expenses							**(6,321)**	(10,202)
Finance costs							**(10,433)**	(15,282)
(Loss) profit before taxation							**(16,009)**	11,976

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represents the results of each segment without allocation of interest income, central administration costs, directors' remuneration, finance costs and income tax expense. This is the measure reported to the chief operating decision maker of the Group for the purposes of resource allocation and performance assessment.

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

10. SEGMENT INFORMATION (Continued)

(B) SEGMENT ASSETS AND LIABILITIES

The following is an analysis of the Group's assets and liabilities by reportable segment.

At 31 December

	Golf equipment		Golf bags		Total	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Assets and liabilities						
Segment assets	**456,976**	502,908	**25,537**	43,744	**482,513**	546,652
Unallocated corporate assets						
– Assets held for sale					**7,396**	–
– Club debentures					**2,135**	2,135
– Bank balances and cash					**39,074**	43,316
– Others					**1,149**	1,462
Total assets					**532,267**	593,565
Segment liabilities	**31,432**	48,089	**16,792**	23,983	**48,224**	72,072
Unallocated corporate liabilities						
– Amounts due to non-controlling shareholders of a subsidiary					**462**	462
– Income tax payable					**170**	1,398
– Bank borrowings					**130,048**	213,289
– Obligations under finance leases					**2,414**	–
– Loan from ultimate holding company					**11,524**	16,640
– Loan from immediate holding company					**23,678**	23,678
– Deferred taxation					**2,490**	2,565
– Others					**162**	61
Total liabilities					**219,172**	330,165

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than club debentures, bank balances and cash and certain other receivables. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

- all liabilities are allocated to operating segments other than amounts due to non-controlling shareholders of a subsidiary, income tax payable, bank borrowings, obligations under finance leases, loan from ultimate/immediate holding company, deferred taxation and certain other payables. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

10. SEGMENT INFORMATION (Continued)

(C) GEOGRAPHICAL INFORMATION

The Group's customers are located in North America, Europe, Asia (excluding Japan), Japan and others.

Information about the Group's revenue from external customers by geographical location of revenue is presented below:

	Revenue from external customers	
	2011	2010
	HK$'000	HK$'000
North America	**170,193**	288,346
Europe	**29,712**	31,014
Asia (excluding Japan)	**37,372**	43,287
Japan	**33,017**	61,848
Others	**8,355**	3,502
	278,649	427,997

Less than 1% of the Group's revenue from external customers is derived from the PRC including Hong Kong (country of domicile) for both years.

The Group's non-current assets, other than financial instruments, by geographical location is presented below:

	2011	2010
	HK$'000	HK$'000
Hong Kong (country of domicile)	**15,479**	24,441
The PRC	**240,285**	266,835
Others	**3**	7
	255,767	291,283

10. SEGMENT INFORMATION (Continued)

(D) OTHER SEGMENT INFORMATION

Amounts included in the measure of segment profit or loss or segment assets:

For the year ended 31 December

	Golf equipment		Golf bags		Total	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Other segment information:						
Addition to non-current assets (Note)	**8,450**	8,343	**491**	1,201	**8,941**	9,544
Amortisation of prepaid lease payments	**533**	529	**107**	103	**640**	632
Bad debts directly written off on other receivables	**350**	–	**–**	–	**350**	–
Bad debts directly written off on trade receivables	**5**	–	**54**	174	**59**	174
Depreciation of property, plant and equipment	**14,450**	18,887	**3,338**	3,389	**17,788**	22,276
Impairment loss recognised in respect of trade receivables	**–**	–	**–**	99	**–**	99
Impairment loss recognised in respect of property, plant and equipment	**–**	–	**–**	2,248	**–**	2,248
Loss on deregistration of subsidiaries	**–**	48	**–**	–	**–**	48
Loss on disposal of a subsidiary	**2,456**	–	**–**	–	**2,456**	–
Loss on disposal of property, plant and equipment	**609**	768	**100**	–	**709**	768

Note: Non-current assets included property, plant and equipments and prepayments for acquisition of property, plant and equipments.

(E) INFORMATION ABOUT MAJOR CUSTOMERS

Revenues from customers of the corresponding years contributing over 10% of the total revenue of the Group as follows:

	Revenue generated from	**2011 HK$'000**	2010 HK$'000
Customer A	Golf equipment	**79,869**	114,803
Customer B	Golf equipment and golf bags	**91,516**	166,070

11. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Factoring and bank charges	**2,807**	4,398
Interest expenses on:		
– bank overdrafts	**48**	69
– bank borrowings wholly repayable within five years	**6,624**	9,498
– imputed interest on non-interest bearing loan from immediate holding company	**1,315**	1,314
– obligations under finance leases	**10**	3
Total borrowing costs	**10,804**	15,282
Less: interest capitalised	**(371)**	–
	10,433	15,282

Note: The capitalisation ratio of borrowings for the year ended 31 December 2011 is 6.56% (2010: Nil) per annum.

12. INCOME TAX EXPENSE

	2011 HK$'000	2010 HK$'000
Hong Kong Profits Tax		
– Current	**169**	350
– Overprovision in prior years	**(546)**	–
	(377)	350
PRC Enterprise Income Tax Income ("EIT") – Current	**639**	68
	262	418

i) Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for the two years ended 31 December 2011 and 2010.

ii) Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of certain subsidiaries of the Company, which previously ranged from 15% to 33%, was changed to 25% from 1 January 2008 onwards.

In accordance with the tax legislations applicable to foreign investment enterprises, various subsidiaries are entitled to exemptions from the PRC EIT for the first two year commencing from the first profit-making year of operation and thereafter, entitled to a 50% relief from the PRC EIT for the following three years. According to the EIT Law, the first year income tax exemption commenced for the year ended 31 December 2008 and the subsidiary enjoys the second year income tax exemption for the year ended 31 December 2009.

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

12. INCOME TAX EXPENSE (Continued)

The income tax expense for the year can be reconciled to the (loss) profit before taxation per the consolidated statement of comprehensive income as follows:

	2011 HK$'000	2010 HK$'000
(Loss) profit before taxation	**(16,009)**	11,967
Tax calculated at rates applicable to profits in the respective tax jurisdiction concerned	**(3,199)**	2,135
Overprovision in prior years	**(546)**	–
Effect of tax exemptions granted	**(848)**	(6,682)
Tax effect of income not taxable for tax purposes	**(397)**	(58)
Tax effect of expense not deductible for tax purposes	**684**	1,883
Tax effect of tax losses and deductible temporary differences not recognised	**4,884**	3,967
Utilisation of tax losses and deductible temporary differences previously not recognised	**(316)**	(827)
Income tax expense for the year	**262**	418

Details of the deferred taxation are set out in Note 32.

13. (LOSS) PROFIT FOR THE YEAR

	2011 HK$'000	2010 HK$'000
(Loss) profit for the year has been arrived at after charging:		
Staff cost (including directors' emoluments):		
Salaries, wages and other benefits in kind	**74,081**	84,742
Retirement benefit scheme contributions	**2,785**	2,599
Total staff cost	**76,866**	87,341
Amortisation of prepaid lease payments	**640**	632
Auditor's remuneration	**931**	1,003
Bad debts directly written off	**59**	174
Cost of inventories sold	**234,813**	338,177
Depreciation of property, plant and equipment	**17,788**	22,276
Exchange loss (net)	**2,017**	2,058
Impairment loss recognised in respect of trade receivables	**–**	99
Loss on deregistration of subsidiaries	**–**	48
Loss on disposal of a subsidiary	**2,456**	–
Loss on disposal of property, plant and equipment	**709**	768
Operating leases rentals in respect of land and buildings	**5,405**	5,746
Research and development costs	**2,444**	3,993
Write-off of other receivables	**350**	–

14. (LOSS) EARNINGS PER SHARE

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

	2011 **HK$'000**	2010 HK$'000
(Loss) earnings		
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share	**(16,242)**	11,588

	2011 **'000**	2010 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**320,983**	302,200
Effect of dilutive potential ordinary shares from share options	**–**	4,500
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**320,983**	306,700

The diluted loss per share is equal to the basic loss per share as there were no dilutive potential ordinary shares for the year ended 31 December 2011.

15. DIVIDENDS

No dividends were paid, declared or proposed during the year ended 31 December 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

16. STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS)

	2011 **HK$'000**	2010 HK$'000
Salaries, allowances and other benefits in kind	**69,841**	79,372
Retirement benefits schemes contributions	**2,761**	2,575
	72,602	81,947

16. STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS) (Continued)

I) HONG KONG

Subsidiaries in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the subsidiaries in an independently administered fund. The subsidiaries' employer contributions vest fully with the employees when contributed into the MPF Scheme. During the year ended 31 December 2011, a total contribution of approximately HK$166,000 (2010: approximately HK$203,000) was made by the Group in respect of this scheme. Details of directors retirement benefits scheme contributions are set out in Note 17.

II) THE PRC, OTHER THAN HONG KONG

The employees in the Group who work in the PRC are required to participate in pension schemes operated by the local governments. The Group is required to contribute 5% to 13% (2010: 5% to 13%) of their payroll costs to the schemes. The contributions are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the pension schemes. During the year ended 31 December 2011, a total contribution of approximately HK$2,595,000 (2010: approximately HK$2,372,000) was made by the Group in respect of this scheme.

III) At 31 December 2011, the Group had no forfeited contributions available to reduce its contributions to the above schemes in future years (2010: Nil).

17. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS

(A) DIRECTORS REMUNERATION

The emoluments paid or payable to each of the six (2010: six) directors were as follows:

	For the year ended 31 December 2011					
	Fees HK$'000	Salaries HK$'000	Bonuses HK$'000 (Note)	Housing benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors						
Chu Chun Man, Augustine ("Augustine Chu")	–	1,060	30	840	12	1,942
Chu Yuk Man, Simon ("Simon Chu")	–	825	30	600	12	1,467
Chang Hua Jung	–	570	15	–	–	585
Independent non-executive directors						
Choy Tak Ho	120	–	–	–	–	120
Hsieh Ying Min	50	–	–	–	–	50
Chiu Lai Kuen, Susanna	100	–	–	–	–	100
	270	2,455	75	1,440	24	4,264

17. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS (Continued)

(A) DIRECTORS REMUNERATION (continued)

	For the year ended 31 December 2010					
	Fees HK$'000	Salaries HK$'000	Bonuses HK$'000 (Note)	Housing benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors						
Augustine Chu	–	1,560	30	840	12	2,442
Simon Chu	–	1,200	130	600	12	1,942
Chang Hua Jung	–	720	20	–	–	740
Independent non-executive directors						
Choy Tak Ho	120	–	–	–	–	120
Hsieh Ying Min	50	–	–	–	–	50
Chiu Lai Kuen, Susanna	100	–	–	–	–	100
	270	3,480	180	1,440	24	5,394

Note: The performance related bonuses were determined by remuneration committee based on individual performance.

No directors waived or agreed to waive any emoluments during the two years ended 31 December 2011 and 2010.

(B) SENIOR MANAGEMENT'S EMOLUMENTS

Of the five individuals with highest emoluments, three (2010: three) were directors of the Company whose emoluments are set out in the above. The emoluments of the remaining two (2010: two) highest paid individuals were as follows:

	2011 HK$'000	2010 HK$'000
Salaries, allowances and other benefits in kind	**2,010**	2,293
Retirement benefits schemes contributions	**12**	12
	2,022	2,305

Their emoluments were within the following bands:

	Number of individuals	
	2011	2010
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**1**	2
	2	2

(C) No emolument have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office for the two years ended 31 December 2011 and 2010.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings at revalued amount 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
COST/VALUATION							
At 1 January 2010	186,570	8,586	143,367	7,032	4,846	936	351,337
Exchange realignment	9,408	129	2,012	129	85	–	11,763
Additions	1,744	231	2,320	198	234	3,120	7,847
Disposals	(1,549)	–	(7,772)	(32)	(857)	–	(10,210)
Deregister of subsidiaries	–	(216)	(12)	(215)	(59)	–	(502)
At 31 December 2010	196,173	8,730	139,915	7,112	4,249	4,056	360,235
Exchange realignment	6,454	214	4,627	203	112	–	11,610
Additions	1,908	230	3,857	138	3,079	664	9,876
Disposals	(91)	–	(29,692)	(370)	(1,520)	–	(31,673)
Transfers	3,790	–	–	–	–	(3,790)	–
Transfer to assets held for sale	(6,428)	–	–	–	–	–	(6,428)
Disposal of a subsidiary	(19,587)	–	–	–	–	–	(19,587)
At 31 December 2011	182,219	9,174	118,707	7,083	5,920	930	324,033
At 31 December 2011							
At cost	23,304*	9,174	118,707	7,083	5,920	930	165,118
At 2009 valuation	158,915	–	–	–	–	–	158,915
	182,219	9,174	118,707	7,083	5,920	930	324,033
ACCUMULATED DEPRECIATION							
At 1 January 2010	–	4,791	84,029	4,891	3,026	–	96,737
Exchange realignment	–	105	1,637	79	45	–	1,866
Provided for the year	5,999	753	14,140	774	610	–	22,276
Eliminated on disposals	(732)	–	(7,656)	(31)	(758)	–	(9,177)
Eliminated on deregistration of subsidiaries	–	(216)	(12)	(215)	(59)	–	(502)
Impairment loss recognised	2,248	–	–	–	–	–	2,248
At 31 December 2010	7,515	5,433	92,138	5,498	2,864	–	113,448
Exchange realignment	1,195	117	2,823	148	61	–	4,344
Provided for the year	6,168	808	9,396	659	757	–	17,788
Eliminated on disposals	(71)	–	(27,855)	(321)	(1,492)	–	(29,739)
Eliminated on disposal of a subsidiary	(4,314)	–	–	–	–	–	(4,314)
Transfer to assets held for sale	(2,699)	–	–	–	–	–	(2,699)
At 31 December 2011	7,794	6,358	76,502	5,984	2,190	–	98,828
CARRYING VALUES							
At 31 December 2011	174,425	2,816	42,205	1,099	3,730	930	225,205
At 31 December 2010	188,658	3,297	47,777	1,614	1,385	4,056	246,787

* In the opinion of the directors, the carrying amount of these land and buildings approximated to their fair value at 31 December 2011.

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the lease or 20 to 50 years
Leasehold improvements	Over the shorter of the term of the lease or 5 to 10 years
Plant and machinery	10% to 20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

(b) The leasehold land and buildings are held in the PRC under medium-term lease.

(c) The leasehold land and buildings of the Group were revalued on 31 December 2009 by LCH (Asia-Pacific) Surveyors Limited ("LCH"), independent qualified professional valuers not connected with the Group. LCH has appropriate qualifications and has recent experiences in the valuation of similar properties in the relevant locations. The valuations have been arrived at on depreciated replacement cost basis.

(d) At 31 December 2011, the carrying values of motor vehicles included an amount of approximately HK$2,415,000 (2010: Nil) in respect of assets under finance leases.

(e) At 31 December 2011, the Group's leasehold land and buildings with a carrying value of approximately HK$174,425,000 (2010: HK$169,194,000) was pledged as security for banking facilities granted to the Group.

(f) At 31 December 2010, the property usage permit of certain buildings was not granted by relevant government authorities with the aggregate carrying values of approximately HK$3,571,000 (2011: Nil). In the opinion of the directors of the Company, the absence of property usage permits to these buildings does not impair the value of the relevant buildings to the Group.

(g) During the year ended 31 December 2010, an impairment loss of HK$2,248,000 (2011: Nil) was recognised for certain leasehold land and buildings following entering of an agreement during the year with the local PRC government authority for reclaim of certain land and buildings in the PRC by the local government authority and the amount being impaired to the expected recoverable amount.

19. PREPAID LEASE PAYMENTS

	2011 HK$'000	2010 HK$'000
Prepaid lease payments comprises of leasehold land held under medium-term lease in the PRC and are analysed for reporting purposes as follows:		
Current assets	**416**	632
Non-current assets	**12,845**	20,279
	13,261	20,911

At 31 December 2011, the carrying value of the Group's prepaid lease payment pledged as security for the banking facilities granted to the Group amounted to approximately HK$13,261,000 (2010: approximately HK$13,194,000).

During the year ended 31 December 2011, the Group's prepaid lease payment with a carrying amount of approximately HK$3,667,000 has been transferred to assets classified as held for sale as set out in Note 26 to the consolidated financial statements.

20. GOODWILL

	2011 HK$'000	2010 HK$'000
(A) COST		
At 1 January, as originally stated	**20,385**	22,180
Disposal of a subsidiary	**(5,565)**	–
Deregistration of subsidiaries	**–**	(1,795)
At 31 December	**14,820**	20,385
IMPAIRMENT		
At 1 January	**–**	1,795
Impairment loss recognised in the year	**–**	–
Eliminated on deregistration of subsidiaries	**–**	(1,795)
At 31 December	**–**	–
CARRYING VALUES		
At 31 December 2011		14,820
At 31 December 2010		20,385

20. GOODWILL (Continued)

(B) IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill set out above has been allocated to two individual cash generating units (2010: two). The carrying amounts of goodwill (net of accumulated impairment losses) as at the end of the reporting period allocated to these units are as follows:

	2011 HK$'000	2010 HK$'000
Golf equipment		
– Sino Concept Golf Manufacturing Co., Ltd ("Sino Concept")	**1,669**	1,669
– Xiamen Sino Talent Golf Maufacturing Co., Ltd ("Xiamen Sino")	**–**	5,565
– Zengcheng Sino Golf Manufacturing Co., Ltd * ("Zengchen Sino Golf") 增城市順龍高爾夫球製品有限公司	**5,155**	5,155
	6,824	12,389
Golf bags		
– CTB Golf (HK) Limited ("CTB")	**7,996**	7,996
	14,820	20,385

* The English name is for identification purposes only.

GOLF EQUIPMENT

Companies comprising of the golf equipment segment are engaged in the manufacture and trading of golf equipment. The management of the Group prepared a profit forecast and cash flow forecast in respect of this CGU (the "Golf Equipment Forecast"). The Golf Equipment Forecast were based on financial budgets approved by the management covering a period of five years at a pre-tax discount rate of 10.89% (2010: 7.29%). The cash flows beyond the period of one year were extrapolated using a steady growth rate of 5% (2010: 10%). This growth rate was based on past performance and its expectation on the relevant industry growth forecasts. The Golf Equipment Forecast for the budgeted period was based on the budgeted sales and budgeted gross margins during the budget period. Budgeted gross margins were determined based on management's expectation for market development and past experience, and the management believes that the budgeted gross margins were reasonable. The directors of the Company were of the opinion, based on the Golf Equipment Forecast, that the recoverable amount exceeds its carrying amount in the consolidated statement of financial position and no impairment loss was necessary.

20. GOODWILL (Continued)

(B) IMPAIRMENT TESTING ON GOODWILL (continued)

GOLF BAGS

Companies comprising of the golf bag segment are engaged in the manufacture and trading of golf bags.

For the remaining companies comprising of the golf bag segment, the management of the Group prepared a profit forecast and cash flow forecast in respect of this CGU (the "Golf Bag Forecast"). The Golf Bag Forecast were based on financial budgets approved by the management covering a period of five years at a pre-tax discount rate of 10.89% (2010: 7.29%). The cash flows beyond the one year period were extrapolated using a steady growth rate of 5% (2010: 5%). This growth rate was based on past performance and its expectation on the relevant industry growth forecasts. The Golf Bag Forecast for the budgeted period was based on the budgeted sales and budgeted gross margins during the budget period. Budgeted gross margins were determined based on management's expectation for market development and past experience, and the management believes that the budgeted gross margins were reasonable. The directors of the Company were of the opinion, based on the Golf Bag Forecast, that the recoverable amount exceeds its carrying amount in the consolidated statement of financial position and no impairment loss was necessary.

21. CLUB DEBENTURES

The club debentures represent memberships in private golf clubs in the PRC. The directors of the Company consider no impairment identified with reference to the second hand market price of the club debentures as at the end of the reporting period.

22. DEPOSITS AND OTHER RECEIVABLES

Included in the deposits and other receivables of approximately HK$477,000 (2010: HK$216,000) represents loans advanced to employees of the Group. The loans are unsecured, bear interest at rates ranging from 1.5% to 5.5% per annum (2010: 1.5% to 5.5% per annum) and are not repayable within the next twelve months from the end of the reporting period. The remaining balances are the deposits and receivables which are unsecured, non-interest bearing and are not repayable within the next twelve months from the end of the reporting period.

23. INVENTORIES

	2011 HK$'000	2010 HK$'000
Raw materials	**59,982**	63,054
Work in progress	**57,983**	59,329
Finished goods	**43,941**	51,434
	161,906	173,817

24. TRADE AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade receivables	**18,685**	29,021
Less: impairment loss recognised	**(65)**	(522)
	18,620	28,499
Prepayments	**3,644**	1,105
Deposits and other receivables	**44,567**	54,297
	48,211	55,402
	66,831	83,901

i) 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 60 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management.

ii) The movements in impairment loss of trade receivables of the Group are as follows:

	2011 HK$'000	2010 HK$'000
At the beginning of the year	**522**	13,544
Impairment loss recognised	**–**	99
Written off during the year	**(457)**	(13,121)
At the end of the year	**65**	522

At 31 December 2011, included in the impairment loss of trade receivables are individually impaired trade receivables with an aggregate balances of approximately HK$65,000 (2010: HK$522,000) due to long outstanding. The Group does not hold any collateral over these balances.

iii) The following is an aged analysis of trade receivables (net of impairment) of the Group presented based on the invoice dates at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
0 to 30 days	**13,407**	19,484
31 to 90 days	**4,823**	8,440
91 to 180 days	**380**	568
181 to 365 days	**10**	7
At the end of the year	**18,620**	28,499

24. TRADE AND OTHER RECEIVABLES (Continued)

iv) The aging analysis of the trade receivables (net of impairment) of the Group presented based on the due dates was as follows:

	Total HK$'000	Neither due nor impaired HK$'000	Past due but not impaired: 0 to 90 days HK$'000	Past due but not impaired: 91 to 180 days HK$'000	Past due but not impaired: 181 to 365 days HK$'000
At 31 December 2011	**18,620**	**16,376**	**2,190**	**44**	**10**
At 31 December 2010	28,499	19,517	8,933	49	–

Trade receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

v) Trade 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 impairment allowance 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.

25. BANK BALANCES AND CASH

	2011 HK$'000	2010 HK$'000
Bank balances and cash	**39,013**	43,257
Short-term time deposits with original maturity of more than three months	**61**	59
	39,074	43,316
Less: Short-term time deposits with original maturity of more than three months	**(61)**	(59)
Less: Bank overdrafts (Note 29)	**(1,059)**	(984)
Cash and cash equivalents	**37,954**	42,273

a) Bank balances carried interest rate ranged from 0.01% to 0.50% per annum (2010: 0.01% to 0.36% per annum).

b) The short-term time deposits with original maturity of more than three months carried interest rate at approximately 2.25% per annum (2010: 2.25%).

c) At 31 December 2011, the Group's time deposits, and bank balances and cash denominated in RMB amounted to approximately RMB17,755,000, equivalent to approximately HK$21,652,000 (2010: RMB28,841,000, equivalent to approximately HK$33,931,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations.

26. ASSETS CLASSIFIED AS HELD FOR SALE

	Disposal of assets HK$'000
Assets classified as held for sale	
Property, plant and equipment	3,729
Prepaid lease payments	3,667
	7,396

Note:

On 11 June 2010, the Group entered into an agreement with the local PRC government for reclaim of certain land and buildings in the PRC. At 31 December 2011, the transaction is still not yet completed. The transaction is expected to be completed in 2012.

The net proceeds of the disposal exceeded the carrying amount of the relevant at 31 December 2011 and accordingly, no impairment loss has been recognised.

27. TRADE AND OTHER PAYABLES

	2011 HK$'000	2010 HK$'000
Trade and bills payables	36,772	56,229
Customers' deposits received	3,096	2,285
Accrual and other payables (Note ii)	8,518	13,619
	48,386	72,133

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

	2011 HK$'000	2010 HK$'000
0 to 90 days	26,372	21,316
91 to 180 days	6,143	22,064
181 to 365 days	523	10,010
Over 365 days	3,734	2,839
	36,772	56,229

The average credit period on purchases of goods is from 30 days to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

27. TRADE AND OTHER PAYABLES (Continued)

ii) At 31 December 2011, included in accrual and other payables is an amount of approximately HK$3,049,000 (2010: HK$2,353,000) deposit received in related to disposal of certain property, plant and equipment and prepaid lease payments. Details of which are disclosed in Note 26.

iii) Included in trade and other payables in the consolidated statement of financial position are mainly the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	2011 HK$'000	2010 HK$'000
RMB	**429**	1,478

28. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY

The amounts are unsecured, non-interest bearing and repayable on demand.

29. BANK BORROWINGS

	2011 HK$'000	2010 HK$'000
Bank overdrafts	**1,059**	984
Term loans	**100,257**	151,109
Trust receipts and packing loans	**28,732**	61,196
	130,048	213,289
Secured	**81,768**	85,882
Unsecured	**48,280**	127,407
	130,048	213,289
Bank borrowings repayable:		
On demand or within one year	**121,626**	199,000
More than one year but not exceeding two years	**8,422**	5,867
More than two years but not exceeding five years	**–**	8,422
	130,048	213,289
Less: Amounts due within one year shown under current liabilities	**(121,626)**	(199,000)
	8,422	14,289

i) At 31 December 2011, bank borrowings approximately HK$32,988,000 and HK$97,060,000 are fixed-rate borrowings and floating-rate borrowings, respectively. The fixed-rate borrowings carry interest ranging from 6.10% to 6.56% per annum and the floating-rate borrowings carry interest at the effective rate ranging from 2.38% to 7.22% per annum.

29. BANK BORROWINGS (Continued)

i) (Continued)

At 31 December 2010, bank borrowings approximately HK$124,909,000 and HK$88,380,000 are fixed-rate borrowings and floating-rate borrowings, respectively. The fixed-rate borrowings carry interest ranging from 4.86% to 7.44% per annum and the floating-rate borrowings carry interest at the effective rate ranging from 0.96% to 6.68% per annum.

ii) During the year ended 31 December 2011, the Group obtained new borrowings of approximately HK$63,476,000 (2010: HK$134,887,000) to finance its working capital.

iii) At 31 December 2011, the Company had provided guarantees in relation to bank borrowings and banking facilities granted to certain subsidiaries. At the end of the reporting period, the Group had unused banking facilities of approximately HK$205,198,000 (2010: HK$209,423,000).

iv) During the year ended 31 December 2011, included in the unsecured bank borrowings is an amount of HK$13,489,000 was raised under the Special Loan Guarantee Scheme. 80% of the principal amount of the loan is guaranteed by the Government of Hong Kong Special Administrative Regions.

During the year ended 31 December 2010, included in the unsecured bank borrowings is an amount of HK$18,556,000 raised under the Special Loan Guarantee Scheme. 80% of the principal amount of the loan is guaranteed by the Government of Hong Kong Special Administrative Regions. The remaining amount of the unsecured bank borrowings are guaranteed by a related company and a director of the Company.

30. OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain of its motor vehicles for its golf equipment manufacturing business. These leases are classified as finance leases, the average lease term of these leases is four years (2010: Nil).

At the end of the reporting period, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2011 HK'000	2010 HK'000	**2011 HK'000**	2010 HK'000
Amounts payable under finance leases:				
Within one year	**744**	–	**653**	–
In more than one year and not more than five years	**1,861**	–	**1,761**	–
	2,605	–	**2,414**	–
Less: Future finance charges	**(191)**	–	**–**	–
Present value of lease obligations	**2,414**	–	**2,414**	–
Less: Amounts due within one year shown under current liabilities			**(653)**	–
Amounts due after one year			**1,761**	–

30. OBLIGATIONS UNDER FINANCE LEASES (Continued)

Obligations under finance leases of the Group bear interest at fixed interest rate at 4.3% per annum. The Group's obligation under finance leases are secured by the lessor's charge over the leased assets.

All obligations under finance leases are denominated in HK$.

31. LOAN FROM ULTIMATE/IMMEDIATE HOLDING COMPANY

The loan from ultimate holding company is unsecured, non-interest bearing and repayable on demand.

The loan from immediate holding company is unsecured, non-interest bearing and repayable on 31 March 2012. In 2011, the Group and the immediate holding company entered into a supplementary agreement in which the loan was extended to 31 March 2013. The effective interest rate of the loan from immediate holding company is 5.22% per annum.

32. DEFERRED TAXATION

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

	Revaluation of land and buildings HK$'000	**Accelerated tax depreciation** HK$'000	**Estimated tax loss** HK$'000	**Total** HK$'000
At 1 January 2010	2,641	–	–	2,641
Credited to other comprehensive income	(76)	–	–	(76)
At 31 December 2010	2,565	–	–	2,565
Credited to other comprehensive income	(75)	(385)	385	(75)
At 31 December 2011	2,490	(385)	385	2,490

At the end of the reporting period, the Group had tax losses of approximately HK$41,670,000 (2010: HK$19,084,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$2,336,000 (2010: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining tax loss of HK$39,334,000 (2010: HK$19,084,000) due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

At 31 December 2011, the Group also had deductible temporary difference of Nil (2010: HK$952,000). No deferred tax assets has been recognised in relation to the above deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards (the "Post-2008 Earnings"). Deferred taxation has not been provided for in the consolidation financial statements in respect of temporary difference attributable to the "Post-2008 Earnings" amounting to approximately HK$9,059,000 (2010: HK$5,828,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

33. SHARE CAPITAL

Ordinary shares of HK$0.10 each	Number of shares	Share capital HK$'000
Authorised		
At 1 January 2010, 31 December 2010 and 2011	1,000,000,000	100,000
Issued and fully paid		
At 1 January 2010 and 31 December 2010	302,200,000	30,220
Exercise of shares options (Note 1)	4,500,000	450
Issue of shares upon rights issue (Note 2)	153,350,000	15,335
At 31 December 2011	460,050,000	46,005

Note 1: During the year ended 31 December 2011, 4,500,000 ordinary shares of HK$0.10 each were issued at a price of HK$0.37 per share upon exercise of share options granted on 2 November 2009.

Note 2: On 21 November 2011, a rights issue of 153,350,000 ordinary shares of HK$0.10 each in the Company was issued at a price of HK$0.39 per rights share. A sum of HK$58,772,000 net of expenses was raised.

All the new ordinary shares issued during the year ended 31 December 2011 ranked pari passu with the existing shares in all respects.

34. 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.

34. 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 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.

Movements of the Company's share options during the year are set out below.

		Number of share options				
	Date of grant	Outstanding at 1 January 2010 and 31 December 2010	Exercised during the year	Outstanding at 31 December 2011	Exercise period	Exercise price per share HK$
Other employees						
In aggregate	2 November 2009	1,500,000	(1,500,000)	–	2 November 2009 to 1 November 2011	0.37
Business associates						
In aggregate	2 November 2009	3,000,000	(3,000,000)	–	2 November 2009 to 1 November 2011	0.37
		4,500,000	(4,500,000)	–		
Weighted average exercise price (HK$)		0.37	0.37	N/A		
Weighted average closing price (HK$) immediately before the dates on which the options were exercised		N/A	0.56	N/A		

35. DISPOSAL OF A SUBSIDIARY/DEREGISTRATION OF SUBSIDIARIES

(a) In November 2011, the Group disposed of a wholly-owned subsidiary, Xiamen Sino to an independent third party at a consideration of RMB18,000,000 (equivalent to HK$21,122,000). The net assets of Xiamen Sino at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	15,273
Prepaid lease payments	3,960
Bank balances and cash	2
Trade payables	(208)
Other payables and accrued liabilities	(4)
	19,023
Goodwill	5,565
Release of assets revaluation reserve	(870)
Release of exchange fluctuation reserve	(140)
	23,578
Loss on disposal	(2,456)
Total consideration	21,122
Satisfied by:	
Cash	7,004
Deferred consideration (Note)	14,118
	21,122
Net cash inflow arising on disposal:	
Cash consideration	7,004
Bank balances and cash disposed of	(2)
	7,002

Note: Deferred consideration of approximately RMB12,000,000 (equivalent to approximately HK$14,118,000) is included in trade and other receivables to be received at 3 months after the date of completion.

During the year ended 31 December 2011, Xiamen Sino contributed a loss of approximately HK$933,000 to the Group's loss.

35. DISPOSAL OF A SUBSIDIARY/DEREGISTRATION OF A SUBSIDIARY (Continued)

(b) During the year ended 31 December 2010, the Group deregistered the following subsidiaries. The net assets of these subsidiaries at the respective dates of deregistration were as follows:

	Sino (CNC) Company Limited HK$'000	Sino Golf (USA), Inc HK$'000	Sino US Holding Company LLC HK$'000	Sino CTB Company LLC HK$'000	Total HK$'000
Other receivables	–	53	–	–	53
Non-controlling interests	(5)	–	–	–	(5)
Loss on deregistration	5	(53)	–	–	(48)
	–	–	–	–	–

The subsidiaries de-registered during the year ended 31 December 2010 have no significant impact on the results and cash flows of the Group.

36. COMMITMENT UNDER OPERATING LEASE

THE GROUP AS LESSEE

The Group leases certain of its office properties, production plants and staff quarters under operating lease arrangements. Leases are negotiated for a term ranging from one to ten years. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which are payable as follows:

	2011 HK$'000	2010 HK$'000
Within one year	**3,226**	5,175
In the second to fifth years, inclusive	**1,079**	2,138
	4,305	7,313

37. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
Contracted, but not provided for:		
Leasehold land and buildings	**1,763**	1,434
Plant and machinery	**835**	1,186
	2,598	2,620

38. CONTINGENT LIABILITY

At 31 December 2011, a subsidiary has been named as defendant in a High Court action since a writ was issued against it and it was claimed for an amount of approximately HK$1,546,000. The subsidiary has filed a full defence to this writ. In the opinion of the directors of the Company, no provision for any potential liability has been made in the consolidated financial statements as the Group has pleaded reasonable chance of success in the defence.

39. RELATED PARTY AND CONNECTED PARTY TRANSACTIONS

a) In addition to related party balances detailed in the consolidated financial statements and Notes 28 and 31, respectively, the Group entered into the following significant transactions with related parties during the year:

	Notes	2011 HK$'000	2010 HK$'000
Rental expenses paid to Progolf Manufacturing Company Limited ("Progolf")	(i)	**840**	840
Rental expenses paid to Yuru Holdings Limited ("Yuru Holdings")	(ii)	**558**	179

Notes:

i) Augustine Chu has beneficial interests in Progolf. The rental expenses were determined at rates agreed between the Group and Progolf.

ii) Simon Chu has beneficial interests in Yuru Holdings. The rental expenses were determined at rates agreed between the Group and Yuru Holdings.

39. RELATED PARTY AND CONNECTED PARTY TRANSACTIONS (Continued)

b) At 31 December 2010, Sino Golf and Country Club Company Limited (廣州荔湖高爾夫球有限公司) ("Sino Golf and Country Club") provided a corporate guarantee to the Group of approximately HK$29,471,000 for banking facilities granted to the Group. Augustine Chu has beneficial interests in Sino Golf and Country Club. The guarantee has been released during the year ended 31 December 2011.

c) At 31 December 2010, Augustine Chu provided personal guarantees to the Group of approximately HK$7,059,000 for bank facilities granted to the Group. The guarantee has been released during the year ended 31 December 2011.

d) Key management compensation

The key management personnel of the Group comprises all the directors of the Company and the five highest paid individuals. Details of compensation of directors and the five highest paid individuals are included in Note 17.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2011 HK$'000**	2010 HK$'000
Non-current assets			
Investments in subsidiaries		**15,717**	15,717
Club debentures		**–**	1,560
		15,717	17,277
Current assets			
Amounts due from subsidiaries	(a)	**194,073**	123,843
Bank balances and cash		**41**	37
		194,114	123,880
Current liabilities			
Other payables		**161**	61
Financial guarantee liabilities		**1,846**	6,187
		2,007	6,248
Net current assets		**192,107**	117,632
		207,824	134,909
Capital and reserves			
Share capital		**46,005**	30,220
Reserves	(b)	**161,819**	104,689
		207,824	134,909

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

a) The amounts are unsecured, non-interest bearing and repayable on demand.

b) Reserves

	Share premium HK$'000	Other Reserve HK$'000 (Note i)	Contributed surplus HK$'000 (Note ii)	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2010	57,270	1,652	15,516	463	22,696	97,597
Total comprehensive income for the year	–	–	–	–	5,778	5,778
Deemed contribution by immediate holding company arising from non-interest bearing loan (Note 31)	–	1,314	–	–	–	1,314
At 31 December 2010	57,270	2,966	15,516	463	28,474	104,689
Total comprehensive income for the year	–	–	–	–	11,164	11,164
Exercise of shares options (Note 33)	1,678	–	–	(463)	–	1,215
Issue of shares upon rights issue (Note 33)	44,472	–	–	–	–	44,472
Expenses on right issue	(1,035)	–	–	–	–	(1,035)
Deemed contribution by immediate holding company arising from non-interest bearing loan (Note 31)	–	1,314	–	–	–	1,314
At 31 December 2011	102,385	4,280	15,516	–	39,638	161,819

Note i: The other reserve represents capital contribution from the Company's immediate holding company in the form of a non-interest bearing loan. The amounts are estimated by discounting the nominal value of the non-interesting bearing loan to the Group at an effective interest rate of 5.22% per annum.

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

41. PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation / registration and operations	Nominal value of issued ordinary share / paid up capital	Percentage of equity interest attributable to the Company Direct 2011&2010	Indirect 2011&2010	Principal activities
Sino Golf (BVI) Company Limited	BVI/ Hong Kong	US$101	100	–	Investment holding
Sino Golf Manufacturing Company Limited	Hong Kong	HK$2 (ordinary) HK$3,842,700 (non-voting deferred) (note c)	–	100	Investment holding and trading of golf equipment and accessories
Zengcheng Sino Golf (Note b)	PRC	HK$111,700,000	–	100	Manufacture and trading of golf equipment and accessories
Guangzhou Sino Concept (Note b)	PRC	HK$30,000,000	–	100	Manufacture and trading of golf equipment and accessories
CTB Golf (HK)	Hong Kong	HK$10,000,000 (ordinary) HK$2,730,000 (preference)	–	100	Trading of golf bags and accessories
Dongguan Qi Heng (Note b)	PRC	HK$38,000,000	–	100	Manufacture and trading of golf bags
Linyi Sino Golf (Notes b & d)	PRC	HK$98,000,000	–	100	Manufacture and trading of golf equipment and accessories
Sino Golf Comercial Offshore De Macao Limitada	Macau	MOP 100,000	–	100	Trading of golf equipment and accessories

* The English names are for identification only

Notes:

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

b) These are wholly foreign owned enterprises of the Company which were established under the PRC law.

c) 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 Sino Golf Manufacturing Company Limited. 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 Sino Golf Manufacturing Company Limited to be returned.

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

42. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK$2,779,000.

43. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2011, the Group entered into sales and purchase agreements with independent third parties to dispose of certain land and buildings in the PRC. Details of which are set out in the Company's announcement dated 9 March 2012.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December 2011 HK$'000	Year ended 31 December 2010 HK$'000	Year ended 31 December 2009 HK$'000	Year ended 31 December 2008 HK$'000	Year ended 31 December 2007 HK$'000
				(Restated)	(Restated)
RESULTS					
Turnover	**278,649**	427,997	290,329	446,659	567,668
Cost of sales	**(234,813)**	(338,177)	(230,644)	(344,229)	(423,478)
Gross profit	**43,836**	89,820	59,685	102,430	144,190
Other operating income	**3,062**	2,238	4,819	6,265	7,661
Selling and distribution costs	**(5,331)**	(9,550)	(7,016)	(12,654)	(21,590)
Administrative expenses	**(47,143)**	(53,002)	(57,803)	(66,125)	(64,696)
Impairment loss recognised in respect of property, plant and equipment	**–**	(2,248)	–	–	–
Finance costs	**(10,433)**	(15,282)	(11,173)	(15,875)	(22,576)
(LOSS) PROFIT BEFORE TAXATION	**(16,009)**	11,976	(11,488)	14,041	42,989
Income tax expense	**(262)**	(418)	(1,047)	(748)	(1,179)
(LOSS) PROFIT FOR THE YEAR	**(16,271)**	11,558	(12,535)	13,293	41,810
Attributable to:					
Owners of the Company	**(16,242)**	11,588	(12,535)	13,312	41,810
Non-controlling interests	**(29)**	(30)	–	(19)	–
	(16,271)	11,558	(12,535)	13,293	41,810

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As At 31 December				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
TOTAL ASSETS	**532,267**	593,565	574,431	585,494	587,549
TOTAL LIABILITIES	**(219,172)**	(330,165)	(326,412)	(329,064)	(345,950)
NON-CONTROLLING INTERESTS	**(2,438)**	(2,467)	(2,502)	(2,502)	(2,571)
	310,657	260,933	245,517	253,928	239,028