

Notes to Financial Statements

31 March 2001

1. CORPORATE INFORMATION

During the year, the principal activities of the Group consisted of the manufacturing and trading of golf equipment and accessories.

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

2. GROUP REORGANISATION

Sino Golf Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in Bermuda on 8 August 2000 under the Companies Act 1981 of Bermuda. Its shares have been listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 December 2000.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the Stock Exchange, on 5 December 2000, the Company acquired the entire issued share capital of Sino Golf (BVI) Company Limited, the immediate holding company of Sino Golf Manufacturing Company Limited ("Sino Golf Manufacturing"). Sino Golf Manufacturing was, as at that date, the holding company of the Group. The Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group and accordingly, the Reorganisation has been accounted for on the basis of merger accounting as further explained in note 3 below.

Further details of the Reorganisation are set out in note 24 to the financial statements and the Company's prospectus dated 11 December 2000, and details of the subsidiaries acquired pursuant to the Reorganisation are set out in note 14 to the financial statements.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

Basis of consolidation and presentation

The consolidated financial statements have been prepared on the basis of merger accounting. On this basis, the Company has been treated as the holding company of its subsidiaries acquired for both financial years presented, rather than from the date of their acquisition through the Reorganisation on 5 December 2000. Accordingly, the consolidated results of the Group for the years ended 31 March 2000 and 2001 include the results of the Company and its subsidiaries as disclosed in note 14 to the financial statements with effect from 1 April 1999 or since their respective dates of incorporation/acquisition, where this is a shorter period.

The comparative consolidated balance sheet as at 31 March 2000 has been prepared on the assumption that the above Reorganisation had been completed at that date. No balance sheet of the Company as at 31 March 2000 is presented in the financial statements as the Company was not incorporated on that date.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on the consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated directly against reserves in the year of acquisition.

On disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	2%-5%
Leasehold improvements	20%
Plant and machinery	10%-20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress

Construction in progress represents buildings, structures, plant and machinery and other fixed assets under construction or installation and is stated at cost and is not depreciated. Cost comprises direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Leased assets

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leased assets (Continued)

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of the subsidiaries denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

Revenue recognition

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

- (a) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) rental, on a time proportion basis over the lease terms; and
- (d) other income, on an accrual basis.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. TURNOVER

The principal activities of the Group are the manufacturing and trading of golf equipment and accessories. Turnover represents the invoiced value of goods sold during the year, net of trade discounts and goods returns.

An analysis of the Group's turnover by the geographical area of its shipments is as follows:

	2001	2000
	HK\$'000	HK\$'000
North America	191,883	157,117
Europe	54,389	29,523
Asia (excluding Japan)	36,405	11,979
Japan	9,488	7,251
Others	8,050	5,670
	<u>300,215</u>	<u>211,540</u>

Notes to Financial Statements

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5. PROFIT FROM OPERATING ACTIVITIES

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

	2001	2000
	HK\$'000	HK\$'000
Depreciation:		
Owned fixed assets	7,618	6,589
Leased fixed assets	1,110	1,117
	8,728	7,706
Operating lease rentals on land and buildings	1,262	1,072
Auditors' remuneration	724	362
Staff costs:		
Wages and salaries (including directors' remuneration - note 7)	30,746	29,878
Retirement benefits scheme contributions	76	-
	30,822	29,878
Loss on disposal of fixed assets	235	-
Exchange losses, net	369	654
Interest income	(1,482)	(642)
Net rental income	(64)	(56)

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6. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	7,706	6,726
Interest on finance leases and hire purchase contracts	265	237
Total interest expenses	7,971	6,963
Bank charges	1,905	1,027
Total finance costs	9,876	7,990

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7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and section 161 of the Companies Ordinance is as follows:

	2001	2000
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Non-executive director	17	–
Independent non-executive directors	73	–
	<u>90</u>	<u>–</u>
Other emoluments:		
Executive directors:		
Salaries, bonuses, allowance and benefits in kind	5,561	5,741
Retirement benefits scheme contributions	8	–
	<u>5,569</u>	<u>5,741</u>
Non-executive director:		
Consultancy fee	386	372
	<u>6,045</u>	<u>6,113</u>

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7. DIRECTORS' REMUNERATION (Continued)

The remuneration of the above directors fell within the following bands:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	6	6
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$2,500,001 to HK\$3,000,000	1	–
HK\$3,000,001 to HK\$3,500,000	–	1
	<u>8</u>	<u>8</u>

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

Subsequent to the balance sheet date, on 28 April 2001, 1,750,000 share options in total were granted to the executive directors of the Company. No value is included in directors' remuneration in respect of share options granted because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2000: Three) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2000: Two) non-director, highest paid employees are as follows:

	2001	2000
	HK\$'000	HK\$'000
Salaries, bonuses, allowances and benefits in kind	1,333	1,102
Retirement benefits scheme contributions	4	–
	<u>1,337</u>	<u>1,102</u>

The remuneration of the two non-director, highest paid employees each fell within the range of Nil to HK\$1,000,000.

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9. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2001	2000
	HK\$'000	HK\$'000
Provision for the year:		
Hong Kong	5,625	3,200
Elsewhere	57	94
Underprovision/(overprovision) in prior year	375	(327)
Deferred tax - note 23	200	600
	<u>6,257</u>	<u>3,567</u>
Tax charge for the year	<u>6,257</u>	<u>3,567</u>

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$21,266,000.

11. DIVIDENDS

	2001	2000
	HK\$'000	HK\$'000
Interim dividends paid by a subsidiary of the Company to its then shareholders	-	70,037
Special dividends paid by a subsidiary of the Company to its then shareholders	26,500	-
Proposed final - HK7 cents per ordinary share	21,000	-
	<u>47,500</u>	<u>70,037</u>

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11. DIVIDENDS *(Continued)*

The interim dividends of HK\$70,037,000 and the special dividends of HK\$26,500,000 in 2000 and 2001, respectively, were declared and paid by Sino Golf Manufacturing to its then shareholders out of its retained profits prior to the Reorganisation as set out in note 2 to the financial statements. The dividend rates and the number of shares ranking for these dividends are not presented as the directors are of the opinion that such information is not meaningful for the purpose of these financial statements. Further details of the dividends are set out in note 26(c) to the financial statements.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$65,713,000 (2000: HK\$36,359,000) and the weighted average of 246,370,000 (2000: 213,841,000) ordinary shares deemed to be in issue during the year as if the capitalisation issue of 223,000,000 shares made to the then shareholders of the Company upon the completion of the public offer and the placing of 75,000,000 shares in the Company had been in issue from the respective dates the related existing shares were issued.

Diluted earnings per share for the years ended 31 March 2001 and 2000 has not been calculated as no diluting events existed during these years.

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13. FIXED ASSETS

Group

	Land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:							
At 1 April 2000	25,233	600	50,424	2,525	3,471	574	82,827
Additions	5,111	95	5,001	427	475	3,578	14,687
Disposals	(146)	-	(256)	(28)	-	-	(430)
Transfer from							
construction in progress	1,100	-	-	-	-	(1,100)	-
Revaluation surplus	30,624	-	-	-	-	-	30,624
Exchange realignments	226	1	471	16	10	5	729
At 31 March 2001	62,148	696	55,640	2,940	3,956	3,057	128,437
Accumulated depreciation:							
At 1 April 2000	2,216	175	24,942	1,476	1,793	-	30,602
Provided for the year	1,057	113	6,559	472	527	-	8,728
Disposals	(16)	-	(159)	(18)	-	-	(193)
Revaluation surplus	3,305	-	-	-	-	-	3,305
Exchange realignments	18	1	233	10	4	-	266
At 31 March 2001	6,580	289	31,575	1,940	2,324	-	42,708
Net book value:							
At 31 March 2001	55,568	407	24,065	1,000	1,632	3,057	85,729
At 31 March 2000	23,017	425	25,482	1,049	1,678	574	52,225

Notes to Financial Statements

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13. FIXED ASSETS (Continued)

- (a) The land and buildings are situated in the People's Republic of China ("PRC") and are held under the following lease terms:

	<i>HK\$'000</i>
Long term lease	592
Medium term leases	<u>61,556</u>
	<u><u>62,148</u></u>

- (b) As at 30 September 2000, the land and buildings were revalued by independent professional valuers, LCH (Asia-Pacific) Surveyors Limited, on an open market basis or the depreciated replacement cost approach, at the amount of HK\$50,174,000. As at the balance sheet date, such land and buildings had an aggregate carrying amount of HK\$49,530,000 in the financial statements.
- (c) Had the revalued land and buildings been carried in the financial statements at historical cost less accumulated depreciation, their carrying amounts would have been HK\$22,499,000 as at 31 March 2001.
- (d) The net book value of the fixed assets held under finance leases and hire purchase contracts included in the total amount of fixed assets amounted to HK\$5,161,000 as at 31 March 2001 (2000: HK\$6,338,000).
- (e) Certain of the above land and buildings, and plant and machinery with an aggregate net book value of HK\$25,990,000 (2000: HK\$14,872,000) were pledged to secure the bank loans granted to a subsidiary of the Company.

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14. INTERESTS IN SUBSIDIARIES

	Company 2001 HK\$'000
Unlisted investment, at cost	15,717
Due from a subsidiary	84,248
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	99,965
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The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Sino Golf (BVI) Company Limited	British Virgin Islands	US\$101	100%	–	Investment holding
Sino Golf Manufacturing Company Limited	Hong Kong	HK\$2 (ordinary) HK\$3,842,700 (non-voting deferred) (Note a)	–	100%	Investment holding and trading of golf equipment and accessories
增城市順龍高爾夫 球製品有限公司 ("Zengcheng Sino Golf")	PRC	HK\$61,000,000	–	(Note b)	Manufacturing and trading of golf equipment and accessories

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14. INTERESTS IN SUBSIDIARIES (Continued)

Company name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Guangzhou Sino Concept Golf Manufacturing Co., Ltd. ("Sino Concept") (Note c)	PRC	HK\$30,000,000	–	100%	Manufacturing of golf equipment and accessories
Chinalink Golf Manufacturing Company Limited ("Chinalink")	Hong Kong	HK\$990,000	–	75%	Leasing of plant and machinery

Notes:

- (a) The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution or winding up.
- (b) Zengcheng Sino Golf is a Sino-foreign co-operative joint venture company established in the PRC on 19 April 1993 with a tenure of 15 years.

The registered capital in Zengcheng Sino Golf shared by the Group and the PRC joint venture partner (the "PRC Partner") is 87% and 13%, respectively.

According to the agreements entered into between both parties, the Group agreed to make certain annual payments to the PRC Partner commencing on 20 August 1999 for the remaining tenure of Zengcheng Sino Golf and the PRC Partner agreed to give up all of the rights to the profits, the management and control of Zengcheng Sino Golf commencing on 20 August 1999 for the remaining tenure of Zengcheng Sino Golf, and its interest in the assets of Zengcheng Sino Golf at the end of the joint venture period, other than certain land and buildings in which the PRC Partner will share a 20% value.

In view of the above, the directors of the Company are of the opinion that the Company has full control of the operations of Zengcheng Sino Golf and full entitlement to its profits. The unamortised carrying amount of the 20% value of the land and buildings to be shared by the PRC Partner as at 31 March 2001 amounted to approximately HK\$3,627,000 which is amortised over the remaining joint venture period in the consolidated profit and loss account.

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14. INTERESTS IN SUBSIDIARIES (Continued)

- (c) Sino Concept was a Sino-foreign equity joint venture company established in the PRC on 30 June 1998 with a tenure of 20 years.

On 23 August 2000, the Group entered into an agreement with the PRC joint venture partner to acquire its 40% equity interest in Sino Concept at a consideration of RMB9.75 million. As a result, Sino Concept became an indirect wholly-owned subsidiary of the Company. On 12 September 2000, the Group obtained the relevant PRC government approval to change the legal form of Sino Concept from a Sino-foreign equity joint venture to a wholly foreign-owned enterprise.

15. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	12,361	10,591
Work in progress	15,361	20,716
Finished goods	5,986	10,287
	<hr/>	<hr/>
	33,708	41,594
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16. TRADE AND BILLS RECEIVABLE

Included in the Group's trade and bills receivable is an amount of HK\$197,000 (2000: HK\$4,332,000) due from Nikko Bussan Co., Ltd. ("Nikko Bussan (Japan)") arising from transactions carried out in the ordinary course of business of the Group. Takanori Matsuura, a director of the Company, has a beneficial interest in Nikko Bussan (Japan). The balance is unsecured and interest-free.

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16. TRADE AND BILLS RECEIVABLE (Continued)

The ageing analysis of the Group's trade and bills receivable, net of provision, is as follows:

	2001	2000
	HK\$'000	HK\$'000
Within three months	46,964	16,317
Between four months to six months	4,811	165
Between seven months to one year	4,975	133
Over one year	1,419	2,603
	<u>58,169</u>	<u>19,218</u>

The above analysis ages trade and bills receivable, stated net of provisions for doubtful debts, based on the date of recognition of sale.

The normal credit period granted by the Group is between 30 to 150 days from the date of recognition of sale.

17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company
	2001	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Prepayments	213	322	–
Deposits and other debtors	12,867	10,043	162
Due from a shareholder	–	2	–
Due from a director	–	123	–
Due from related companies	–	3,396	–
	<u>13,080</u>	<u>13,886</u>	<u>162</u>

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18. CASH AND CASH EQUIVALENTS

	Group		Company
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000
Cash and bank balances	53,947	6,646	1,812
Time deposits	15,826	10,888	–
	69,773	17,534	1,812
Less: Pledged time deposits	(5,800)	(10,800)	–
	63,973	6,734	1,812

Pledged time deposits were pledged to banks to secure the banking facilities granted to the Group.

19. TRADE AND BILLS PAYABLE

Included in the Group's trade and bills payable is an amount of HK\$279,000 due to Nikko Bussan (Japan) arising from transactions carried out in the ordinary course of business of the Group. The balance is unsecured and interest-free.

The balance in the prior year includes an aggregate amount of HK\$4,782,000 arising from transactions with companies in which one or more of the directors of the Company have beneficial interests.

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19. TRADE AND BILLS PAYABLE (Continued)

The ageing analysis of the Group's trade and bills payable is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within three months	18,880	19,345
Between four months to six months	2,177	5,176
Between seven months to one year	1,453	811
Over one year	386	109
	<u>22,896</u>	<u>25,441</u>

20. OTHER PAYABLES AND ACCRUALS

	Group		Company
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Other payables and accruals	9,386	10,135	31
Due to shareholders	–	742	–
Due to a director	–	1,439	–
Due to related companies	–	1,432	–
	<u>9,386</u>	<u>13,748</u>	<u>31</u>

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21. BANK LOANS AND OVERDRAFTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Bank overdrafts	18	3,041
Bank loans	29,907	39,177
Packing loans	–	12,236
Trust receipt loans	22,206	14,218
	<u>52,131</u>	<u>68,672</u>
Secured	36,895	66,413
Unsecured	15,236	2,259
	<u>52,131</u>	<u>68,672</u>
Balances repayable:		
Within one year or on demand	52,131	45,436
In the second year	–	21,467
In the third to fifth years, inclusive	–	1,769
	<u>52,131</u>	<u>68,672</u>
Portion classified as current liabilities	<u>(52,131)</u>	<u>(45,436)</u>
Long term portion	–	<u>23,236</u>

The Group's bank loans are secured by certain of the Group's land and buildings, and plant and machinery with an aggregate net book value at the balance sheet date of HK\$25,990,000 (2000: HK\$14,527,000) and charges over time deposits of HK\$5,800,000 (2000: HK\$10,800,000).

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22. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

There were commitments under finance leases and hire purchase contracts at the balance sheet date as set out below:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Amounts payable:		
Within one year	2,104	2,892
In the second year	—	1,976
	<hr/>	<hr/>
Total minimum lease payments	2,104	4,868
Future finance charges	(151)	(463)
	<hr/>	<hr/>
Total net finance lease and hire purchase contract payables	1,953	4,405
Portion classified as current liabilities	(1,953)	(2,540)
	<hr/>	<hr/>
Long term portion	—	1,865
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23. DEFERRED TAX

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Balance at beginning of year	1,495	895
Charge for the year - note 9	200	600
	<hr/>	<hr/>
Balance at end of year	1,695	1,495
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23. DEFERRED TAX (Continued)

The deferred tax liabilities of the Group provided/not provided are as follows:

	Provided		Not provided	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated depreciation allowances	<u>1,695</u>	<u>1,495</u>	<u>834</u>	<u>105</u>

In the opinion of the directors, the unprovided amounts related to timing differences which will not crystallise in the foreseeable future.

The Company had no material unprovided deferred tax liability as at the balance sheet date.

24. SHARE CAPITALShares

	Company 2001 HK\$'000
Authorised:	
1,000,000,000 ordinary shares of HK\$0.1 each ("Ordinary Shares")	<u>100,000</u>
Issued and fully paid:	
300,000,000 Ordinary Shares	<u>30,000</u>

During the period from 8 August 2000 (date of incorporation) to 31 March 2001, the following changes in the Company's authorised and issued share capital were recorded:

- (a) On 8 August 2000, the Company was incorporated with an authorised share capital of HK\$100,000 divided into 1,000,000 Ordinary Shares, all of which were allotted and issued nil paid on 18 September 2000.

Notes to Financial Statements

31 March 2001

24. SHARE CAPITAL (Continued)

- (b) On 5 December 2000, pursuant to resolutions in writing of the shareholders of the Company passed on the same date, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of a further 999,000,000 Ordinary Shares.
- (c) On 5 December 2000, pursuant to the Reorganisation as described in note 2 to the financial statements, the Company allotted and issued 1,000,000 Ordinary Shares, credited as fully paid, and also credited as fully paid the 1,000,000 nil paid Ordinary Shares as set out in (a) above, as consideration for the subscription of 1 ordinary share of US\$1.0 of Sino Golf (BVI) Company Limited, the then holding company of the Group.

The excess of the fair value of the issued share capital of Sino Golf (BVI) Company Limited determined on the basis of the consolidated net assets of Sino Golf (BVI) Company Limited at that date, over the aggregate of the nominal value of the Company's Ordinary Shares issued in exchange therefor, amounting to approximately HK\$15,616,000, was credited to the Company's contributed surplus account as set out in note 25. On the same day, contributed surplus of HK\$100,000 was applied to pay up nil paid Ordinary Shares issued on 8 August 2000 as described in (a) above.

- (d) On 18 December 2000, a total of 75,000,000 Ordinary Shares were issued to the public at HK\$1.30 each for a total cash consideration of HK\$97,500,000 before the related issue expenses.
- (e) On 18 December 2000, as authorised and pursuant to resolutions in writing of the shareholders of the Company passed on 5 December 2000, a total of 223,000,000 Ordinary Shares were allotted and issued as fully paid at par to the shareholders whose names appear on the register of members of the Company at the close of business on 5 December 2000, in proportion to their respective shareholdings by way of capitalisation of the sum of HK\$22,300,000 standing to the credit of the share premium account of the Company.

Notes to Financial Statements

31 March 2001

24. SHARE CAPITAL (Continued)

A summary of the above movements in the issued capital of the Company is as follows:

	Number of Ordinary Shares issued	Carrying amount HK\$'000
Ordinary Shares issued nil paid on incorporation and subsequently credited as fully paid as part of the consideration for the subscription of one ordinary share of Sino Golf (BVI) Company Limited	1,000,000	100
Ordinary Shares issued at par as the remaining consideration for the subscription of one ordinary share of Sino Golf (BVI) Company Limited	<u>1,000,000</u>	<u>100</u>
Pro forma issued share capital as at 31 March 2000	2,000,000	200
New issue on initial public offering	75,000,000	7,500
Capitalisation of share premium account for Ordinary Shares credited as fully paid	<u>223,000,000</u>	<u>22,300</u>
Issued share capital as at 31 March 2001	<u><u>300,000,000</u></u>	<u><u>30,000</u></u>

Share options

Pursuant to a share option scheme which was approved by a written resolution of the shareholders of the Company on 5 December 2000, the directors may, at their absolute discretion, invite any full-time employees, including directors, of the Company or any of its subsidiaries to take up options to subscribe for Ordinary Shares of the Company at any time during the period commencing from the date of grant of share options to 4 December 2010, the expiry date of the share option scheme.

Notes to Financial Statements

31 March 2001

24. SHARE CAPITAL (Continued)

The subscription price for Ordinary Shares of the Company under the share option scheme will be a price determined by the directors, but shall not be less than the higher of (i) 80% of the average of the closing prices of the Ordinary Shares on the Stock Exchange for the five trading days immediately preceding the date the option is deemed to have been granted; and (ii) the nominal value of the Ordinary Shares.

The maximum number of Ordinary Shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company in issue from time to time and the maximum number of Ordinary Shares in respect of which options may be granted to any one employee may not exceed 25% of the maximum aggregate number of Ordinary Shares in respect of which options may be granted under the share option scheme.

The share option scheme became effective upon the listing of the Company's Ordinary Shares on the Stock Exchange on 20 December 2000. No share options had been granted at the balance sheet date.

Notes to Financial Statements

31 March 2001

25. RESERVES

	Share premium	Contributed surplus	Fixed asset revaluation reserve	Exchange fluctuation reserve	Other reserves	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group							
At 1 April 1999	-	10,564	-	1,115	-	42,365	54,044
Exchange realignments	-	-	-	(29)	-	-	(29)
Profit for the year	-	-	-	-	-	36,359	36,359
Dividends	-	-	-	-	-	(70,037)	(70,037)
At 31 March 2000 and at 1 April 2000	-	10,564	-	1,086	-	8,687	20,337
Premium on issue of shares to the public	90,000	-	-	-	-	-	90,000
Capitalisation issue of shares	(22,300)	-	-	-	-	-	(22,300)
Share issue expenses	(11,574)	-	-	-	-	-	(11,574)
Revaluation surplus	-	-	27,319	-	-	-	27,319
Exchange realignments	-	-	-	139	-	-	139
Profit for the year	-	-	-	-	-	65,713	65,713
Dividends	-	-	-	-	-	(47,500)	(47,500)
Transfer from retained profits	-	-	-	-	36	(36)	-
Goodwill arising on acquisition of additional equity interest in a subsidiary	-	-	-	-	-	(3,783)	(3,783)
At 31 March 2001	56,126	10,564	27,319	1,225	36	23,081	118,351

Notes to Financial Statements

31 March 2001

25. RESERVES (Continued)

	Share Contributed		Retained	Total
	premium	surplus	profits	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Company				
Arising on acquisition of subsidiaries	–	15,616	–	15,616
Applying to pay up 1,000,000 Ordinary Shares allotted nil paid on incorporation	–	(100)	–	(100)
Premium on issue of shares to the public	90,000	–	–	90,000
Capitalisation issue of shares	(22,300)	–	–	(22,300)
Share issue expenses	(11,574)	–	–	(11,574)
Profit for the year	–	–	21,266	21,266
Dividend	–	–	(21,000)	(21,000)
At 31 March 2001	56,126	15,516	266	71,908

The Group's contributed surplus represents the difference between the nominal value of the shares and share premium account of the subsidiaries acquired pursuant to the Reorganisation as set out in note 2 to the financial statements over the nominal value of the Company's shares issued in exchange therefor.

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

Notes to Financial Statements

31 March 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before tax to net cash inflow from operating activities

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Profit before tax	71,970	39,732
Interest expenses	7,971	6,963
Interest income	(1,482)	(642)
Depreciation	8,728	7,706
Loss on disposal of fixed assets	235	–
Decrease/(increase) in inventories	7,886	(6,546)
Increase in trade and bills receivable	(38,951)	(8,976)
Decrease/(increase) in deposits, prepayments and other receivables	806	(13,439)
Increase/(decrease) in trade and bills payable	(2,545)	420
Decrease in other payables and accruals	(3,829)	(5,295)
Exchange adjustments	137	(33)
	<u>50,926</u>	<u>19,890</u>
Net cash inflow from operating activities	<u>50,926</u>	<u>19,890</u>

Notes to Financial Statements

31 March 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing activities

	Issued capital and share premium <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Other loans <i>HK\$'000</i>	Finance lease and hire purchase contract obligations <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
Balance at 1 April 1999	200	52,238	3,259	3,841	6,108
Cash inflow/(outflow) from financing, net	–	13,393	92	(1,796)	–
Arising on dissolution of a subsidiary	–	–	–	–	(601)
Share of exchange fluctuation reserve for the year	–	–	–	–	(19)
Share of loss for the year	–	–	–	–	(194)
Inception of finance lease contracts	–	–	–	2,360	–
Balance at 31 March 2000 and 1 April 2000	200	65,631	3,351	4,405	5,294
Cash inflow/(outflow) from financing, net	85,926	(13,968)	(3,370)	(2,452)	–
Acquisition of minority interests	–	–	–	–	(5,294)
Exchange realignments	–	450	19	–	–
Balance at 31 March 2001	86,126	52,113	–	1,953	–

Notes to Financial Statements

31 March 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Major non-cash transactions

- (i) The special dividends of HK\$26,500,000 declared by Sino Golf Manufacturing during the year ended 31 March 2001 were distributed by offsetting against the amounts due from certain related companies with an aggregate amount of HK\$25,361,000. Of the remaining balance of HK\$1,139,000, HK\$836,000 was settled in cash and the unpaid balance of HK\$303,000 was included in other payables and accruals as at 31 March 2001.
- (ii) The interim dividends of HK\$70,037,000 declared by Sino Golf Manufacturing during the year ended 31 March 2000 were distributed by offsetting against the amounts due from certain related companies and shareholders with an aggregate amount of HK\$69,627,000. The balance of HK\$410,000 was settled in cash during the year ended 31 March 2001.

27. CONTINGENT LIABILITIES

As at 31 March 2001, the Group and the Company had the following contingent liabilities not provided for in the financial statements:

	Group		Company
	2001	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Bills discounted with recourse	6,163	3,488	–
Guarantees for bank loans, overdrafts and trade finance facilities in favour of a subsidiary	–	–	28,387
Guarantees for a bank loan in favour of a related company	–	8,109	–
	<u>6,163</u>	<u>11,597</u>	<u>28,387</u>

Notes to Financial Statements

31 March 2001

28. PLEDGE OF ASSETS

Details of the assets pledged to secure the bank loans and overdrafts granted to the Group are disclosed in note 21 to the financial statements.

29. COMMITMENTS**(a) Capital commitments**

	Group	
	2001	2000
	HK\$'000	HK\$'000
Capital commitments in respect of land and buildings:		
Contracted, but not provided for	1,699	573
Capital commitments in respect of plant and machinery:		
Contracted, but not provided for	69	113
	1,768	686

The Company had no material capital commitments at the balance sheet date.

(b) Commitments under operating leases

As at 31 March 2001, the Group had commitments under non-cancellable operating leases to make payments in the following year as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Land and buildings expiring:		
Within one year	683	53
In the second to fifth years, inclusive	105	950
After five years	186	90
	974	1,093

Notes to Financial Statements

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30. RELATED PARTY TRANSACTIONS

The Group entered into the following material related party transactions with related parties during the year:

	Notes	2001 HK\$'000	2000 HK\$'000
Purchases of raw materials from			
Nikko Bussan (Japan)	(a)	999	791
Sales of finished goods to Nikko Bussan (Japan)	(b)	35,056	35,077
Rental expenses paid to Progolf			
Manufacturing Company Limited ("Progolf")			
and Oriental Leader Limited	(c)	1,320	1,467
Purchase of golf club memberships from			
廣州荔湖高爾夫球有限公司 ("SG Club")	(d)	600	—
Purchases of raw materials from			
Nikko Bussan (Japan) and Nikko Bussan			
Taiwan Co., Ltd. ("Nikko Bussan (Taiwan)")	(a), (g)	12,558	28,029
Purchase of raw materials and consumables			
from Chung Lian Hsieh Enterprise			
Company Limited	(e), (g)	—	15,068
Purchases of finished goods from Xiamen			
Dongan Precision Casting			
Co., Ltd. ("Dongan")	(f), (g)	9,817	4,821

Notes:

- (a) Takanori Matsuura, a director of the Company, has a beneficial interest in Nikko Bussan (Japan) and Nikko Bussan (Taiwan). The purchase prices of raw materials were determined between the Group and the corresponding related companies on a cost-plus basis.
- (b) The selling prices of finished goods were based on the agreement between the parties.
- (c) Chu Chun Man, Augustine ("Augustine Chu"), a director of the Company, has a beneficial interest in Progolf, and Chu Yuk Man, Simon ("Simon Chu"), a director of the Company, has a beneficial interest in Oriental Leader Limited. The rental expenses were determined at rates agreed between the Group and the corresponding related parties based on market rates.

Notes to Financial Statements

31 March 2001

30. RELATED PARTY TRANSACTIONS (Continued)

- (d) Augustine Chu, Takanori Matsuura and Simon Chu, directors of the Company, have beneficial interests in SG Club. The purchase price of golf club memberships was based on the rates SG Club offered to third party customers.
- (e) Augustine Chu can exercise significant influence over Chung Lian Hsieh Enterprise Company Limited. The purchase prices of raw materials and consumables were based on the costs incurred by the related party.
- (f) Prior to 20 July 2000, Augustine Chu and Takanori Matsuura had beneficial interests in Dongan. The purchase prices of finished goods were determined at 60% to 70% of the selling prices of the relevant product category in accordance with the agreements signed by both parties. Dongan ceased to be a related party of the Group since 20 July 2000.
- (g) Transactions discontinued prior to the listing of the Company's Ordinary Shares on the Stock Exchange on 20 December 2000.

The directors, including the independent non-executive directors of the Company, have reviewed and confirmed that these transactions were conducted in the ordinary and usual course of the Group's business.

31. POST BALANCE SHEET EVENTS

- (a) On 4 April 2001, the Group set up an equity joint venture, 順德市順興隆高爾夫球制品有限公司 (「順興隆」), in Shun De, the PRC, with an independent third party. The principal activity of 順興隆 is the manufacturing of golf equipment. Pursuant to the joint venture agreement, the registered capital of 順興隆 is US\$1,380,000. The Group owns 62.5% equity interest in 順興隆 and is committed to contribute capital of HK\$6,684,000.
- (b) On 31 May 2001, the Group acquired the remaining 25% equity interest in Chinalink from the minority shareholder for a cash consideration of HK\$500,000. As a result, Chinalink became a wholly-owned subsidiary of the Group.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 3 July 2001.