

Chairman's Statement



On behalf of the Board of Directors of Sino Golf Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I am pleased to present the results of the Group for the year ended 31 March 2002.

RESULTS AND DIVIDEND

Total turnover and net profit from ordinary activities attributable to shareholders of the Group for the year ended 31 March 2002 amounted to HK\$252,492,000 and HK\$30,447,000, respectively. Earnings per share was HK10.10 cents.

The directors recommend a final dividend of HK10 cents per share, which is subject to the approval by shareholders at the forthcoming annual general meeting.

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BUSINESS REVIEW

Business Climate for the Year

In 2001, global economy was slowdown subsequent to sluggish economy previously occurred in North America and substantial influence over most regions worldwide. The September 11 Tragedy further dampened the sluggish economy. Depressed market and lower consumers' confidence resulted in decline in the consumers' desire and importers adopted cautious inventory policy to decrease the inventory level which would otherwise remain and delayed or reduced their purchases. As a manufacturer of consumer products of golf equipment and accessories, the Group's business was inevitably impacted and recorded unprecedented slowdown and results was declined. The market has improved with obvious recovery and the conditions are encouraging since early in 2002. Combined with the business climate in the whole year, the period from April to December in 2001 was extremely difficult for the Group. Although the business in the first three months in 2002 has improved satisfactorily, it cannot cover the results lost in the previous year. Overall, the business climate in this year is still considerably difficult.

Operations During the Year

The total sales was HK\$252,492,000 for the year, representing a decrease of 16 per cent over that of last fiscal year, among which HK\$230,522,000 generated from the sales of golf club and its accessories, representing a decrease of 23 per cent over that of last year, while the remainder came from the sales of golf bags, a new business acquired by the Group during the year. The Group's overall net profit attributable to shareholders decreased by 53 per cent to HK\$30,447,000. After deduction of the profit contributed by the business of golf bags, the profit from golf clubs and accessories was HK\$29,350,000, representing a decrease of 55 per cent over that of last year. The Group's sales mainly focused on golf clubs and accessories during the year as the new business of golf bags is still in its infancy despite that it operated satisfactorily. More substantial decline in net profit attributable to shareholders than in sales was attributable to:

- the gross margin in the new business of golf bags was lower than that of the Group's original major business and the Group's gross margin was diluted after being combined with the sales in such business;
- orders from major business of golf clubs and other accessories decreased and caused cost increase and slight decline in gross margin; and

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- the Group made substantial investments to meet the requirement of long term development during the year and hence the operation cost increased.

The Group maintains a strong financial position and conforms to the steady target level which we have been aiming at although the total sales and net profit from ordinary activities attributable to shareholders decreased.

FUTURE DEVELOPMENT STRATEGY AND PROSPECTS

New additional investments and expansion of production capability

Although the operating circumstance in 2001 was very hard, we still believe such situation is only temporary. As the competition from manufacturers which principally engage in the manufacture of golf clubs and other accessories in the U.S.A. and other regions has been impaired substantially, and the demands of brand-name manufacturers for the Group's products will be increased relatively due to their continuing outsourcing production for the press from the market price, we consider no need to change our former development plans for the temporary decline of business in last year. We had made appropriate investments according to the set direction to meet the continuing development requirements of the Group, among which included:

- In October 2001, the Group acquired the golf bag business from an independent third party to continuously extend the scope of one-stop procurement service provided by the Group. The consideration paid by the Group for such acquisition is HK\$10,200,000 which accounted for 51 per cent equity interests of the new company.
- In October 2001, the Group established a Sino-foreign joint venture with an independent third party in the PRC, which principally engages in the manufacture of forged titanium alloy and molded zinc-aluminum alloy golf heads. The total investment was HK\$6,684,000, representing 62.5 per cent equity interests of the joint venture. This investment brought about a further vertical integration for the Group's overall production so that reduced the overall cost of production.
- In October 2001, the Group completed the expansion of the research and development building and set up the most perfect testing center in the golf field for golf clubs, with total investment over HK\$4 million. Those investments greatly enhance the capabilities to develop new products and strengthen the customers' confidence to the Group.

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- Save as the aforesaid, the Group expanded the existing production lines in two manufacturing plants to 8,000 sq.m. with investment amounted to be more than HK\$6 million so as to take back most work of outsourcing production to do by ourselves to control the delivery time and production cost more effectively.

Growth Momentum and Business Direction

It is the primary task of management to improve and maintain the excellent profitability continuously. Given the prudent financial policy, we will timely sustain the proper development, and the Group's competitive advantages derived from the continuing vertical integration will be the principal momentum, to bring the benefits to shareholders in the long run.

Among the abovementioned investments, the development of golf bag business is desirable; therefore, the Group operated an additional golf bag assembly production line and the logistics business of related products in the US in June this year. As the American assembly production line and the related logistics business gradually develop into a mature stage, the sales volume is expected to increase in the future. Meanwhile, those products and related services provide more opportunities for the Group's exposure to the market, which is of direct help to the operations of the Group's principal products – golf club and its accessories.

In addition, the newly established Sino-foreign joint ventures greatly enhance the Group's confidence in manufacturing and forging of titanium alloy club heads, which have much higher manufacturing requirements and product prices than those made of other materials such as stainless steel and zinc alloy. The mastery of the total production process from raw materials to finished products is of great importance. Since early this year the orders with the Group for those products are increasing, those products are expected to be one of its main impetuses for the Group's business.

The extended construction of the research and development building, the establishment of an additional test center and the further improvement of production equipment give great confidence to the customers in the production capabilities and product quality. Despite the adverse market environment last year, the Group still successfully secured some famous strong brands and buyers in the industry, including CLEVELAND GOLF and ADAMS GOLF, as a result, it is expected that those new customers will contribute more to the Group's revenue in the coming one or two years and become the principal momentum for the growth of the Group's business.





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The expansion of existing plants will not only improve the production conditions of the Group, but also further achieve the vertical integration, which will result in lower overall production costs. Alongside this, the market recovery and the increase in output will enable the marginal profits of the products to increase. We believe that the correct development tendency of the Group and the synergy action resulted from the vertical integration will be the principal momentum for the increase in earnings in the foreseeable future.

We will continuously seek the stable and healthy development as usual. Currently, our tasks focus on further enhancement of the Group's manufacturing technology and corporate image to secure more famous brand customers, and continued acceleration of vertical integration producing more effective synergy action, so as to lay a solid foundation for the Group's sales and profitability. In addition, the Group will keep a strict watch over the development of the golf market, and, in particular, explore new opportunities in the PRC and Hong Kong.

Prospects

Despite the durability of recovery to the global economy has not been verified by economists, however, considering the optimistic evidences to the circumstances up to now, the Group believes that the sales of the Group for the next year shall achieve an ideal increase according to the existing orders and the purchasing plans for the next year provided by the customers, and envision that it is not applicable to make an imprudent judge on the estimation of the turnover for the year because of the changing markets all the time.

With the continuous outsourcing of manufacturing business by the famous brands, which resulted from the pressure of increasing competitions, the demand to the Group's products will continuously increase in the next three or four years, and the circumstances will continue until the completion of outsourcing of most products.

Golf activities at present develop rapidly both in China and Hong Kong, in the near future, a large scale market will be formed as those of the United States and Japan, and provide infinite business opportunities. The Group is now keeping a close eye on the development of the golf market in these two regions, and searching the new business opportunities therefrom.

As a whole, despite the adverse market conditions experienced last year, we are still optimistic to the prospects of the Group's business and to a large space for development. With the recovery and continuous development of golf market, the Group shall get the satisfactory performance on profit in the future.

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Acknowledgement

On behalf of the Board of Directors, I would like to express my sincere appreciation to the Group's customers throughout the world for their trust and support on the products of the Group, and take this opportunity, I would also like to thank our shareholders and staff for their continuous support and strenuous work. We will continue to do our best and work hard endlessly for the Group's further development as well as the past.

Chu Chun Man, Augustine

Chairman

Hong Kong

5 July 2002

