

On behalf of the Board of Directors (the "Board") of Sino Golf Holdings Limited (the "Company"), I am pleased to report the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2003.

### **CHANGE OF FINANCIAL YEAR END DATE**

Due to the change of accounting year end date from 31 March to December in last period, to standardise the reporting dates of all subsidiaries within the Group, the last period's financial statements are prepared for the nine months ended 31 December 2002. The comparative amounts for the financial statements and the related notes, which are prepared for the nine months ended 31 December 2002, are not comparable with the amounts presented for the current year.

### **RESULTS AND DIVIDENDS**

Consolidated turnover and net profit from ordinary activities attributable to shareholders for the year amounted to HK\$400,708,000 and HK\$43,324,000, respectively. Earnings per share was HK14.34 cents for the year.

The directors recommend a final dividend of HK9.5 cents per share, which is subject to the approval by shareholders at the forthcoming annual general meeting. Together with the interim dividend of HK4.8 cents per share, a total dividend of HK14.3 cents per share would have been payable in respect of the year.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of member of the Company will be closed from Thursday, 20 May 2004 to Tuesday, 25 May, 2004 both days inclusive, during which period no transfer of shares will be effected. All share transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 pm on Wednesday, 19 May 2004 in order to qualify for the final dividend mentioned above.



# Chairman's Statement

## **BUSINESS REVIEW, DEVELOPMENTS AND PROSPECTS**

With a steady recovery of the global economy, the Group has been able to achieve remarkable growth during the year of 2003. This has been accomplished with the benefit of continued outsourcing of golf club equipment manufacturing from the developed markets such as North America and Europe as well as the synergy brought about by the network of the golf club segment, which has led to a consistent surge in the golf bag sales. The enhanced recognition of the Group's products in the market place further reinforced and contributed to the significant increase in the Group's business volume. Overall, the Group's performance for the year has gained satisfactory improvement over that of the preceding financial period.

Sales of golf clubs and accessories amounted to HK\$322,193,000, accounting for 80.4% of total turnover for the year, while the remaining 19.6% or HK\$78,515,000 represents sales of golf bags.

Golf clubs and accessories business continued to represent the largest segment generating most of the Group's revenue and profitability and is expected to grow consistently for the ensuing year. Market recognition of the Group's products has been much enhanced following our Group's persistent investments in research and development and product testing programs in recent years. Our capability to produce and sell proportionately more high end products such as titanium wood heads has helped improving the overall margin made by the Group. The gross profit margin for the year has increased to 32.0% from 29.5% for the nine months ended 31 December 2002.

Since its acquisition by the Group in October 2001, the golf bag business has been growing steadily. With the benefit of synergy realised through the extensive business network of our Group, the golf bag segment has successfully secured additional orders in addition to the Group's own customer portfolio. It is anticipated that the golf bag sales will continue to grow persistently and increase in its proportion as part of the Group's total turnover. In order to facilitate and satisfy the anticipated increase in demand for the golf bags, a new factory has been under construction in the PRC which is planned to commence operation in May 2004. The new factory possesses a production capacity of about 1,000,000 bags per annum which represented more than doubles of the existing capacity. Upon commencement of the new factory operation, the golf bag margin will further be improved due to a better economy of scale and less subcontracting work granted to outsiders.

The negative contribution of the golf bag segment for the year has been attributed to (i) the set up costs incurred in relation to the fulfillment and assembly operation in the United States; and (ii) the impact sustained as a result of the cessation of quota requirement on golf bags imported into the United States. The quota relaxation has resulted in the assembly operation of flats (i.e. semi-finished bags) in the United States becoming non-competitive and costly as compared to directly importing complete golf bags into the United States. In response to the change in the quota system and to mitigate the impact on profitability, the management has taken action to terminate the assembly operation in the United States immediately after the existing flats have been processed and delivered to the customers. It is the Group's strategy to modify and maintain the role of the U.S. operation as a marketing and fulfillment unit for servicing customers and promoting sales. The management is confident that the golf bag segment will contribute to the Group's profitability under normal circumstances.

Geographically, North America continues to be the largest geographical segment from which 67.1% of the Group's turnover for the year was generated. Europe, Japan and other countries accounted for 3.7%, 21.3% and 7.9% of total turnover respectively. Percentage sales for the Japan market have increased substantially by approximately 15.5% to 21.3% during the year. Among the various geographical regions, Japan is the market possessing much potential for our Group's development as relatively little effort has been devoted in prior years to explore this largest market in Asia. The management has resolved and taken steps to further develop this market by actively exploring customers and promoting



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sales. During the year, a reputable golf bag design house in Japan has strengthened its association with our Group. It is believed that the closer tie with the new business partner will bring tremendous opportunities in golf bags to our Group through its extensive customers network in Japan. As a result of the enormous growth of the Japan market, percentage sales for North America and Europe declined by approximately 4.8% and 6.1% to 67.1% and 3.7% respectively. There is no significant change to the percentage sales for other countries.

Throughout the years, the Group has successfully strengthened and broadened its customer base by continuously taking on new customers with good potential and supporting the existing customers to increase their market share through product innovations. Our ability and commitment to provide high quality products and value added services has enhanced the Group's competitive advantage and allows us to compete favorably in the market. It is particularly encouraging when some major customers increased their ordering of golf clubs significantly for delivery during the first half of 2004.

Based on the current order book status and market conditions, the directors are reasonably optimistic and confident that our Group shall continue to achieve satisfactory growth for the ensuing year.

### **MATERIAL ACQUISITION OF SUBSIDIARIES**

In January 2003, the Group acquired the entire equity interest in Xiamen Sino Talent Golf Manufacturing Co., Ltd., a company mainly engaged in the manufacturing of golf equipment, from an independent third party for a consideration of HK\$7.8 million. The acquisition has given rise to a goodwill of approximately HK\$7.4 million which is amortised in accordance with the Group's accounting policies. Such acquisition strengthen our Group's existing production capacity.

In March and June 2003, the Group further acquired from the minority shareholders the additional equity interests of 20% and 29% respectively, in Sino CTB Company L.L.C. ("Sino CTB"), a company of manufacturing of golf bags, for an aggregate cash consideration of US\$100,001. The acquisition has given rise to an aggregate goodwill of approximately US\$293,000 which is amortised in accordance with the Group's accounting policies. On completion of the acquisition, Sino CTB became a wholly-owned subsidiary of the Group.

In December 2003, the Group further acquired from a minority shareholder an additional equity interest of 11.5% in CTB Golf (HK) Limited ("CTB HK"), a company of manufacturing of golf bags, for a consideration of HK\$9.8 million subject to certain refund provisions from the minority shareholder if the profitability of the subsidiary does not meet the guaranteed targets for a period of five years commencing on 1 January 2004. The acquisition has given rise to a goodwill of approximately of HK\$8.4 million which is amortised in accordance with the Group's accounting policies. On completion of the acquisition, the Group's equity interest in CTB HK has been increased to 62.5%.

### **ACKNOWLEDGEMENT**

On behalf of the Board, I would like to extend my sincere thanks to our valuable customers for their trust and support and to our staff for their commitment and loyalty. I must also express my gratitude to our shareholders for their contribution. Without them, our Group could never have become one of the best golf equipment manufacturers in the world. We sincerely undertake to continue to strive for excellence and further development of the Group.

**Chu Chun Man, Augustine**

*Chairman*

Hong Kong,  
21 April 2004