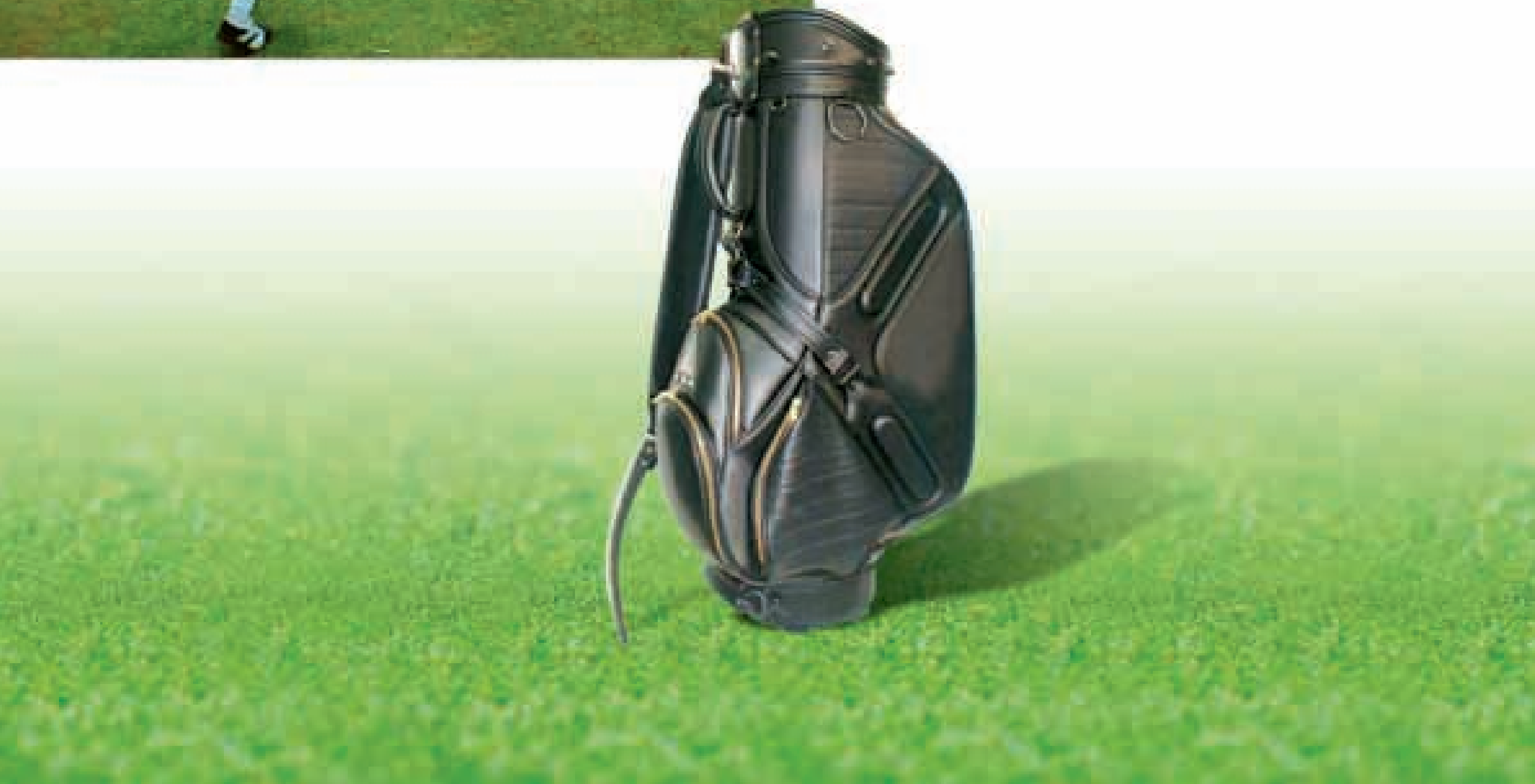
Management

Discussion & Analysis



Management Discussion and Analysis

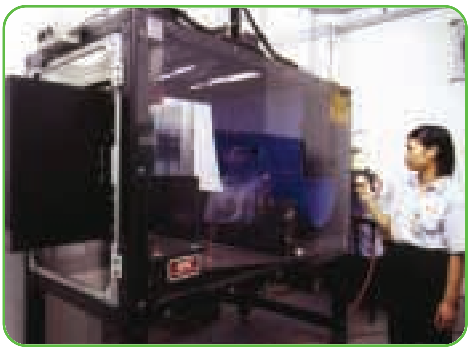
This statement provides supplementary information to the Chairman's Statement

FINANCIAL RESULTS

Consolidated turnover of the Group for the year ended 31 December 2004 decreased slightly by 1.7% to HK$393,945,000 (2003: HK$400,708,000). Net profit attributable to shareholders declined by 35.2% to HK$28,092,000 (2003: 43,324,000). The substantial drop in profitability has mainly been attributable to a bad debt provision of approximately HK$9.5 million made against one of the Group's overseas customers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally relies on internally generated funds and facilities granted by its principal bankers to finance its operations. In order to rationalise and further reduce interest costs, the Group has successfully refinanced the syndicated loan of HK$105 million with bilateral term loans from its major bankers during the year. As a consequence, the interest rates have been lowered by at least 0.5% per annum. The bilateral loans are on similar terms to the then syndicated loan and repayable up to 3 years by installments. The Group has hedged interest costs by entering into interest rate swap contracts over the loan periods.



As at 31 December 2004, cash and bank balance amounted to approximately HK$84.1 million (2003: HK$93.8 million). The decrease in cash and bank balance has been attributed to funds appropriated for compiling inventories to meet scheduled productions and anticipated increase in materials cost. Despite the accounting impact attributable to the bad debt provision on amount owed by Huffy Corporation, the Group stressed that it has strong and adequate cash flow and there are no outstanding bills owed to banks in respect of shipments to Huffy Corporation.

Total borrowings from banks and financial institutions amounted to HK$169.5 million as at 31 December 2004, of which HK$75.2 million is repayable within one year. The Group's gearing ratio, defined as total bank borrowings and finance lease payable less cash and bank balance of approximately HK$85.4 million divided by the shareholders' equity of approximately HK$163.2 million, was 52.3% (2003: 25.4%). The significant increase in the gearing ratio has been the result of the Group's policy to utilise more bank loans with lower interest rates to substitute the discounting of bills and receivables. The shift in financing arrangements has given rise to a higher computed gearing ratio because the adoption of bank loans requires direct recognition of liabilities in the balance sheet.

Throughout the years, the Group has adopted prudent treasury practices to maintain a rational and reasonable financial position. As at 31 December 2004, the net asset value of the Group amounted to approximately HK$163.2 million (2003: HK$182.8 million). The apparent fall in the net asset value has been mainly due to the lower profitability achieved during the year, particularly due to the impact of a bad debt provision of approximately HK$9.5 million. As a consequence, current and quick ratios of the Group decreased to 1.59 (2003: 2.39) and 0.95 (2003: 1.72) as at 31 December 2004 respectively. Both ratios have declined but stay within reasonable range.

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AGREEMENT FOR DISPOSAL OF A SUBSIDIARY

On 31 December 2004, Sino Golf Manufacturing Company Limited ("SGMCL") one of the Group's indirect wholly-owned subsidiaries, has entered into an agreement to dispose of its 62.5% interest in 順德市順興隆高爾夫球製品有限公司("SHL") to Global Sourcing and Distribution Limited (the "Purchaser"), an entity beneficially owned by the associates of the beneficial owner of the minority shareholder in SHL. The disposal constitutes a connected and disclosable transaction under Chapter 14A and Chapter 14 of the Listing Rules respectively and is subject to the shareholders' approval of the Company in the special general meeting scheduled to be held on 27 May 2005. Pursuant to the terms of the agreement, the consideration for the disposal shall be determined with reference to, but not less than, the audited net asset value of SHL as at 31 December 2004. On 9 April 2005, SGMCL and the Purchaser entered into a supplemental agreement whereby the consideration for the disposal has been agreed as HK$14.9 million which would be settled as to HK$9.97 million on completion and the balance of HK$4.93 is to be settled one year after completion of the transaction. The disposal will give rise to a gain of approximately HK$2.6 million which will be recognised in 2005 upon completion of the disposal.

SHORTFALL UNDER PROFIT GUARANTEE

Pursuant to an agreement dated 22 December 2003 entered into between SGMCL and Mr. Chen Chien Hsiang (the "Agreement"), the Group has acquired from Mr. Chen Chien Hsiang ("Mr. Chen") an additional 11.5% interest in the issued share capital of CTB Golf (HK) Limited ("CTB"). The consideration of the acquisition is HK$9.8 million which is subject to refund by Mr. Chen if the audited consolidated profit of CTB is less than the guaranteed profit for each of the five profit guaranteed years commencing on 1 January 2004. As the audited consolidated profit after taxation but before extraordinary items of CTB for the year ended 31 December 2004, the first profit guaranteed year, was less than HK$8,522,000, SGMCL is entitled to a receivable of approximately HK$987,000 from Mr. Chen calculated in accordance with the terms of the Agreement. The amount of receivable has been concurrently accounted for and recorded as a liability in current year's financial statements.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group has limited exposure to exchange rates fluctuations as most of the business transactions were conducted in the currency of United States dollars, Hong Kong dollars and Renminbi, all of which remained relatively stable during the year.

EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2004, the Group employed a total of approximately 2,900 staff in Hong Kong, the PRC and the United States. The employees were remunerated having regard to their performance, experience and expertise as well as the industry practices. Their remunerations are reviewed annually and discretionary bonuses may be granted based on the performance and contributions of individual employees.