Notes to Financial Statements

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1. CORPORATE INFORMATION

The registered office of the Company is located at Room 1901-1913, 19/F., Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

During the year, the Group was principally engaged in the following activities:

- the manufacturing and trading of golf equipment; and
- the manufacturing and trading of golf bags and other 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. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and the Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with HKFRSs (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, 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

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received or receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 8 to 15 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Notes to Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. For those fixed assets which are stated in the balance sheet at valuation less accumulated depreciation and any 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 values at the balance sheet date.

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 fixed asset 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 fixed asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Notes to Financial Statements

31 December 2004

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, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the 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.

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. Where the Group is the lessor, assets leased by the Group under the operating leases are included in non-current assets and rentals receivables under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the 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.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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) from the 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 income, on a time proportion basis over the lease terms;

(d) patent income, on an accrual basis in accordance with the substance of the relevant agreements; and

(e) other income, on an accrual basis.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to Financial Statements

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. 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 MPF Scheme. The assets of the MPF 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 MPF Scheme.

The employees of the Group's subsidiaries which operate in the mainland of the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The assets of the schemes are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the participating employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

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.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses can be divided into golf equipment segment and golf bag segment which are structured and managed separately according to the nature of their operation and the products they provide. Each of the Group's business segments a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segment. Summary details of the two business segments are as follows:

(a) the golf equipment segment comprises the manufacturing and trading of golf equipment and related components and parts; and

(b) the golf bag segment comprises the manufacturing and trading of golf bags, other accessories and related components and parts.

In determining the Group's geographical segments, revenues are attributed to the segments based on the shipment destination, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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4. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group	Golf equipment		Golf bag		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**327,425**	322,193	**66,520**	78,515	**–**	–	**393,945**	400,708
Intersegment revenue	**520**	3,221	**17,259**	10,417	**(17,779)**	(13,638)	**–**	–
Other revenue	**5,789**	10,239	**2,614**	322	**–**	–	**8,403**	10,561
Total	**333,734**	335,653	**86,393**	89,254	**(17,779)**	(13,638)	**402,348**	411,269
Segment results	**39,575**	62,678	**(302)**	(3,777)			**39,273**	58,901
Interest income							**107**	330
Profit from operating activities							**39,380**	59,231
Finance costs							**(9,790)**	(10,142)
Profit before tax							**29,590**	49,089
Tax							**(1,706)**	(5,281)
Profit before minority interests							**27,884**	43,808
Minority interests							**208**	(484)
Net profit from ordinary activities attributable to shareholders							**28,092**	43,324

Notes to Financial Statements

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4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Group	Golf equipment		Golf bag		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**327,423**	293,863	**41,111**	29,949	**(21,663)**	(12,167)	**346,871**	311,645
Unallocated assets							**85,649**	93,837
Total assets							**432,520**	405,482
Segment liabilities	**62,522**	46,051	**43,404**	30,051	**(21,663)**	(12,167)	**84,263**	63,935
Unallocated liabilities							**174,375**	147,801
Total liabilities							**258,638**	211,736
Other segment information:								
Depreciation	**17,439**	14,926	**1,329**	979	**–**	–	**18,768**	15,905
Amortisation of goodwill	**1,372**	1,372	**1,625**	844	**–**	–	**2,997**	2,216
Impairment of goodwill	**–**	23	**–**	–	**–**	–	**–**	23
Provision for bad and doubtful debts	**9,495**	942	**–**	1,326	**–**	–	**9,495**	2,268
Capital expenditure	**33,173**	46,628	**7,471**	582	**–**	–	**40,644**	47,210
Surplus on revaluation recognised directly in equity	**–**	3,404	**–**	–	**–**	–	**–**	3,404

Notes to Financial Statements

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4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	North America		Europe		Asia (excluding Japan)		Japan		Others		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:												
Sales to external customers	**274,713**	268,934	**30,281**	14,967	**25,158**	20,572	**50,365**	85,135	**13,428**	11,100	**393,945**	400,708

	Hong Kong		PRC		Unallocated		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information:										
Segment assets	**327,982**	235,940	**232,268**	251,868	**13,777**	16,750	**(227,156)**	(192,913)	**346,871**	311,645
Unallocated assets									**85,649**	93,837
Total assets									**432,520**	405,482
Capital expenditure	**316**	28,439	**40,328**	18,711	**–**	60	**–**	–	**40,644**	47,210

5. TURNOVER

Turnover represents the invoiced value of goods sold during the year, net of trade discounts and goods returns.

Notes to Financial Statements

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6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	**2004 HK$'000**	2003 HK$'000
Cost of inventories sold		**203,711**	208,394
Depreciation	*14*	**18,768**	15,905
Minimum lease payments under operating leases:			
Land and buildings		**6,232**	4,511
Motor vehicles		**132**	132
Amortisation of goodwill*	*15*	**2,997**	2,216
Impairment of goodwill*		**–**	23
Auditor's remuneration			
Current year		**950**	850
Underprovision in prior year		**20**	150
		970	1,000
Staff costs (including directors' remuneration – *note 8*):			
Wages and salaries		**67,301**	63,164
Retirement benefits scheme contributions		**2,246**	1,652
		69,547	64,816
Provision for bad and doubtful debts		**9,495**	2,268
Exchange losses, net		**1,953**	1,197
Loss/(gain) on disposal of fixed assets		**1,260**	(94)
Net rental income		**(1,897)**	(396)
Interest income		**(107)**	(330)
Patent income		**(783)**	(2,535)
Bad debts recovery		**(45)**	–
Provision for bad debts written back		**(1,692)**	–

* The amortisation and impairment of goodwill are included in "Other operating expenses, net" on the face of the consolidated profit and loss account.

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7. FINANCE COSTS

	Group 2004 HK$'000	2003 HK$'000
Interest on bank loans and overdrafts	**7,981**	6,648
Interest on finance leases	**5**	33
Total interest expenses	**7,986**	6,681
Bank charges	**1,804**	3,461
Total finance costs	**9,790**	10,142

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2004 HK$'000	2003 HK$'000
Fees:		
Executive directors	**–**	–
Non-executive director	**–**	88
Independent non-executive directors	**542**	257
	542	345
Other emoluments:		
Executive directors:		
Salaries	**3,854**	3,854
Bonuses	**1,180**	820
Housing benefits	**1,440**	1,440
Retirement benefits scheme contributions	**24**	24
	6,498	6,138
Non-executive director:		
Consultancy fee	**–**	617
	7,040	7,100

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31 December 2004

8. DIRECTORS' REMUNERATION *(Continued)*

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil to HK$1,000,000	**6**	6
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	–
	8	8

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

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: three) executive directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2003: two) non-director, highest paid employees for the year are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,463**	1800
Performance related bonuses	**506**	203
Retirement benefits scheme contributions	**24**	24
	2,993	2,027

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2004	2003
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	3	2

During the year, no emoluments were paid by the Group to any of the three (2003: two) non-director, highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

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10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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 2004 HK$'000	Group 2003 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**1,885**	4,670
Underprovision/(overprovision) in prior years	**(42)**	145
Current – Elsewhere	**(137)**	466
Tax charge for the year	**1,706**	5,281

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2004	**Hong Kong**		**PRC**		**Overseas**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit/(loss) before tax	18,739		11,828		(977)		29,590	
Tax at the applicable tax rate	3,279	17.5	3,903	33.0	(86)	8.8	7,096	24.0
Lower tax rate for specific provinces or local authority	–	–	(2,425)	(20.5)	–	–	(2,425)	(8.2)
Adjustments in respect of current tax of prior years	(42)	(0.2)	(474)	(4.0)	–	–	(516)	(1.7)
Income not subject to tax	(1,978)	(10.6)	(3,019)	(25.5)	–	–	(4,997)	(16.9)
Expenses not deductible for tax	316	1.7	2,257	19.1	25	(2.6)	2,598	8.8
Tax losses carried forward to future years	268	1.4	265	2.2	61	(6.2)	594	2.0
Tax losses utilised from prior years	–	–	(644)	(5.5)	–	–	(644)	(2.2)
Tax charge at the Group's effective rate	1,843	9.8	(137)	(1.2)	–	–	1,706	5.8

Notes to Financial Statements

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10. TAX *(Continued)*

Group – 2003	Hong Kong		PRC		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	47,630		8,713		(7,254)		49,089	
Tax at the applicable tax rate	8,335	17.5	2,875	33.0	(641)	8.8	10,569	21.5
Lower tax rate for specific provinces or local authority	–	–	(224)	(2.6)	–	–	(224)	(0.5)
Adjustments in respect of current tax of prior years	145	0.3	–	–	–	–	145	0.3
Income not subject to tax	(5,142)	(10.8)	(1,507)	(17.3)	–	–	(6,649)	(13.5)
Expenses not deductible for tax	1,207	2.5	233	2.7	–	–	1,440	2.9
Tax losses carried forward to future years	270	0.6	135	1.5	641	(8.8)	1,046	2.1
Tax losses utilised from prior years	–	–	(1,046)	(12.0)	–	–	(1,046)	(2.1)
Tax charge at the Group's effective rate	4,815	10.1	466	5.3	–	–	5,281	10.7

Under PRC income tax law, all PRC subsidiaries of the Group are subject to corporate income tax ("CIT") at a rate ranging from 15% to 24% on the taxable income as reported in their statutory accounts, which are prepared in accordance with PRC Accounting Regulations.

In accordance with the approval document issued by the Tax Bureau of the PRC, 順德市順興隆高爾夫球製品有限公司, a 62.5% owned subsidiary of the Company established in the PRC, is entitled to an exemption from the PRC state CIT for the first two profitable financial years of its operation and thereafter 50% and 100% relief from the state CIT, respectively, for the following three financial years (the "Tax Holiday"). Upon expiry of the Tax Holiday, the state CIT rate of 24% is applicable to it. The two years' tax exemption periods for 順德市順興隆高爾夫球製品有限公司 has commenced in the financial year ended 31 December 2003 under local jurisdiction.

In accordance with the approval documents issued by the Tax Bureau of the PRC, Guangzhou Sino Concept Golf Manufacturing Co., Ltd., Xiamen Sino Talent Golf Manufacturing Co., Ltd., 東莞騏衡運動用品製造有限公司 and Linyi Sinoeia Golf Co., Ltd., wholly-foreign owned subsidiaries of the Company established in the PRC, are also entitled to an exemption from the PRC state CIT for the first two profitable financial years of their operation and thereafter a 50% relief from the state CIT for the following three financial years (the "Tax Relief"). Upon expiry of the Tax Relief, the state CIT rate of 24% is applicable to them. The two years' tax exemption periods for Guangzhou Sino Concept Golf Manufacturing Co., Ltd., Xiamen Sino Talent Golf Manufacturing Co., Ltd., 東莞騏衡運動用品製造有限公司 and Linyi Sinoeia Golf Co., Ltd. have not yet commenced during the year.

Notes to Financial Statements

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11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK$19,094,000 (2003: HK$43,171,000 (note 30)).

12. DIVIDENDS

	2004	2003
	HK$'000	HK$'000
Interim – HK6.3 cents (2003: HK4.8 cents) per ordinary share	**19,039**	14,506
Proposed final – Nil (2003: HK9.5 cents) per ordinary share	**–**	28,709
	19,039	43,215

No final dividend for the year is proposed for the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$28,092,000 (2003: HK$43,324,000) and the weighted average of 302,200,000 (2003: 302,200,000) ordinary shares in issue during the year.

The diluted earnings per share for the years ended 31 December 2004 and 31 December 2003 have not been shown as there was no dilutive effect on the basic earnings per share for these years. The outstanding share options of the Company would not result in the issue of ordinary shares for less than the fair values as their exercise price was above the average market price of the Company's shares during these years.

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14. FIXED ASSETS

Group

	Land and buildings 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 or valuation:							
At 1 January 2004	103,846	4,200	96,377	5,715	5,481	342	215,961
Additions	16,129	3,276	14,619	520	247	698	35,489
Disposals	–	(1,890)	(1,967)	(58)	(27)	–	(3,942)
Transfer from construction in progress	258	–	–	–	–	(258)	–
At 31 December 2004	**120,233**	**5,586**	**109,029**	**6,177**	**5,701**	**782**	**247,508**
Analysis of cost or valuation:							
At cost	**16,387**	**5,586**	**109,029**	**6,177**	**5,701**	**782**	**143,662**
At 31 December 2003 valuation	**103,846**	**–**	**–**	**–**	**–**	**–**	**103,846**
	120,233	**5,586**	**109,029**	**6,177**	**5,701**	**782**	**247,508**
Accumulated depreciation:							
At 1 January 2004	12,116	1,515	56,350	3,711	2,926	–	76,618
Provided for the year	2,682	750	13,830	669	837	–	18,768
Disposals	–	(1,059)	(981)	(58)	(8)	–	(2,106)
At 31 December 2004	**14,798**	**1,206**	**69,199**	**4,322**	**3,755**	**–**	**93,280**
Net book value:							
At 31 December 2004	**105,435**	**4,380**	**39,830**	**1,855**	**1,946**	**782**	**154,228**
At 31 December 2003	91,730	2,685	40,027	2,004	2,555	342	139,343

Notes:

(a) The Group's land and buildings are situated in the PRC and are held under the following lease terms:

	2004 HK$'000	2003 HK$'000
Long term leases	**852**	852
Medium term leases	**119,381**	102,994
	120,233	103,846

Notes to Financial Statements

31 December 2004

14. FIXED ASSETS *(Continued)*

Notes: (Continued)

(b) Certain of the Group's land and buildings were revalued individually as at 31 December 2003 by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK$91,730,000 based on their existing use. Such land and buildings were not revalued at 31 December 2004. In the opinion of the directors, there was no significant change in the valuations of these land and buildings from their carrying amount as at 31 December 2004. As at the balance sheet date, such land and buildings had an aggregate carrying amount of HK$89,095,000 (2003: HK$91,730,000) 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 as at the balance sheet date would have been HK$60,894,000 (2003: HK$62,843,000).

(d) The net book value of the fixed assets held under finance leases included in the total amount of motor vehicles as at the balance sheet date, amounted to HK$222,000 (2003: HK$306,000).

(e) The gross amount and accumulated depreciation of the fixed assets under operating leases are HK$575,000 and HK$220,000, respectively.

(f) As at 31 December 2004, the Group did not have title to a piece of land with carrying value of HK$3,333,000. According to the land use right agreement, the Group has the right to use the land for 40 years up to 2044. It is the Group's intention to apply for the title certificate upon the completion of the factory building.

15. GOODWILL

The amounts of goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

Group

	HK$'000
Cost:	
At 1 January 2004	28,956
Additions	5,155
At 31 December 2004	**34,111**
Accumulated amortisation and impairment:	
At 1 January 2004	6,194
Amortisation provided during the year	2,997
At 31 December 2004	**9,191**
Net book value:	
At 31 December 2004	**24,920**
At 31 December 2003	22,762

Notes to Financial Statements

31 December 2004

16. INTERESTS IN SUBSIDIARIES

	Company 2004 HK$'000	Company 2003 HK$'000
Unlisted shares, at cost	**15,717**	15,717
Due from subsidiaries	**85,540**	115,855
	101,257	131,572

The amounts due from subsidiaries are unsecured, interest-free and have 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 Company Direct	Equity interest attributable to the Company Indirect	Principal activities
Sino Golf (BVI) Company Limited	British Virgin Islands	US$101	100%	–	Investment holding
Sino Golf Manufacturing Company Limited ("SGMCL")	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$100,000,000	–	100% *(Note b)*	Manufacturing and trading of golf equipment and accessories
Guangzhou Sino Concept Golf Manufacturing Co., Ltd.*	PRC	HK$30,000,000	–	100%	Manufacturing and trading of golf equipment and accessories
順德市順興隆高爾夫球製品有限公司** ("Shun Xing Long")	PRC	US$1,380,000	–	62.5%	Manufacturing and trading of golf equipment

Notes to Financial Statements

31 December 2004

16. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Equity interest attributable to the Company Direct	Equity interest attributable to the Company Indirect	Principal activities
CTB Golf (HK) Limited	Hong Kong	HK$10,000,000 (ordinary) HK$2,730,000 (preference)	–	62.5%	Trading of golf bags and accessories
東莞騏衡運動用品製造有限公司*	PRC	HK$10,312,000/ HK$25,000,000	–	100% *(Note c)*	Manufacturing and trading of golf bags
Xiamen Sino Talent Golf Manufacturing Co., Ltd.*	PRC	US$4,000,000/ US$6,600,000	–	100%	Manufacturing and trading of golf equipment
Linyi Sinoeia Golf Co., Ltd.*	PRC	HK$8,798,400/ HK$50,000,000	–	100% *(Note c)*	Manufacturing and trading of golf equipment and accessories
Sino Golf Leisure Company Limited	Hong Kong	HK$1,000,000	–	100%	Golf leisure promotion
Sino U.S. Holding Company, L.L.C.	USA	US$100	–	100%	Investment holding
Sino CTB Company, L.L.C. ("Sino CTB")	USA	US$500,000	–	100%	Trading of golf bags
Sino Golf Comercial Offshore De Macau Limitada	Macau	MOP100,000	–	100% (Note c)	Trading of golf equipment and accessories

* a wholly-foreign owned enterprise under the PRC law.

** a Sino-foreign equity joint venture under the PRC law.

Notes to Financial Statements

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16. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:

(a) The non-voting deferred shares practically carry no rights to dividends or receive notice of or attend or vote at any general meeting of the company or to participate in any distribution on winding up.

(b) During the year, the Group acquired the remaining 7.9% interest in Zengcheng Sino Golf from the PRC minority owner at a consideration of RMB8.4 million (equivalent to HK$7.9 million). The acquisition has given rise to a goodwill of approximately HK$5.2 million which is amortised in accordance with the Group's accounting policies. Subsequent to the acquisition, Zengcheng Sino Golf was changed from a Sino-foreign co-operative joint venture to a wholly-foreign owned enterprise under the PRC law.

(c) These companies are newly set up by the Group in current year.

17. INVENTORIES

	Group	
	2004	2003
	HK$'000	HK$'000
Raw materials	**43,399**	31,292
Work in progress	**23,509**	15,877
Finished goods	**34,776**	21,177
	101,684	68,346

No inventories were carried at net realisable value at the balance sheet date (2003: Nil).

18. TRADE AND BILLS RECEIVABLES

An aged analysis of the Group's trade and bills receivables as at the balance sheet date, based on the date of recognition of sale and net of provisions, is as follows:

	2004	2003
	HK$'000	HK$'000
Within 3 months	**13,650**	49,359
4 to 6 months	**9,593**	2,181
7 to 12 months	**20,400**	8,951
Over 1 year	**1,390**	1,369
	45,033	61,860

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 granted by the Group is generally between 30 to 120 days from the date of recognition of sale.

Notes to Financial Statements

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18. TRADE AND BILLS RECEIVABLES *(Continued)*

Included in the Group's trade and bills receivables as at the balance sheet date was an amount of HK$1,751,000 due from (2003: HK$3,149,000) 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 with Nikko Bussan (Japan) is unsecured, interest-free and is repayable within similar credit periods offered by the Group to its major customers.

19. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**5,135**	2,115	**–**	–
Deposits and other debtors	**14,642**	16,029	**1,784**	225
Loans to directors – *note 20*	**1,229**	1,190	**–**	–
	21,006	19,334	**1,784**	225

20. LOANS TO DIRECTORS

Loans to directors, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group **Name**	**31 December 2004** **HK$'000**	**Maximum amount outstanding during the year** HK$'000	**1 January 2004** HK$'000
Mr. Chu Yuk Man, Simon	**750**	750	750
Mr. Chang Hua Jung	**479**	600	440
	1,229	1,350	1,190

The loan granted to Mr. Chu Yuk Man, Simon bears interest at a rate of 1.5% per annum and is repayable on 31 December 2006.

Except for a loan granted to Mr Chang Hua Jung of HK$220,000, which bears interest at a rate of 1.5% per annum and is repayable before January 2006, the remaining balances of HK$189,000 and HK$70,000 are interest-free and are repayable before August 2007 and July 2010, respectively.

21. CASH AND CASH EQUIVALENTS

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$4,263,000 (2003: HK$13,728,000). The RMB is not freely convertible into other currencies, however, under PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Notes to Financial Statements

31 December 2004

22. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at the balance sheet date is as follows:

	2004 HK$'000	2003 HK$'000
Within 3 months	**47,875**	36,118
4 to 6 months	**5,921**	2,404
7 to 12 months	**990**	1,425
Over 1 year	**827**	1,029
	55,613	40,976

23. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000
Accruals and other liabilities	**28,452**	22,761	**9**	143
Due to related parties – *note 24*	**198**	198	**–**	–
	28,650	22,959	**9**	143

24. DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

25. BANK BORROWINGS

	Group	
	2004 HK$'000	2003 HK$'000
Bank loans, unsecured	**169,293**	140,001
Amounts repayable:		
Within one year	**75,143**	35,001
In the second year	**57,200**	50,000
In the third to fifth years, inclusive	**36,950**	55,000
	169,293	140,001
Portion classified as current liabilities	**(75,143)**	(35,001)
Long term portion	**94,150**	105,000

Notes to Financial Statements

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26. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles for its golf equipment manufacturing and trading business. These leases are classified as finance leases and have remaining lease terms of 23 months.

As at the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2004 HK$'000	Minimum lease payments 2003 HK$'000	**Present value of minimum lease payments 2004 HK$'000**	Present value of minimum lease payments 2003 HK$'000
Amounts payable:				
Within one year	**91**	91	**88**	87
In the second year	**83**	91	**83**	87
In the third to fifth years, inclusive	**–**	84	**–**	84
Total minimum finance lease payments	**174**	266	**171**	258
Future finance charges	**(3)**	(8)		
Total net finance lease payables	**171**	258		
Portion classified as current liabilities	**(88)**	(87)		
Long term portion	**83**	171		

The Group's finance lease payables as at the balance sheet date were guaranteed by the Company.

Notes to Financial Statements

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27. DEFERRED TAX

The movement in deferred tax liabilities of the Group during the year is as follows:

	Accelerated tax depreciation HK$'000	Revaluation of land and buildings HK$'000	Others HK$'000	Total HK$'000
At 1 January 2003	1,695	2,185	528	4,408
Deferred tax debited to equity during the year	–	503	–	503
At 31 December 2003, 1 January 2004 and 31 December 2004	**1,695**	**2,688**	**528**	**4,911**

The unused tax losses include an amount of approximately HK$1,694,000 (2003: HK$1,862,000) for the year arising in the PRC which is due to expire within two to five years and an amount of approximately HK$1,015,000 (2003: Nil) arising in Hong Kong for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these unused losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. SHARE CAPITAL

Shares

	Company	
	2004 HK$'000	2003 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid:		
302,200,000 ordinary shares of HK$0.1 each	**30,220**	30,220

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

Notes to Financial Statements

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29. SHARE OPTION SCHEME

On 7 August 2002, the share option scheme of the Company adopted on 5 December 2000 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted to comply with the new amendments of the Listing Rules regarding share option schemes of a company. As a result of these amendments, the Company may no longer grant further options under the Old Share Option Scheme. However, all options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect. There were no options outstanding under the Old Share Option Scheme as at 31 December 2004.

The purpose of the New Share Option Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Share Option 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, in 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 New Share Option 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 New Share Option Scheme, the maximum number of shares in respect of which options may be granted under the New Share Option Scheme is such number of shares, when aggregated with shares subject to any other share option schemes (which, for this purpose, excludes the Old Share Option Scheme), must not exceed 30% of the shares in issue of the Company from time to time. The maximum number of shares issuable under share options to each eligible participant in the New Share Option 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 the 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 issue of a circular by the Company and the approval of the shareholders in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the 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 the offer of the share options or the expiry date of the New Share Option 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 of Hong Kong Limited (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's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

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29. SHARE OPTION SCHEME *(Continued)*

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the New Share Option Scheme during the year:

	Number of share options					
Name or category of participant	At 1 January 2004	Lapsed during the year	At 31 December 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$
Directors						
Chu Chun Man, Augustine	3,000,000	–	**3,000,000**	24 December 2003	29 December 2003 to 31 December 2006	1.51
Chu Yuk Man, Simon	3,000,000	–	**3,000,000**	24 December 2003	29 December 2003 to 31 December 2006	1.51
Takanori Matsuura	3,000,000	–	**3,000,000**	24 December 2003	29 December 2003 to 31 December 2006	1.51
Others						
In aggregate	10,000,000	(10,000,000)	**–**	11 September 2003	1 October 2003 to 30 September 2004	1.60
In aggregate	8,280,000	–	**8,280,000**	24 December 2003	29 December 2003 to 31 December 2006	1.51
	27,280,000	(10,000,000)	**17,280,000**			

* 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.

At the balance sheet date, the Company had 17,280,000 share options outstanding under the New Share Option Scheme, which represented approximately 6% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 17,280,000 additional ordinary shares of the Company and additional share capital of HK$1,728,000 and share premium of HK$24,365,000 (before issue expenses).

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30. RESERVES

Group

	Share premium account HK$'000	Contributed surplus HK$'000	Fixed asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2003	57,270	10,564	25,134	1,711	50	26,088	120,817
Surplus on revaluation	–	–	3,404	–	–	–	3,404
Deferred tax liabilities arising from revaluation	–	–	(503)	–	–	–	(503)
Exchange realignment	–	–	–	85	–	–	85
Net profit for the year	–	–	–	–	–	43,324	43,324
Interim dividend – *note 12*	–	–	–	–	–	(14,506)	(14,506)
Proposed final dividend – *note 12*	–	–	–	–	–	(28,709)	(28,709)
At 31 December 2003 and 1 January 2004	57,270	10,564	28,035	1,796	50	26,197	123,912
Net profit for the year	–	–	–	–	–	28,092	28,092
Interim dividend – *note 12*	–	–	–	–	–	(19,039)	(19,039)
At 31 December 2004	**57,270**	**10,564**	**28,035**	**1,796**	**50**	**35,250**	**132,965**

Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2003	57,270	15,516	51	72,837
Net profit for the year	–	–	43,171	43,171
Interim dividend – *note 12*	–	–	(14,506)	(14,506)
Proposed final dividend – *note 12*	–	–	(28,709)	(28,709)
At 31 December 2003 and 1 January 2004	57,270	15,516	7	72,793
Net profit for the year	–	–	19,094	19,094
Interim dividend – *note 12*	–	–	(19,039)	(19,039)
At 31 December 2004	**57,270**	**15,516**	**62**	**72,848**

Notes to Financial Statements

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30. RESERVES *(Continued)*

The Group's contributed surplus represents the difference between the nominal value of the shares and share premium account of the subsidiaries acquired 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 over the nominal value of the Company's shares issued for the acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of contributed surplus under certain circumstances.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of a subsidiary

	2004 HK$'000	2003 HK$'000
Net assets acquired:		
Fixed assets	–	26,464
Deposits, prepayments and other receivables	–	16
Cash and bank balances	–	23
Trade payables	–	(1,218)
Other payables and accruals	–	(22,022)
Bank loans	–	(2,830)
Net assets	–	433
Goodwill arising on acquisition	–	7,421
	–	7,854
Satisfied by:		
Other receivables	–	7,854

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2004 HK$'000	2003 HK$'000
Cash and bank balances acquired	–	23
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	–	23

The subsidiary acquired in the prior year contributed no turnover and a loss of HK$746,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

Notes to Financial Statements

31 December 2004

32. CONTINGENT LIABILITIES

(a) At the reporting date, the Group and the Company had the following contingent liabilities not provided for in the financial statements:

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bills discounted with recourse	**17,969**	29,754	**–**	–
Guarantees for bank loans in favour of the subsidiaries	**–**	–	**163,000**	140,001
Guarantees for finance lease arrangements in favour of a subsidiary	**–**	–	**171**	258
	17,969	29,754	**163,171**	140,259

(b) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$1,764,000 (2003: HK$1,648,000) as at 31 December 2004, as further explained under the heading "Employment Ordinance long service payments" in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

33. COMMITMENTS

(a) Capital commitments

At the balance sheet date, the Group had the following capital commitments:

	2004	2003
	HK$'000	HK$'000
Contracted, but not provided for:		
Land and buildings	**1,563**	1,447
Plant and machinery	**500**	263
	2,063	1,710
Contracted, but not provided for:		
Capital contribution into subsidiaries	**76,170**	27,626
	78,233	29,336

Notes to Financial Statements

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33. COMMITMENTS *(Continued)*

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

(b) Operating lease commitments

(i) As lessor

The Group leases its property and plant and machinery (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms of one year. The terms of the leases generally also require the tenants to pay security deposits.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**532**	1,032

(ii) As lessee

The Group leases certain of its office properties, production plants, staff quarters and motor vehicles under operating lease arrangements, with leases negotiated for original terms ranging from 1 to 16 years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2004	2003
	HK$'000	HK$'000
Within one year	**7,016**	4,257
In the second to fifth years, inclusive	**20,967**	11,407
After five years	**17,082**	7,683
	45,065	23,347

Notes to Financial Statements

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34. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2004 HK$'000	2003 HK$'000
Purchases of raw materials from Nikko Bussan (Japan)	*(a)*	**85**	125
Sales of finished goods to Nikko Bussan (Japan)	*(b)*	**18,553**	54,623
Sales of finished goods to Global Sports Technology, Inc. ("Global Sports")	*(b), (c)*	–	3,525
Tooling income from Nikko Bussan (Japan)	*(d)*	–	137
Patent income from Nikko Bussan (Japan)	*(e)*	–	780
Rental expenses paid to Progolf Manufacturing Company Limited ("Progolf") and Oriental Leader Limited	*(f)*	**1,440**	1,440
Management income received from Progolf and Oriental Leader Limited	*(g)*	**15**	35
Sales commission paid to Global Sports	*(h)*	–	2,124
Rental income from Sino Sporting Company Limited ("Sino Sporting")	*(i)*	**399**	303
Rental expense paid to Sino Sporting	*(i)*	**132**	132
Commission income received from Sino Sporting	*(j)*	–	100
Management income received from Sino Sporting	*(g)*	**10**	120
Commission income received from Nikko Bussan (Japan)	*(k)*	**842**	–

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.

Notes:

(a) Takanori Matsuura, a director of the Company, has a beneficial interest in Nikko Bussan (Japan). The purchase prices of raw materials were determined between the Group and Nikko Bussan (Japan) on a cost-plus basis.

(b) The selling prices of finished goods were based on the agreements between the parties.

(c) Global Sports is a 20% shareholder of Sino CTB until the Group acquired the equity interest of 20% owned by Global Sports in March 2003.

(d) The tooling income was based on the agreement between the parties.

(e) The patent income was based on the agreement between the parties.

Notes to Financial Statements

31 December 2004

34. RELATED PARTY TRANSACTIONS *(Continued)*

Notes: (Continued)

(f) 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.

(g) The management income was based on the expense such as rental expenses and staff salary utilised by the related parties.

(h) Sales commission paid to Global Sports as an agent in overseas for soliciting customers. The commission rate is determined at a mutually-agreed rate between the Group and Global Sports.

(i) Augustine Chu, Takanori Matsuura and Simon Chu, the directors of the Company, have beneficial interests in Sino Sporting. The rental rates were based on the agreements between the parties.

(j) Sales commission received from Sino Sporting for introducing customers to join the club. The commission rate is determined at a mutually-agreed rate between the Group and Sino Sporting.

(k) Sales commission received from Nikko Bussan (Japan) for introducing customers. The commission rate is determined at a mutually-agreed rate between the Group and Nikko Bussan (Japan).

All related party transactions above also constitute continuing connected transactions as defined in chapter 14A of the Listing Rules.

35. POST BALANCE SHEET EVENT

On 31 December 2004, SGMCL, an indirect wholly-owned subsidiary of the Company, has entered into a conditional sale and purchase agreement (the "Agreement") with Global Sourcing and Distribution Limited (the "Purchaser"), an associate of the minority owner of Shun Xing Long, to dispose of its entire 62.5% interest in Shun Xing Long to the Purchaser. Pursuant to the Agreement, the consideration is to be determined with reference to, but not less than, 62.5% of the audited net asset value of Shun Xing Long as at 31 December 2004. On 9 April 2005, a supplementary agreement was entered into by SGMCL and the Purchaser to agree the consideration at HK$14.9 million. The consideration will be paid by the Purchaser on completion, except for a 40% multiple on the 62.5% share of audited net asset value which will be paid one year after completion. The completion of the transaction is subject to the Company's shareholders' approval in a meeting which is expected to be held in May 2005.

36. COMPARATIVE AMOUNTS

Certain comparative amounts have been added/restated to conform with the current year's presentation. In the opinion of the directors, the changes provide a better presentation and are consistent with the presentation adopted for the current year.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2005.