Notes to Financial Statements

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1. CORPORATE INFORMATION

Sino Golf Holdings Limited is a limited liability company incorporated in Bermuda. The principal place of business 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 related components and parts; and

- the manufacturing and trading of golf bags, other accessories, and related components and parts.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 buildings as further explained below and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars (HK$) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. 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.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 33, 37, 38 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 21 has had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The effects of the above change are summarised in note 2.4 to the financial statements. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) HKAS 32 and HKAS 39 – Financial Instruments

Derivative financial instruments – Interest rate swaps

The adoption of HKAS 32 and HKAS 39 has resulted in a change of accounting policy for recognition, measurement and disclosure of the interest rate swap contracts entered into by the Group. In prior periods, these contracts were recognised on a cash basis.

Upon the adoption of HKAS 39, such kind of derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Gains or losses arising from the changes in fair value are recognised in the income statement. Such derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(c) HKFRS 2 – Share-based Payment *(Continued)*

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and at 31 December 2004. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

Notes to Financial Statements

31 December 2005

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The HKAS 19 Amendment, HKAS 21 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 do not apply to the activities of the Group. HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 December 2005 and 1 March 2006, respectively.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting		
At 1 January 2005	**HKAS 17#**	**HKAS 39***	
Effect of new policies	**Prepaid land**	**Interest rate**	
(Increase/(decrease))	**lease payments**	**swaps**	**Total**
	HK$'000	HK$'000	HK$'000
Assets			
Property, plant and equipment	(20,806)	–	(20,806)
Prepaid land lease payments	17,833	–	17,833
			(2,973)
Liabilities/equity			
Derivative financial instruments	–	1,888	1,888
Deferred tax liabilities	(287)	–	(287)
Asset revaluation reserve	(2,993)	–	(2,993)
Retained profits	307	(1,888)	(1,581)
			(2,973)

* *Adjustments taken effect prospectively from 1 January 2005*

Adjustments/presentation taken effect retrospectively

Notes to Financial Statements

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect on the consolidated balance sheet *(Continued)*

	Effect of adopting				
	HKAS 17	**HKAS 39**	**HKFRS 2**	**HKFRS 3**	
At 31 December 2005 Effect of new policies (Increase/(decrease))	**Prepaid land lease payments**	**Interest rate swaps**	**Equity-settled share option arrangements**	**Discontinuation of amortisation of goodwill**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Property, plant and equipment	(24,098)	–	–	–	(24,098)
Prepaid land lease payments	21,195	–	–	–	21,195
Goodwill	–	–	–	3,680	3,680
Derivative financial instruments	–	172	–	–	172
					949
Liabilities/equity					
Deferred tax liabilities	(287)	–	–	–	(287)
Asset revaluation reserve	(2,993)	–	–	–	(2,993)
Other reserves	–	–	83	–	83
Retained profits	377	172	(83)	3,680	4,146
					949

Notes to Financial Statements

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 17 Prepaid land lease payments HK$'000	Effect of adopting HKAS 39 Interest rate swaps HK$'000	Total HK$'000
1 January 2004			
Asset revaluation reserve	(2,993)	–	(2,993)
Retained profits	239	–	239
			(2,754)
1 January 2005			
Asset revaluation reserve	(2,993)	–	(2,993)
Retained profits	307	(1,888)	(1,581)
			(4,574)

Notes to Financial Statements

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting				
	HKAS 17	**HKAS 39**	**HKFRS 2**	**HKFRS 3**	
Effect of new policies	**Prepaid land lease payments**	**Interest rate swaps**	**Equity-settled share option arrangements**	**Discontinuation of amortisation of goodwill**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005					
Decrease in finance costs	–	2,060	–	–	2,060
Decrease in administrative expenses	70	–	–	–	70
Decrease/(increase) in other expenses	–	–	(83)	3,680	3,597
Total increase/(decrease) in profit	70	2,060	(83)	3,680	5,727
Increase/(decrease) in basic earnings per share	0.02 cents	0.68 cents	(0.03 cents)	1.22 cents	1.89 cents

Effect of new policies	**Effect of adopting HKAS 17 Prepaid land lease payments**
	HK$'000
Year ended 31 December 2004	
Decrease in administrative expenses	68
Total increase in profit	68
Increase in basic earnings per share	0.02 cents

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity 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 income statement to the extent of dividends received or receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Notes to Financial Statements

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the 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 income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Notes to Financial Statements

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value 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%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, structures, plant and machinery and equipment under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Leases

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 property, plant and equipment, 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 income statement 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.

Notes to Financial Statements

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

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 receivable under the operating leases are credited to the income statement 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 income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets (applicable to the year ended 31 December 2005)

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss and loans and receivables. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are including the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Notes to Financial Statements

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of interest rate swap contracts is determined by reference to the present value of estimated future cash flows.

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

31 December 2005

2.5 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, including term deposits, which are not restricted as to use.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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, 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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits 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 credits 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.

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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(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.

Employee benefits

Share-based payment transactions

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model, further details of which are given in note 31. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions *(Continued)*

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Retirement benefits schemes

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 income statement 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 income statement as they become payable in accordance with the rules of the central pension scheme.

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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity 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.

Notes to Financial Statements
31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES

In the process of applying the Group's accounting policies, management has made the following estimations, which have the most significant effect on the amounts recognised in the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was HK$25,723,000 (2004: HK$24,920,000). More details are given in note 16 to the financial statements.

Notes to Financial Statements

31 December 2005

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Provision for inventories

A Provision for inventories is made when the net realisable values of the inventories are less than their costs. Net realisable value is determined by reference to the estimated selling price less further cost to completion and disposal.

Estimating the selling price requires the Group to establish an estimated amount at which the inventories can be disposed of at arm's length on normal commercial terms. Further cost to completion and disposal is ascertained by estimating the additional costs, including selling expense, to be incurred to allow the disposal of the inventories to materialise.

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 the golf equipment segment and golf bag segment which are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents 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.

Notes to Financial Statements

31 December 2005

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 for the years ended 31 December 2005 and 2004.

Group

	Golf equipment		Golf bag		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)						(Restated)
Segment revenue:								
Sales to external customers	**301,046**	327,425	**66,211**	66,520	**–**	–	**367,257**	393,945
Intersegment revenue	**4,217**	520	**6,242**	17,259	**(10,459)**	(17,779)	**–**	–
Other revenue	**9,124**	5,789	**1,870**	2,614	**–**	–	**10,994**	8,403
Total	**314,387**	333,734	**74,323**	86,393	**(10,459)**	(17,779)	**378,251**	402,348
Segment results	**41,514**	39,643	**1,775**	(302)			**43,289**	39,341
Interest income							**748**	107
Finance costs							**(12,058)**	(9,790)
Profit before tax							**31,979**	29,658
Tax							**(1,130)**	(1,706)
Profit for the year							**30,849**	27,952

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Group

	Golf equipment		Golf bag		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Assets and liabilities:								
Segment assets	**339,533**	324,450	**53,558**	41,111	**(19,501)**	(21,663)	**373,590**	343,898
Unallocated assets							**79,700**	85,649
Total assets							**453,290**	429,547
Segment liabilities	**80,360**	62,522	**27,172**	43,404	**(19,501)**	(21,663)	**88,031**	84,263
Unallocated liabilities							**179,269**	174,088
Total liabilities							**267,300**	258,351
Other segment information:								
Depreciation	**13,617**	17,183	**1,478**	1,329	**–**	–	**15,095**	18,512
Amortisation of goodwill	**–**	1,372	**–**	1,625	**–**	–	**–**	2,997
Provision for bad and doubtful debts	**352**	9,495	**–**	–	**–**	–	**352**	9,495
Capital expenditure	**33,516**	33,173	**2,969**	7,471	**–**	–	**36,485**	40,644

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

Group

	North America		Europe		Asia (excluding Japan)		Japan		Others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**248,108**	274,713	**25,018**	30,281	**43,344**	25,158	**41,215**	50,365	**9,572**	13,428	**367,257**	393,945

	Hong Kong		PRC		Unallocated		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
				(Restated)						(Restated)
Other segment information:										
Segment assets	**354,753**	327,982	**258,425**	229,295	**18,846**	13,777	**(258,434)**	(227,156)	**373,590**	343,898
Unallocated assets									**79,700**	85,649
Total assets									**453,290**	429,547
Capital expenditure	**3,501**	316	**32,984**	40,328	**–**	–	**–**	–	**36,485**	40,644

Notes to Financial Statements

31 December 2005

5. REVENUE, OTHER INCOME AND GAIN

Revenue represents the invoiced value of goods sold net of trade discounts and goods returns (which is also the Group's turnover), gross rental income, testing income and tooling charges received and receivable during the year.

An analysis of revenue, other income and gain is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Revenue		
Turnover:		
Sales of goods	**367,257**	393,945
Gross rental income	**2,030**	1,897
Testing income	**1,771**	2,306
Tooling charges	**931**	1,492
	371,989	399,640
Other income		
Compensation income	**1,170**	–
Commission income	**112**	842
Bank interest income	**736**	85
Interest income for loans receivable	**12**	22
Patent income	**859**	783
Others	**1,540**	1,083
	4,429	2,815
Gain		
Gain on disposal of a subsidiary *(note 33)*	**2,581**	–
Other income and gain	**7,010**	2,815

Notes to Financial Statements

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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold		**191,735**	202,014
Depreciation	*14*	**15,095**	18,512
Recognition of prepaid land lease payments	*15*	**161**	188
Minimum lease payments under operating leases:			
Land and buildings		**6,479**	6,232
Motor vehicles		**66**	132
Amortisation of goodwill*	*16*	**–**	2,997
Auditor's remuneration			
Current year		**1,150**	950
Underprovision in prior year		**9**	20
		1,159	970
Employee benefits expense (including directors' remuneration - *note 8*):			
Wages and salaries		**57,974**	67,301
Equity-settled share option expense		**83**	–
Retirement benefits scheme contributions**		**2,305**	2,246
		60,362	69,547
Provision for bad and doubtful debts		**352**	9,495
Foreign exchange differences, net		**47**	1,953
Loss on disposal of items of property, plant and equipment		**–**	1,260
Write-off of items of property, plant and equipment	*14*	**385**	–
Write-off of obsolete inventories, net		**5,379**	2,196
Gain on disposal of a subsidiary	*33*	**(2,581)**	–
Rental income		**(2,030)**	(1,897)
Bank interest income		**(736)**	(85)
Interest income for loans receivable		**(12)**	(22)
Bad debts recovery		**–**	(45)
Provision for bad debts written back		**–**	(1,692)
Fair value gain on interest rate swaps	22	**(2,060)**	–

* *The amortisation of goodwill is included in "Other expenses, net" on the face of the consolidated income statement.*

** *At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits schemes in future years (2004: Nil).*

Notes to Financial Statements

31 December 2005

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Fair value gain on interest rate swaps *(note 22)*	**(2,060)**	–
Interest on bank loans and overdrafts	**11,959**	7,981
Interest on finance leases	**5**	5
Bank charges	**2,154**	1,804
Total finance costs	**12,058**	9,790

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	
	2005	2004
	HK$'000	HK$'000
Fees	**210**	542
Other emoluments:		
Salaries	**3,854**	3,854
Bonuses	**620**	1,180
Housing benefits	**1,440**	1,440
Retirement benefits scheme contributions	**24**	24
	5,938	6,498
	6,148	7,040

Notes to Financial Statements

31 December 2005

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005 HK$'000	2004 HK$'000
Choy Tak Ho	**120**	120
Tse Ying Man	**50**	–
Chiu Lai Kuen, Susanna	**40**	–
Carl Thomas McManis	**–**	422
	210	542

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors

	Salaries HK$'000	Bonuses HK$'000	Housing benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total remuneration HK$'000
2005					
Chu Chun Man, Augustine	**1,560**	**200**	**840**	**12**	**2,612**
Chu Yuk Man, Simon	**1,200**	**300**	**600**	**12**	**2,112**
Takanori Matsuura	**374**	**–**	**–**	**–**	**374**
Chang Hua Jung	**720**	**120**	**–**	**–**	**840**
	3,854	**620**	**1,440**	**24**	**5,938**
2004					
Chu Chun Man, Augustine	1,560	800	840	12	3,212
Chu Yuk Man, Simon	1,200	300	600	12	2,112
Takanori Matsuura	374	–	–	–	374
Chang Hua Jung	720	80	–	–	800
	3,854	1,180	1,440	24	6,498

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: two) executive directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2004: three) non-director, highest paid employees for the year are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,134**	2,463
Performance related bonuses	**350**	506
Employee share option benefits	**45**	–
Retirement benefits scheme contributions	**24**	24
	3,553	2,993

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

	Number of employees	
	2005	2004
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**3**	1
	3	3

During the year, no emoluments were paid by the Group to any of the three (2004: three) non-director, highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

During the year, share options were granted to non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of grant and was included in the above non-director, highest paid employees' remuneration disclosures.

Notes to Financial Statements

31 December 2005

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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	
	2005	2004
	HK$'000	HK$'000
Current - Hong Kong		
Charge for the year	**1,814**	1,885
Overprovision in prior years	**–**	(42)
Current - Elsewhere	**481**	(137)
Deferred *(note 29)*	**(1,165)**	–
Tax charge for the year	**1,130**	1,706

A reconciliation of the tax expense applicable to profit before tax using the Group's applicable tax rate to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

Group	**2005**		**2004**	
	HK$'000	**%**	HK$'000 (Restated)	%
Profit before tax	**31,979**		29,658	
Tax at the applicable tax rate	**7,675**	**24.0**	7,119	24.0
Higher/(lower) tax rate for specific provinces or local authority	**113**	**0.4**	(2,425)	(8.2)
Adjustments in respect of current tax of prior years	**–**	**–**	(516)	(1.7)
Income not subject to tax	**(8,875)**	**(27.8)**	(4,997)	(16.8)
Expenses not deductible for tax	**2,082**	**6.5**	2,575	8.7
Tax losses carried forward to future years	**305**	**0.9**	594	2.0
Tax losses utilised from prior years	**(170)**	**(0.5)**	(644)	(2.2)
Tax charge at the Group's effective rate	**1,130**	**3.5**	1,706	5.8

Notes to Financial Statements

31 December 2005

10. TAX *(Continued)*

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 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., indirect wholly-foreign owned subsidiaries of the Company established in the PRC, are entitled to an exemption from the PRC state CIT for the first two profitable financial years of their operation and thereafter 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 these companies have not yet commenced during the year.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$22,154,000 (2004: HK$19,094,000 (note 32(b)).

12. DIVIDENDS

	2005	2004
	HK$'000	HK$'000
Interim – HK3.0 cents (2004: HK6.3 cents) per ordinary share	**9,066**	19,039
Proposed final – HK4.0 cents (2004: Nil) per ordinary share	**12,088**	–
	21,154	19,039

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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31 December 2005

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of HK$31,560,000 (2004 (as restated): HK$28,160,000) and, the weighted average number of 302,200,000 (2004: 302,200,000) ordinary shares in issue during the year.

The diluted earnings per share amounts for the years ended 31 December 2005 and 31 December 2004 have not been shown as there was no dilutive effect on the basic earnings per share amounts 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 prices were above the average market price of the Company's shares during these years.

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14. PROPERTY, PLANT AND EQUIPMENT

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
31 December 2005							
At 31 December 2004 and at 1 January 2005:							
Cost or valuation	98,510	5,586	109,029	6,177	5,701	782	225,785
Accumulated depreciation	(13,881)	(1,206)	(69,199)	(4,322)	(3,755)	–	(92,363)
Net carrying amount	84,629	4,380	39,830	1,855	1,946	782	133,422
At 1 January 2005, net of accumulated depreciation	84,629	4,380	39,830	1,855	1,946	782	133,422
Additions	5,770	276	15,297	1,119	212	8,367	31,041
Disposal of a subsidiary *(note 33)*	(4,307)	–	(6,213)	(226)	(366)	–	(11,112)
Write-off	(28)	(10)	(241)	(19)	(87)	–	(385)
Depreciation provided during the year	(2,496)	(789)	(10,508)	(663)	(639)	–	(15,095)
Transfers	393	–	9	6	–	(408)	–
Exchange realignment	1,774	60	472	(86)	120	168	2,508
At 31 December 2005, net of accumulated depreciation	**85,735**	**3,917**	**38,646**	**1,986**	**1,186**	**8,909**	**140,379**
At 31 December 2005:							
Cost or valuation	**99,985**	**5,809**	**82,041**	**3,792**	**3,742**	**8,909**	**204,278**
Accumulated depreciation	**(14,250)**	**(1,892)**	**(43,395)**	**(1,806)**	**(2,556)**	**–**	**(63,899)**
Net carrying amount	**85,735**	**3,917**	**38,646**	**1,986**	**1,186**	**8,909**	**140,379**
Analysis of cost or valuation:							
At cost	**12,487**	**5,809**	**82,041**	**3,792**	**3,742**	**8,909**	**116,780**
At 31 December 2003 valuation	**87,498**	**–**	**–**	**–**	**–**	**–**	**87,498**
	99,985	**5,809**	**82,041**	**3,792**	**3,742**	**8,909**	**204,278**

Notes to Financial Statements

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

	Land and buildings HK$'000 (Restated)	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 December 2004							
At 1 January 2004:							
Cost or valuation	92,186	4,200	96,377	5,715	5,481	342	204,301
Accumulated depreciation	(11,455)	(1,515)	(56,350)	(3,711)	(2,926)	–	(75,957)
Net carrying amount	80,731	2,685	40,027	2,004	2,555	342	128,344
At 1 January 2004, net of accumulated depreciation	80,731	2,685	40,027	2,004	2,555	342	128,344
Additions	6,066	3,276	14,619	520	247	698	25,426
Disposals	–	(831)	(986)	–	(19)	–	(1,836)
Transfers	258	–	–	–	–	(258)	–
Depreciation provided during the year	(2,426)	(750)	(13,830)	(669)	(837)	–	(18,512)
At 31 December 2004, net of accumulated depreciation	84,629	4,380	39,830	1,855	1,946	782	133,422
At 31 December 2004:							
Cost or valuation	98,510	5,586	109,029	6,177	5,701	782	225,785
Accumulated depreciation	(13,881)	(1,206)	(69,199)	(4,322)	(3,755)	–	(92,363)
Net carrying amount	84,629	4,380	39,830	1,855	1,946	782	133,422
Analysis of cost or valuation:							
At cost	6,324	5,586	109,029	6,177	5,701	782	133,599
At 31 December 2003 valuation	92,186	–	–	–	–	–	92,186
	98,510	5,586	109,029	6,177	5,701	782	225,785

Notes to Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Notes:

(a) At 31 December 2005, 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$76,310,000 (2004 (as restated): HK$80,730,000) based on their existing use. Such land and buildings were not revalued at 31 December 2005. In the opinion of the directors, there was no significant change in the valuations of these land and buildings from their carrying amounts as at 31 December 2005. As at the balance sheet date, such land and buildings had an aggregate carrying amount of HK$71,708,000 (2004 (as restated): HK$78,315,000) in the financial statements.

(b) 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$48,266,000 (2004 (as restated): HK$53,170,000) in the financial statements.

(c) The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles at 31 December 2005, amounted to HK$139,000 (2004: HK$222,000).

(d) The gross amount and accumulated depreciation of the property, plant and equipment under operating leases are HK$2,015,000 and HK$963,000, respectively.

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15. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 2.2(a))*	**17,833**	7,958
As restated	**17,833**	7,958
Additions	**4,641**	10,063
Disposal of a subsidiary *(note 33)*	**(1,293)**	–
Recognised during the year	**(161)**	(188)
Exchange realignment	**175**	–
Carrying amount at 31 December	**21,195**	17,833
Current portion	**(459)**	(389)
Non-current portion	**20,736**	17,444

The Group's leasehold land is situated in the PRC and is held under the following lease terms:

	2005	2004
	HK$'000	HK$'000
Long term leases	**247**	253
Medium term leases	**20,948**	17,580
	21,195	17,833

As at 31 December 2005, the Group did not have title to a price of land with carrying value of HK$3,397,000 (2004: 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.

Notes to Financial Statements

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16. GOODWILL

	Group	
	2005	2004
	HK$'000	HK$'000
At 1 January:		
Cost as previously reported	**34,111**	28,956
Effect of adopting HKFRS 3 *(note 2.2(d))*	**(9,191)**	–
Cost as restated	**24,920**	28,956
Accumulated amortisation as previously reported	**(9,191)**	(6,194)
Effect of adopting HKFRS 3 *(note 2.2(d))*	**9,191**	–
Accumulated amortisation as restated	**–**	(6,194)
Net carrying amount	**24,920**	22,762
Cost at 1 January, net of accumulated amortisation	**24,920**	22,762
Acquisition of minority interests	**803**	5,155
Amortisation provided during the year	**–**	(2,997)
Carrying amount at 31 December	**25,723**	24,920
At 31 December:		
Cost	**25,723**	34,111
Accumulated amortisation	**–**	(9,191)
Net carrying amount	**25,723**	24,920

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimate useful life of 8 to 15 years.

Notes to Financial Statements

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16. GOODWILL *(Continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Golf equipment cash-generating unit; and
- Golf bag cash-generating unit.

Golf equipment cash-generating unit

The recoverable amount of the golf equipment cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 11.3%.

Golf bag cash-generating unit

The recoverable amount of the golf bag cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 11.3%.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Golf equipment		**Golf bag**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount of goodwill	**12,389**	12,389	**13,334**	12,531	**25,723**	24,920

Key assumptions were used in the value in use calculation of the golf equipment and golf bag cash-generating units for 31 December 2005. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**15,717**	15,717
Due from subsidiaries	**98,707**	85,540
	114,424	101,257

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Equity interest attributable to the Company Direct	Indirect	Principal activities
Sino Golf (BVI) Company Limited	British Virgin Islands/Hong Kong	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*	PRC	HK$99,999,000/ HK$111,700,000	–	100%	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

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17. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Equity interest attributable to the Company Direct	Indirect	Principal activities
CTB Golf (HK) Limited ("CTB")	Hong Kong	HK$10,000,000 (ordinary) HK$2,730,000 (preference)	–	100% *(Note b)*	Trading of golf bags and accessories
東莞騏衡運動用品製造有限公司*	PRC	HK$20,311,618/ HK$25,000,000	–	100%	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$37,082,105/ HK$98,000,000	–	100%	Factory in construction
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.	USA	US$500,000	–	100%	Investment holding
Sino Golf (USA) Inc.	USA	US$1,000	–	100% *(Note c)*	Trading of golf bags

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31 December 2005

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Sino Golf Comercial Offshore De Macao Limitada	Macau	MOP100,000	–	100%	Trading of golf equipment and accessories
Sino Golf Sourcing Company Limited	Hong Kong	HK$1,000	–	51% *(Note c)*	Investment holding and provision of trading services
上海順龍商務資訊有限公司*	PRC	US$140,000	–	51% *(Note c)*	Provision of consulting and trading services

* *wholly-foreign owned enterprises under the PRC law.*

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 37.5% interest in CTB from the minority owner at a consideration of approximately HK$2.6 million. The acquisition has given rise to a goodwill of approximately HK$803,000.

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

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18. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**48,718**	43,399
Work in progress	**30,810**	23,509
Finished goods	**44,442**	34,776
	123,970	101,684

19. TRADE AND BILLS RECEIVABLES

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 generally ranges from 30 to 120 days from the date of recognition of sale. In view of the fact that the Group's trade receivables relate to a number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the 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:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**18,407**	13,650
4 to 6 months	**2,169**	9,593
7 to 12 months	**3,187**	20,400
Over 1 year	**3,336**	1,390
	27,099	45,033

Included in the Group's trade and bills receivables as at the balance sheet date was an amount of HK$528,000 (2004: HK$1,751,000) due from Nikko Bussan Co., Ltd. ("Nikko Bussan (Japan)") arising from transactions carried out in the ordinary course of business of the Group. Takanori Matsuura, a director of the Company, has a beneficial interest in Nikko Bussan (Japan). The balance with Nikko Bussan (Japan) is unsecured, interest-free and is repayable within a credit period similar to those offered by the Group to its major customers.

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20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**9,941**	5,135	**–**	–
Deposits and other debtors	**24,248**	14,642	**1,784**	1,784
Loans to directors *(note 21)*	**863**	1,229	**–**	–
	35,052	21,006	**1,784**	1,784

21. LOANS TO DIRECTORS

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

Group

Name	**31 December 2005**	**Maximum amount outstanding during the year**	**1 January 2005**
	HK$'000	HK$'000	HK$'000
Chu Yuk Man, Simon	687	750	750
Chang Hua Jung	176	479	479
	863		1,229

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

Except for an amount of HK$15,000 within the loan granted to Chang Hua Jung, which bears interest at a rate of 1.5% per annum and is repayable before January 2006, the remaining balances of the loan granted to Chang Hua Jung of HK$101,000 and HK$60,000 are interest-free and are repayable before August 2007 and July 2010, respectively.

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22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest rate swaps	**172**	–

The carrying amounts of interest rate swaps are the same as their fair values.

The Group has entered into various interest rate swap contracts to manage its finance cost exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging interest rate swaps amounting to HK$2,060,000 were charged to the income statement during the year (2004: Nil).

23. CASH AND CASH EQUIVALENTS

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$8,448,000 (2004: HK$4,263,000). 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for periods of three months and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

24. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the goods received date, is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**40,419**	47,875
4 to 6 months	**3,379**	5,921
7 to 12 months	**1,307**	990
Over 1 year	**539**	827
	45,644	55,613

The trade payables are non-interest-bearing and are normally settled within 30 to 60 days.

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25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals and other liabilities	**42,387**	28,452	**7**	9
Due to related parties *(note 26)*	**–**	198	**–**	–
	42,387	28,650	**7**	9

Other payables are non-interest-bearing and have no fixed terms of repayment.

26. DUE TO RELATED PARTIES

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

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000
Current				
Finance lease payables *(note 28)*	3.88	2006	**84**	88
Bank loans - unsecured	0.83-7.25	2006	**138,776**	75,143
			138,860	75,231
Non-current				
Finance lease payables *(note 28)*	3.88		**–**	83
Bank loans - unsecured	0.83-5.57	2007	**36,950**	94,150
			36,950	94,233
			175,810	169,464

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	Group	
	2005	2004
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**138,776**	75,143
In the second year	**36,950**	57,200
In the third to fifth years, inclusive	**–**	36,950
	175,726	169,293
Other borrowings repayable:		
Within one year	**84**	88
In the second year	**–**	83
	84	171
	175,810	169,464
Represented by		
Hong Kong dollars	**152,716**	165,886
United States dollars	**23,094**	3,578
	175,810	169,464

Notes:

(a) All the bank and other borrowings of the Group bear interest at floating interest rates.

(b) The carrying amounts of the Group's borrowings approximate to their fair values which have been calculated by discounting the expected future cash flows at prevailing interest rates.

Notes to Financial Statements

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28. 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 11 months.

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 2005 HK\$'000	Minimum lease payments 2004 HK\$'000	**Present value of minimum lease payments 2005 HK\$'000**	Present value of minimum lease payments 2004 HK\$'000
Amounts payable:				
Within one year	**86**	91	**84**	88
In the second year	**–**	83	**–**	83
Total minimum finance lease payments	**86**	174	**84**	171
Future finance charges	**(2)**	(3)		
Total net finance lease payables	**84**	171		
Portion classified as current liabilities *(note 27)*	**(84)**	(88)		
Non-current portion *(note 27)*	**–**	83		

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

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29. DEFERRED TAX

The movements in deferred tax liabilities of the Group during the year are as follows:

	Accelerated tax depreciation	**Revaluation of land and buildings**	**Others**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004, 31 December 2004 and 1 January 2005 (restated)	1,695	2,401	528	4,624
Deferred tax credited to the income statement during the year *(note 10)*	(619)	(18)	(528)	(1,165)
Deferred tax liabilities at 31 December 2005	**1,076**	**2,383**	**–**	**3,459**

The unused tax losses include an amount of approximately HK$1,041,663 (2004: HK$1,694,000) for the year arising in the PRC which is due to expire within one to five years and an amount of approximately HK$830,000 (2004: HK$1,015,000) arising in Hong Kong that are available indefinitely 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 tax losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: 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.

30. SHARE CAPITAL

Shares

	2005	2004
	HK$'000	HK$'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

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31 December 2005

30. SHARE CAPITAL *(Continued)*

Share options

Details of the Company's share option schemes and the share options issued under a new share option scheme (the "New Share Option Scheme") are included in note 31 to the financial statements.

31. SHARE OPTION SCHEMES

On 7 August 2002, the share option scheme of the Company adopted on 5 December 2000 (the "Old Share Option Scheme") was terminated and 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 2005.

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 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.

Notes to Financial Statements

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31. SHARE OPTION SCHEMES *(Continued)*

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.

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:

Name or category of participant	Number of share options: At 1 January 2005	Granted during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	Price of Company's shares at grant date of 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	–
Other employees							
In aggregate	–	1,100,000	**1,100,000**	9 June 2005	4 July 2005 to 8 June 2007	0.83	0.82
Others							
In aggregate	8,280,000	–	**8,280,000**	24 December 2003	29 December 2003 to 31 December 2006	1.51	–
	17,280,000	1,100,000	**18,380,000**				

Notes to Financial Statements

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31. SHARE OPTION SCHEMES *(Continued)*

* 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.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

The fair value of the share options granted during the year was approximate to HK$83,000.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005:

Volatility (%)	10.29
Risk-free interest rate (%)	3.00
Life of option (year)	2.00
Stock asset price (HK$)	0.83
Option strike price (HK$)	0.83

The volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 18,380,000 share options outstanding under the New Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 18,380,000 additional ordinary shares of the Company and additional share capital of HK$1,838,000 and share premium of HK$25,168,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 18,380,000 share options outstanding under the New Share Option Scheme, which represented approximately 6.08% of the Company's shares in issue as at that date.

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32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 50 of the financial statements.

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.

(b) Company

	Share premium account	**Contributed surplus**	**Share option reserve**	**Retained profits**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004	57,270	15,516	–	7	72,793
Profit for the year	–	–	–	19,094	19,094
Interim 2004 dividend (*note 12*)	–	–	–	(19,039)	(19,039)
At 31 December 2004 and 1 January 2005	57,270	15,516	–	62	72,848
Equity-settled share option expenses (*note 31*)	–	–	83	–	83
Profit for the year	–	–	–	22,154	22,154
Interim 2005 dividend (*note 12*)	–	–	–	(9,066)	(9,066)
Proposed final 2005 dividend (*note 12*)	–	–	–	(12,088)	(12,088)
At 31 December 2005	**57,270**	**15,516**	**83**	**1,062**	**73,931**

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 the contributed surplus under certain circumstances.

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33. DISPOSAL OF A SUBSIDIARY

	Notes	2005 HK$'000	2004 HK$'000
Net assets disposed of:			
Property, plant and equipment	*14*	**11,112**	–
Prepaid land lease payments	*15*	**1,293**	–
Inventories		**3,400**	–
Trade receivables		**6,471**	–
Prepayments, deposit and other receivables		**2,957**	–
Amounts due from group companies		**3,722**	–
Cash and bank balances		**567**	–
Trade payables		**(4,022)**	–
Other payables and accruals		**(3,298)**	–
Amounts due to group companies		**(2,275)**	–
Tax payable		**(17)**	–
VAT payable		**(1,430)**	–
Asset revaluation reserve		**(199)**	–
Minority interests		**(5,962)**	–
		12,319	–
Gain on disposal of a subsidiary	*5, 6*	**2,581**	–
		14,900	–
Satisfied by:			
Cash		**9,972**	–
Other receivables		**4,928**	–
		14,900	–

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

	2005 HK$'000	2004 HK$'000
Cash consideration	**9,972**	–
Cash and bank balances disposed of	**(567)**	–
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**9,405**	–

Notes to Financial Statements

31 December 2005

33. DISPOSAL OF A SUBSIDIARY *(Continued)*

During the year, the Group disposed of its entire 62.5% interest in 順德市順興隆高爾夫球製品有限公司 ("Shun Xing Long") to an associate of the minority owner of Shun Xing Long.

The results of the subsidiary disposed of in the year ended 31 December 2005 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

34. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees for bank loans in favour of the subsidiaries	**–**	–	**175,726**	163,000
Guarantees for finance lease arrangements in favour of a subsidiary	**–**	–	**84**	171
	–	–	**175,810**	163,171

(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$2,140,000 (2004: HK$1,764,000) as at 31 December 2005, as further explained under the heading "Employee benefits" in note 2.5 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.

Notes to Financial Statements

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35. OPERATING LEASE ARRANGMENTS

(a) As lessor

The Group leases its plant and machinery (note 14 to the financial statements) and sub-leases certain office properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 4 years. 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:

	2005	2004
	HK$'000	HK$'000
Within one year	**1,907**	532
In the second to fifth years, inclusive	**3,611**	–
	5,518	532

(b) 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 terms ranging from 1 to 14 years.

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

	2005	2004
	HK$'000	HK$'000
		(Restated)
Within one year	**5,461**	7,016
In the second to fifth years, inclusive	**9,666**	20,967
After five years	**2,992**	6,678
	18,119	34,661

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36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group had the following capital commitments at the balance sheet date:

	2005	2004
	HK$'000	HK$'000
Contracted, but not provided for:		
Land and buildings	**9,893**	1,563
Plant and machinery	**925**	500
	10,818	2,063
Authorised, but not contracted for:		
Land and buildings	**6,375**	–
Capital contribution into subsidiaries	**98,679**	76,170
	105,054	76,170
	115,872	78,233

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

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37. RELATED PARTY TRANSACTIONS

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

	Notes	**2005 HK$'000**	2004 HK$'000
Purchases of raw materials from Nikko Bussan (Japan)	*(i)*	**9**	85
Sales of finished goods to Nikko Bussan (Japan)	*(ii)*	**4,327**	18,553
Rental expenses paid to Progolf Manufacturing Company Limited ("Progolf") and Oriental Leader Limited	*(iii)*	**1,440**	1,440
Management income received from Progolf and Oriental Leader Limited	*(iv)*	**–**	15
Rental income from Sino Sporting Company Limited ("Sino Sporting")	*(v)*	**520**	399
Rental expense paid to Sino Sporting	*(v)*	**66**	132
Management income received from Sino Sporting	*(iv)*	**–**	10
Commission income received from Nikko Bussan (Japan)	*(vi)*	**–**	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 to Financial Statements

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37. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(i) 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.

(ii) The selling prices of finished goods were based on the agreement between the parties.

(iii) Chu Chun Man, Augustine, a director of the Company, has a beneficial interest in Progolf, and Chu Yuk Man, Simon, 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.

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

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

(vi) The amount represented sales commission received from Nikko Bussan (Japan) for refering customers. The commission rate is determined at a mutually-agreed rate between the Group and Nikko Bussan (Japan).

(b) Outstanding balances with related parties

(i) Details of the Group's loans to directors are included in note 21 to the financial statements.

(ii) Outstanding balances with other related parties.

	Due from related parties		**Due to related parties**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Nikko Bussan (Japan)	**528**	1,751	–	–
Sino Sporting	**–**	–	**–**	11
Progolf and Oriental Leader Limited	**–**	–	**–**	120
Su Han Jian - *note*	**–**	–	**–**	198

Note: Su Han Jian was the then minority owner of an ex-subsidiary, Shun Xing Long.

Notes to Financial Statements

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37. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel of the Group

Key management personnel of the Group includes all the directors and five highest paid employees. Details of compensation of directors and five highest paid employees are included in notes 8 and 9 to the financial statements, respectively.

Included in sales of finished goods to Nikko Bussan (Japan) in item (a)(ii) above, an amount of HK$5,688,000 (2004: HK$18,553,000) also represents a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swap contracts. The purpose is to manage the interest rate risk arising from the Group's sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

In the course of normal business, the Group is exposed to a variety of financial risks, namely, credit risk, liquidity risk, foreign exchange risk and interest rate risk. These risks are managed in accordance with the financial management policies of the Group that seek to minimise their potential adverse effects on the Group's performance.

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) Credit Risk

Credit risk, the risk that a counterparty will fail to pay amounts in full when due, exists in respect of the Group's financial assets that include cash equivalents and trade receivables. Cash equivalents consist mainly of short term deposits placed with highly-rated financial institutions and bear minimal risk. To date, the Group has not sustained any losses on cash equivalents.

The Group markets its products primarily to the OEM and ODM customers in the United States, Europe and Japan. The Group limits its exposure to credit risk by prudently selecting customers and by diversifications. The Group also continually evaluates the credit risk of its customers to ensure appropriateness of the amount of credit granted. Credit is extended to customers based on the evaluation of individual customer's financial conditions and collateral in the form of cash deposits, which are usually required from new customers. Only customers of a sufficient credit stance and proven track record are exempted from the down payment requirement. Through factoring and related agreements, the Group assigns the majority of its trade receivables to banks and transfers the credit risk of the debtors' failure to make payments to banks. There was no material credit loss sustained on trade receivables in 2005 and, except as disclosed in last year's annual report, in 2004.

As at 31 December 2005, the Group's maximum exposure to credit risk was represented by the carrying amount of the financial assets in the consolidated balance sheet.

(b) Liquidity Risk

Liquidity risk represents the risk that funds will not be available to meet liabilities when they fall due, and it arises from the mismatches amounts and maturities of assets and liabilities. The Group keeps sufficient cash to meet the operating needs and manages liquidity risk by monitoring the working capital through cash flow projections to ensure that all liabilities due are repaid and known funding requirements could be met. The liquidity risk is further mitigated by the availability of standby or unutilised banking facilities for contingency purposes. As at 31 December 2005, the Group's total banking facilities amounted to HK$476 million (2004: HK$468 million), of which HK$211 million (2004: HK$238 million) were not utilised.

(c) Foreign Exchange Risk

Foreign exchange risk is the risk of loss arising from adverse movements in foreign exchange rates relating to transactions denominated in foreign currencies. The foreign exchange risk to which the Group is exposed primarily relates to sales and purchases that are denominated in a currency other than the functional currency of the operations of the entities in concern and such risk originates mainly from the currency of the United States dollar. The Group does not hedge its foreign currency risk, as the rate of exchange between the Hong Kong dollar and United States dollar is controlled within a narrow range. As at 31 December 2005, there was no outstanding forward foreign exchange contract to which the Group is a party. It is recognised that permanent changes in foreign exchange rates may have an impact on the consolidated results of the Group.

Notes to Financial Statements

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Interest Rate Risk

The Group is exposed to interest rate risk as the Group has significant liabilities including bilateral term loans and short term bank loans that are interest-bearing. To mitigate the interest rate risk, the Group entered into interest rate swap contracts in 2003 that would expire in March 2006. As at 1 January 2005 and 31 December 2005, the interest rate swap contracts were accounted for in the Group's balance sheet as derivative financial instruments and amounted to approximately HK$1,888,000 under financial liabilities and approximately HK$172,000 under financial assets respectively, resulting in a gain of approximately HK$2,060,000 recognised for the year as disclosed in note 6 to the financial statements.

(e) Fair Values of Financial Assets and Financial Liabilities

All financial assets and financial liabilities are carried at amounts not materially different from their fair values as at 31 December 2005 and 2004. There was no off-balance sheet arrangement that has or is likely to have a material effect, either currently or in future, on the Group's financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or resources.

39. POST BALANCE SHEET EVENT

On 6 March 2006, SGMCL, an indirect wholly-owned subsidiary of the Company, entered into a two-year loan agreement for HK$40,000,000 with an existing bank to replace a short term revolving loan facility of the same amount with that bank.

40. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2006.