MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The successful enhancement of customer portfolio during 2005 laid the foundation for the remarkable growth in sales achieved in the current period. Though materials price hikes have posed some threat on the profit margin, the Group has managed to mitigate the impact by uplifting productivity and incorporating, to the extent feasible, the cost increase into new model prices. Besides, the establishment of businesses with big names also helps strengthen our industry status and provides further opportunity for business expansion.

Overall, the Group's performance for the first half of 2006 has shown a satisfactory rebound from that of the preceding comparative period. The improved performance for the period was a result of the increased orders from major customers whose products were well received in the market. This achievement was partly attributable to the Group's active participation in clients' product development process and our capability to prioritize customers' needs with the provision of value added services. The Group's strategy to persistently invest in research and development has enhanced our competitive advantage and helped generate extra revenue.

FINANCIAL RESULTS

Consolidated revenue for the six months ended 30 June 2006 surged more than 62% to approximately HK$282,114,000 compared to that of the corresponding period last year. Profit attributable to equity holders of the parent increased by about 25% to approximately HK$23,261,000 from HK$18,613,000 of the comparative preceding period. Earnings per share for the period were HK7.70 cents (2005: HK 6.16 cents).

As a result of the substantial increase in sales, gross profit for the first half of 2006 increased by 43% to approximately HK$79,759,000 compared to that of the corresponding period last year. Notwithstanding the measures adopted by the Group to effectively combat the impact of materials cost increase, the gross profit margin for the first six months of 2006 declined to 28.3% from 32.1% of the comparative preceding period. This was mainly attributable to the increase in direct components purchases that carried only minimal margins in finished products, as well as the application of similar gross profit amount against enlarged sales value due to increase in sales prices.

Other income and gains for the period decreased to approximately HK$788,000 from HK$5,690,000 of the comparative preceding period mainly due to a drop in handling charge income and the non-recurring gain on disposal of a subsidiary recorded in the last comparative period.

Selling and distribution costs for the period soared to approximately HK$13,799,000 from HK$6,037,000 of the comparative preceding period primarily due to additional commissions incurred against the increased sales. Administrative expenses however remained relatively stable during the period. On the other hand, finance costs for the period increased to approximately HK$9,226,000 from HK$4,216,000 of the last comparative period mainly due to increase in both the interest rates and the amount of trade finance utilized.

Overall, profit attributable to equity holders of the parent for the period improved by about 25% to approximately HK$23,261,000 compared to that of the corresponding preceding period.

GOLF EQUIPMENT BUSINESS

The golf equipment segment continued to constitute the main source and accounted for approximately 83.1% of the Group's revenue for the period. Sales of golf equipment during the first six months of 2006 amounted to approximately HK$233,910,000, representing a 66.5% increase over that of the comparative preceding period. Of the total golf equipment sales, golf clubs sales accounted for about 75.9% while component sales consisting of club heads, shafts and accessories represented the remaining 24.1%. There has been no material fluctuation in the product mix percentages throughout the years.

During the period, sales of hybrid iron sets launched by the Group's largest customer in the United States continued to prosper. The Group has benefited from its business success and sales to this customer more than doubled the amount of the comparative preceding period, representing approximately 63.3% of the segment sales or 52.7% of the Group's turnover for the current period. Thanks to successful product design and marketing programs, sales to a number of other customers also demonstrated significant growth during the period. Turnover from the top five golf club clients aggregated to approximately HK$205,638,000, which accounted for about 87.9% of the segment sales or 73.2% of the Group's turnover for the period. With the enhancement of customer portfolio, it is anticipated that the golf equipment segment will continue to develop and grow healthily. The Group has been in regular contact with certain big names to explore new business opportunities. Upon realization of the sales programs with these big names, our customer base is expected to be further broadened to provide extra impetus for sustained growth.

Irrespective that the Group conducts its business through a relatively small number of key customers, we have implemented adequate procedures to safeguard recoverability of the trade debts. Shipments to major customers are insured or factored on non-recourse basis to minimize bad debt risks. Besides, any material delay in payments or non-payments by customers with terms were immediately reported to management for further action. As reported in the 2005 annual report, Huffy Corporation, one of the Group's customers, had its restructuring plan approved at the creditors' meeting and confirmed by the U.S. bankruptcy court in late 2005. Pursuant to Huffy's restructuring plan, the Group will receive a proportionate share of (i) a US$9 million promissory note which carries interest at 10% p.a. and (ii) the class B common stock of US$14 million. Taking into account the amount of provision made in 2004 against the debts owed by Huffy Corporation, it was considered that no material provision would further be necessary.

During the period, prices for materials such as graphite further went up and its supply had become even more volatile in the early part of 2006. To ensure uninterrupted production, the Group had to undertake more direct purchase of graphite shafts to supplement any shortfall in the graphite sheet supply. The need to rely more on direct components purchase like graphite shafts had inevitably limited the gross margins of some models. Other materials prices such as titanium have somewhat stabilized during the period. To combat the impact of materials price hikes, the Group pursued to selectively stock up inventories of crucial materials to help stabilize costs and sustain product margins.

Supported by a strong rebound in sales revenue, the golf equipment segment generated a segmental profit of approximately HK$30.3 million during the period, representing an increase of about 14.8% compared to that of the comparative preceding period. Giving regard to the current order book status, the management maintains a cautious but confident view that the golf equipment segment should perform reasonably well in the second half of 2006.

GOLF BAGS BUSINESS

Revenue of the golf bag segment accounted for approximately 16.9% of the Group's revenue for the period. Sales of golf bags and accessories for the first half of 2006 amounted to approximately HK$46,765,000, representing an increase of 55.8% over that of the corresponding preceding period. The significant surge in revenue followed the stepping up of productivity of the new golf bag facility and the resumption of business volume foregone during the previous comparative period. During the period, sales to the largest customer nearly quadrupled that of the corresponding preceding period and accounted for about 56.8% of the segment sales or 9.5% of the Group's turnover for the period. Turnover from the top five golf bag clients aggregated to approximately HK$35,130,000, representing about 75.1% of the segment sales or 12.5% of the Group's turnover for the period. The Japan line products continued to dominate by taking up approximately 65% of the segment sales. It is the strategy of the Group to direct further effort to expand the Japan line products that carry higher average gross margins.

On the other hand, the new SOE compliant golf bag facility has successfully brought additional business to the Group and helped enhanced our competitive advantage over most competitors. Our Group enjoys high reputation in the golf bag industry in which it has been a dominant player serving substantially all the major brand names in the market. The management anticipates that the golf bags business will continue to grow at an uninterrupted pace.

Benefited from the rapid growth of the Japan line products, the golf bags segment recorded a segmental profit of approximately HK$2.7 million during the first half of 2006 in contrast to a segmental loss of approximately HK$2.9 million for the comparative preceding period. Major material prices for golf bag production had somewhat stabilized during the period while the energy and overhead costs remained high. To combat the pressure of erosion of profitability due to escalating production costs, the Japan line products that offer higher margins will remain the focus of the segment's future expansion. Taking into account the current order book status, the management feels confident that the golf bag segment will perform reasonably well in the second half of 2006.

GEOGRAPHICAL SEGMENTS

The Group's geographical spread remained relatively stable. Same as prior periods, North America constitutes the largest geographical segment from which approximately 74.7% of the Group's turnover for the period was generated. Other geographical regions including Japan, Europe and other countries accounted for 11.7%; 3.6% and 10% of the Group's total turnover respectively.

As a percentage to the Group's turnover, the North American market remained the core market with sales to this region increasing slightly from 73.3% of the comparative preceding period to 74.7% for the current period. Consequential on the efforts diverted to develop the Japan market, sales to Japan also increased to represent 11.7% of the Group's turnover from 8.3% of the last comparative period. During the period, sales to the geographical regions covering "Europe and others countries" dropped, in terms of percentage to the Group's turnover, from 18.4% of the last comparative period to 13.6%. Despite the decline in its percentage revenue contribution, the monetary amount of sales to "Europe and others countries" increased by approximately HK$6,775,000 over that of the comparative preceding period.

In monetary perspective, sales to the North American market increased by about 67.6% over that of the comparative preceding period to approximately HK$209,698,000, which comprised mainly golf clubs and component sales with a minor portion of golf bag sales. On the contrary, sales to the Japan market consisted mostly of golf bags and amounted to approximately HK$32,907,000 representing an increase of over 1.3 times the amount for the corresponding preceding period. Sales to other geographical regions including Europe and other countries increased by 21.6% to approximately HK$38,070,000.

It is the Group's strategy to strengthen its position in the North American market that generates the majority of our Group's revenue and profitability. Besides, additional efforts will be expended to further penetrate the Japan market to tap its huge opportunities, while management attention will still be directed to continue develop the geographical regions of Europe and other countries.

PROSPECTS

Despite facing an environment of ever-increasing competition and customers' demand, the golf industry possesses solid foundation to sustain its on-going developments. It has been the Group's mission to provide premium one-stop services to its customers with value added options. It is also our Group's objective to continually expand our capability to play a leading role in the golf sector. The successful enhancements of customer portfolio and product quality are signs that we are progressing towards our goals.

To cope with the growing needs of customers, the Group has engaged in constructing a new advanced golf club facility in Shandong Province, the P.R.C. which is targeted for completion towards the end of the year. At 30 June 2006, total investments in this project aggregated to approximately HK$46.6 million, comprising a land premium of approximately HK$14.8 million and construction payments of approximately HK$31.8 million. Further costs to completion are estimated at about HK$18 million and will be financed by internal funding. The new golf club facility will be a milestone of the Group's development, reaffirming our capability to undertake business with the big names and our leading role in the golf industry. Motivated by the satisfactory progress of existing business, our Group has been actively liaising with some first tier brand names for business opportunities. There are clear indications of their interests to explore potential co-operations with the Group. Considering the competitive advantages of our Group, the management feels confident of adding new big names to the Group's golf club portfolio in the foreseeable future.

On the other hand, the SOE compliant status of the golf bag facility has provided us with the platform necessary for doing business with the major brand names. Currently, our Group takes golf bag orders from substantially all the big names in the market. In particular, the potential for the Japan line products is considered huge, as there are only few manufacturers that are SOE compliant and are recognized as qualified suppliers by the top brands. In order to ease the production burden arising from the increased demand for golf bags, the Group has rented additional spaces of approximately 12,000 square meters nearby its existing facility to provide extra production capacity and to eliminate the need for subcontracting out works.

To sustain long-term growth, the Group is devoted to continually enhance its competitiveness with emphasis on continued development in materials innovations, design capability and customer services. The North American market and the Japanese market represent the two key geographical regions to which the Group diverts most of its resources. Supported by a strong position in the golf bag sector of the Japanese market, our Group is committed to further explore and develop the golf equipment business in the Japanese market. On the other hand, with the synergies which are derivable from the golf club sales network, the Group is also engaged to divert more resources to actively develop the golf bags business in the North American market. The actual performance of the Group is however dependent on the extent of realization of business plans and targets envisaged, as well as the outcome of market operations and changes that may occur from time to time.

LIQUIDITY AND FINANCIAL RESOURCES

The Group pursues prudent principles to set polices for the management of its funds. Our Group generally relies on internally generated funds and banking facilities to finance its operations. To limit the exposure to various financial risks, the Group has established effective policies and guidelines to help monitor and confine those risks within acceptable ranges.

At 30 June 2006, cash and cash equivalents, which were mostly denominated in United States dollars and Hong Kong dollars, amounted to approximately HK$74.6 million (31 December 2005: HK$79.1 million) The cash level decreased mainly because funds have been appropriated as planned for the construction of the new golf club facility. Besides, the Group also selectively stocked up inventory items to stabilize costs and ensure uninterrupted production. The inventory level thus increased by about HK$10.6 million to approximately HK$134.5 million as at 30 June 2006.

Borrowings of the Group are mostly denominated in currencies of Hong Kong dollars and United States dollars and carry interest on HIBOR or LIBOR plus basis. Borrowings (excluding finance lease payables) as at 30 June 2006 aggregated to approximately HK$183.9 million (31 December 2005: HK$175.8 million), of which approximately HK$139.3 million (31 December 2005: HK$138.8 million) comprising import and export loans of about HK$73.1 million (31 December 2005: HK$26.6 million) and term loans of about HK$66.2 million (31 December 2005: HK$112.2 million) is repayable within one year. The level of borrowings escalated mainly due to higher utilization of import and export facilities to finance the increased business volume. Gearing ratio as at 30 June 2006, defined as total bank borrowings and finance lease payable less cash and cash equivalents of approximately HK$109.3 million divided by shareholders' equity of approximately HK$196.0 million, was 55.8% (31 December 2005: 51.9%). The gearing ratio increased as a result of the increase in net bank borrowings.

As at 30 June 2006, the net asset value of the Group was approximately HK$196.0 million (31 December 2005: HK$186.0 million). Current and quick ratios stayed at 1.22 (31 December 2005: 1.17) and 0.66 (31 December 2005: 0.63) respectively. There has been no material fluctuation in both ratios, which are considered to be at reasonable levels.

POST BALANCE SHEET EVENTS

(1) Subsequent to the balance sheet date in August 2006, the Company granted a total of 4,000,000 share options to a director and a business consultant of the Company pursuant to the Company's share option scheme. The share options will be vested upon the commencement of the exercise period and are exercisable by the grantees from the date of grant until 31 July 2008 both days inclusive at an initial exercise price of HK$0.70 per ordinary share, which is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The closing price of the Company's shares immediately before the grant date was HK$0.68 per ordinary share.

(2) With much regret, Mr. Takanori Matsuura, one of the founders of the Group and an executive director of the Company, passed away on 13 August 2006. No appointment has been made to fill the vacancy left over by Mr. Matsuura.

(3) On 21 August 2006, the Company announced that Ms. Choi Ying, Kammy had tendered her resignation notice as company secretary and qualified accountant of the Company and financial controller of the Group for personal reasons. With effect from 25 August 2006, Mr. Co Man Kwong, Rochester has been appointed to take up the vacancy of the company secretary and qualified accountant of the Company. Besides, Mr. Mak Yat Ho, Humphrey, the deputy financial controller of the Group, has been assigned to take up responsibilities of Ms. Choi as financial controller of the Group temporarily until the new appointment of financial controller of the Group.