MANAGEMENT DISCUSSION AND ANALYSIS

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Management Discussion and Analysis

This statement provides supplementary information to the Chairman's Statement

RESULTS OF OPERATIONS

Consolidated turnover of the Group for the year ended 31 December 2005 decreased by 6.8% to approximately HK$367,257,000 (2004: HK$393,945,000) but net profit attributable to equity holders increased instead by 12.1% to HK$31,560,000 (2004: HK$28,160,000 as restated). The decrease in turnover was primarily due to the lower sales recorded in the first half of 2005 as a result of the Group's customer portfolio restructuring and the relocation of golf bag production to the new facilities, which were substantially offset by a strong rebound achieved during the second half of the year.

The gross profit for the year decreased to approximately HK$107,054,000 from HK$127,917,000 as restated of the preceding year. The effect of raw material price surges coupled with an increase in components purchase by the Group, which was partly offset by the sales price adjustments and the savings derived from enhanced productivity, has brought the gross profit margin for 2005 down to 29.2% from 32.5% as restated for 2004. Components purchase by the Group normally carry little or no margins in finished goods in contrast to self-produced components in which reasonable margins are incorporated. The relative increase in components purchase therefore resulted in lower gross profit margin given other factors remaining unchanged.

Other income for the year increased to approximately HK$7,010,000 from HK$2,815,000 as restated in 2004. It is mainly attributable to the gain on disposal of a subsidiary of approximately HK$2,581,000 and the increase in interest income and other reimbursements received.

Administrative expenses for the year decreased to approximately HK$50,243,000 from HK$57,512,000 as restated in 2004 primarily due to the drop in depreciation charge as certain fixed assets have been fully depreciated. Selling and distribution costs, consisting mainly of commissions and freight charges, increased to approximately HK$12,273,000 for the year from HK$11,495,000 in 2004 mainly due to the increase in commissions which was partially offset by a decrease in freights incurred. Other operating expenses for the year decreased to approximately HK$7,511,000 from HK$22,277,000 in 2004 as a result of the cessation of goodwill amortization and the decrease in directors remuneration and bad debt provisions.

Finance costs, net of a gain of approximately HK$2,060,000 derived from interest rate swap transactions, increased to approximately HK$12,058,000 for the year from HK$9,790,000 in 2004 primarily due to the successive increase in interest rates during the year.

With the concerted effort of the Board and management, profit attributable to equity holders for 2005 advanced to approximately HK$31,560,000, up 12.1% from that of 2004.

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LIQUIDITY AND FINANCIAL RESOURCES

The Group follows prudent principle to formulate treasury policies and continually relies on internally generated funds and banking facilities to finance its operations. To mitigate the exposure to various financial risks, the Group has established appropriate policies and guidelines to ensure that such risks are properly monitored and confined within acceptable limits. The Group has entered into interest rate swap contracts in 2003 (expiring in March 2006) to hedge the HIBOR interest payments of certain bank loans at fixed rates. The changes in the fair value of the interest rate swap contracts, which represent a gain of approximately HK$2 million, have been net off to the finance costs for the year.

Cash and cash equivalents as at 31 December 2005 amounted to approximately HK$79.1 million (2004: HK$84.1 million) and were denominated mostly in United States dollars and Hong Kong dollars. The decrease in cash and cash equivalents was primarily the result of appropriating funds to procure raw materials mainly titanium plates and graphite sheets to meet the increased production needs as well as to optimize product cost amidst material price surges. The inventory level thus increased to HK$124.0 million (2004: HK$101.7 million).

Borrowings of the Group are mostly denominated in the currencies of Hong Kong dollars and United States dollars and carry interest on HIBOR or LIBOR plus basis. As at 31 December 2005, borrowings (excluding finance lease payable) aggregated to approximately HK$175.8 million (2004: HK$169.4 million), of which approximately HK$138.8 million comprising import and export loans of about HK$26.6 million (2004: HK$6.2 million) and terms loans of about HK$112.2 million (2004: HK$68.9 million) is repayable within one year. The level of bank borrowings increased mainly due to higher utilization of import and export facilities. Gearing ratio, defined as total bank borrowings and finance lease payable less cash and cash equivalents of approximately HK$96.6 million divided by the shareholders' equity of approximately HK$186.0 million, was 51.9% as at 31 December 2005 (2004: 49.9% as restated). The gearing ratio did not show material fluctuation under the Group's effective treasury practices.

Through adoption of prudent treasury practices, the Group strives to maintain a financial position supportive of its growth and development needs. As at 31 December 2005, the net asset value of the Group amounted to approximately HK$186.0 million (2004: HK$171.2 million as restated). Current and quick ratios as at 31 December 2005 were approximately 1.17 (2004: 1.59) and 0.63 (2004: 0.95) respectively. Both ratios decreased significantly mainly due to the reclassification of long-term portion of the bank loans into short-term portion. The increase in inventory level also brought the quick ratio down to a lower level. The current and quick ratios have been restored to higher levels when certain bank facilities were refinanced in the first quarter of 2006 on long-term basis.

DISPOSAL OF A SUBSIDIARY

Pursuant to an agreement dated 31 December 2004 and a supplemental agreement dated 9 April 2005 (the "Agreements"), Sino Golf Manufacturing Company Ltd.("SGMCL"), an indirect wholly-owned subsidiary of the Company, disposed all of its interest in a 62.5% owned subsidiary, 順德市順興隆高爾夫球製品有限公司 ("SHL"), to Global Sourcing and Distribution Limited (the "Purchaser") for a consideration of HK$14.9 million, resulting in a gain on disposal of approximately HK$2.6 million. The consideration was to be settled as to approximately HK$9.97 million upon completion and approximately HK$4.93 million one year after the completion. Sale proceeds from the disposal provided additional working capital for the Group.

SHL is engaged in producing golf equipment using forging technology and was managed, except for accounting and finance matters, by its minority shareholder. The disposal decision is consistent with the Group's policy to establish and run its own forging facility and to centralize the production management to avoid duplication of resources. As the Purchaser is beneficially owned by the associates of the beneficial owner of the minority shareholder in SHL, the disposal constitutes a connected and discloseable transaction under Chapter 14A and Chapter 14 of the Listing Rules. The

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Agreements and the transaction contemplated under the Agreements had been approved by the independent shareholders of the Company in a special general meeting held on 27 May 2005 and the transaction was completed in accordance with the terms of the Agreements. There was no material effect to the Group's consolidated income as a result of the disposal of interest in SHL.

SHORTFALL OF PROFIT GUARANTEE ON A SUBSIDIARY

Pursuant to an agreement dated 22 December 2003 entered into between SGMCL and Mr. Chen Chien Hsiang (the "Agreement"), SGMCL acquired from Mr. Chen Chien Hsiang ("Mr. Chen") an additional 11.5% interest in the ordinary share capital of CTB Golf (HK) Limited ("CTB"), rendering CTB 62.5% then owned by the Group. The consideration of the acquisition is HK$9.8 million which is subject to refund by Mr. Chen if the audited consolidated profit of CTB is less than the guaranteed profit of HK$8,522,000 ("Guaranteed Profit") for each of the five profit guaranteed years commencing on 1 January 2004. As the audited consolidated profit of CTB for the year ended 31 December 2005 was less than the Guaranteed Profit, SGMCL is entitled to a receivable of approximately HK$905,000 from Mr. Chen calculated in accordance with the terms of the Agreement. The amount receivable from Mr. Chen has been accounted for in the balance sheet under other receivables and other payables.

ACQUISITION OF ADDITONAL INTEREST IN A SUBSIDIARY

On 19 July 2005, SGMCL, entered into an agreement (the "2nd Agreement") with Mr. Chen (the "Vendor") to purchase from the Vendor the remaining 37.5% of the ordinary share capital of CTB not yet owned at that time by SGMCL for a consideration of HK$2,625,000. As the Vendor is a substantial shareholder of CTB, which is an indirect subsidiary of the Company, the acquisition constitutes a connected and discloseable transaction under Chapter 14A and Chapter 14 of the Listing Rules.

CTB is principally engaged in the manufacturing and trading of golf bags and has been owned as to 62.5% by SGMCL prior to entering into the 2nd Agreement. In consideration of the anticipated growth of golf bags business and the enhanced production capacity of the new facility, it is in the interests of the Group and its shareholders as a whole to gain a full control over the golf bag business of CTB. Upon completion of the transaction, CTB has become a wholly owned subsidiary of SGMCL. The transaction has given rise to a goodwill of approximately HK$803,000 which is subject to annual review for impairment. The acquisition of additional interest in CTB has no material impact on earnings per share and the assets and liabilities of Company.

CONTINUING CONNECTED TRANSACTIONS

Only 18 April 2005, Sino Golf Comercial Offshore De Macau Limitada ("Sino Golf Macau"), an indirect wholly owned subsidiary of the Company, entered into a supply agreement (the "Supply Agreement") with Nikko Bussan Co., Ltd. ("Nikko Bussan (Japan)") for the supply of golf products to Nikko Bussan (Japan) subject to a cap of HK$30,000,000 per annum. As Mr. Takanori Matsuura, who is a director of the Company, owns 58.75% of Nikko Bussan (Japan), the transactions contemplated under the Supply Agreement constitute continuing connected transactions ("Continuing Connected Transactions") under Chapter 14A of the Listing Rules. The Supply Agreement and the annual cap were approved by the independent shareholders of the Company in a special general meeting held on 27 May 2005.

During the year, sale of golf products to Nikko Bussan (Japan) under the Supply Agreement amounted to approximately HK$5,688,000 which had been reviewed by the independent non-executive directors of the Company who confirmed that (i) the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the

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Group; (ii) the Continuing Connected Transactions have been entered into on an arm's length basis, on normal commercial terms and on terms no less favourable than terms available to independent third parties or on terms that are fair and reasonable so far as the shareholders of the Company taken as a whole are concerned; (iii) the Continuing Connected Transactions have been carried out in accordance with the terms of the Supply Agreement; (iv) the Continuing Connected Transactions have received the approval of the Board; and (v) the Continuing Connected Transactions have not exceeded the annual cap of HK$30,000,000.

The auditors of the Company have reviewed the Continuing Connected Transactions and confirmed in writing to the Board that (i) the Continuing Connected Transactions have received the approval of the Board; (ii) the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group; (iii) the Continuing Connected Transactions have been carried out in accordance with the terms of the Supply Agreement; and (iv) the Continuing Connected Transactions have not exceeded the annual cap of HK$30,000,000.

NEW GOLF CLUB FACILITY UNDER CONSTRUCTION

As at 31 December 2005, the Group has invested in aggregate HK$30.1 million in respect of the new golf club facility project in Shandong Province, the P.R.C., which comprised land premium of approximately HK$14.8 million and progress payments on construction of approximately HK$15.3 million. It is estimated that further construction cost of approximately HK$25 million will be incurred in 2006 which will be financed by internal funding.

The construction of the new golf club facility will be completed by end of the third quarter of 2006. Trial production is anticipated to commence during the last quarter of 2006 and mass production is planned in the early part of 2007. The new golf club facility will provide additional capacity to cope with the growing needs of golf clubs from both existing and new customers. Taking advantage of cheaper labor and overheads in Shandong Province, it is expected that the Group will achieve further cost savings when the new golf club factory commences production in 2007.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

The currency of Renminbi has appreciated by about 2.1% effective from 21 July 2005 and was unpegged with the United States dollars and changed to peg with a basket of currencies. This however has no material effect on the Group, as the Renminbi expenditures do not account for a significant portion of the Group's total costs and expenses.

EMPLOYEE AND REMUNERATION POLICIES

The Group employed a total of approximately 2,800 employees in Hong Kong, the P.R.C. and the United States as at 31 December 2005. It is the Group's policy to maintain harmonious relations with its employees through provision of competitive remuneration packages and training programs. The employees were remunerated based on their performance, experience and expertise as well as the industry practices. The remuneration packages are reviewed annually to assure fairness and appropriateness and discretionary bonuses may be awarded based on the performance and contributions of individual employees.