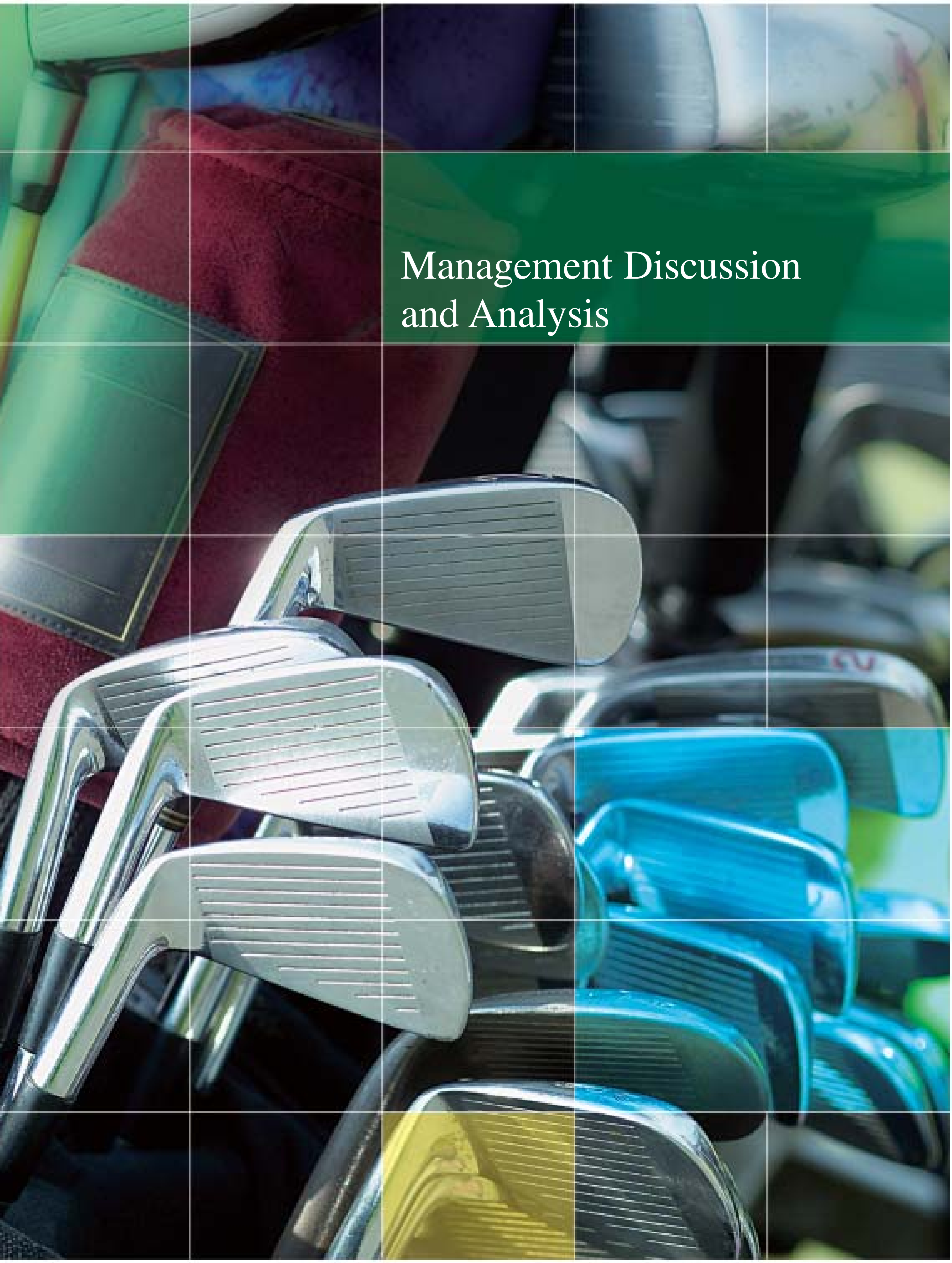
Management Discussion and Analysis



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This statement provides supplementary information to the Chairman's Statement

RESULTS OF OPERATIONS

Consolidated turnover of the Group for the year ended 31 December 2006 increased significantly by about 34.3% to approximately HK$493,376,000 (2005: HK$367,257,000). Net profit attributable to equity holders of the Company improved by about 5.6% to approximately HK$33,315,000 (2005: HK$31,560,000). The remarkable growth in turnover was a result of the Group's successful enhancement of its customer portfolio with the addition of high-end clients, as well as the satisfactory performance achieved from the existing customers.

With the surge in business volume, gross profit for the year increased by about 28.8% to approximately HK$137,905,000 from HK$107,054,000 of the preceding year. Average gross profit margin however slipped from about 28.8% in 2005 to approximately 27.7% this year mainly attributable to the impact of the increase in material cost and the adoption of more direct components purchase in reaction to shortages in the supply of raw materials for components production. The impact of such cost increase has been mitigated to some extent by sales price adjustments on new models and other cost control measures. However, the overall increase in production overheads and the learning curve effect brought by the production of certain advanced new models further restricted the room to improve margins.

Other income and gains for the year dropped significantly from about HK$7,010,000 in 2005 to approximately HK$1,655,000 this year mainly due to the reduction in handling charge and compensation income and the recording of a non-recurring gain on disposal of a subsidiary of approximately HK$2,581,000 in 2005.

Selling and distribution costs nearly doubled from HK$12,273,000 in 2005 to approximately HK$23,850,000 for 2006 primarily due to additional commissions, duties and freight charges incurred against the increased sales volume. In particular, commissions increased from approximately HK$4,886,000 in 2005 to HK$11,391,000 this year mainly due to the surge in sales volume as well as the increase in commission rates for some products. Administrative expenses for the year amounted to approximately HK$53,549,000 and did not fluctuate materially compared to the preceding year. Other operating expenses for the year decreased from HK$7,511,000 in 2005 to approximately HK$6,844,000 mainly as a result of the decrease in loss on fixed assets written off.

Finance costs increased to approximately HK$20,603,000 for the year from HK$12,058,000 in 2005 principally due to the increase in both the interest rates and the utilization factoring facilities as well as trade finance during the year.

To conclude, profit attributable to equity holders of the Company for 2006 amounted to approximately HK$33,315,000, representing a mild improvement of about 5.6% over that of 2005.

LIQUIDITY AND FINANCIAL RESOURCES

Guided by prudent principles, the Group formulates and implements effective policies to manage its funds. The 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 appropriate policies and guidelines to ensure that such risks are properly monitored and confined within acceptable ranges.

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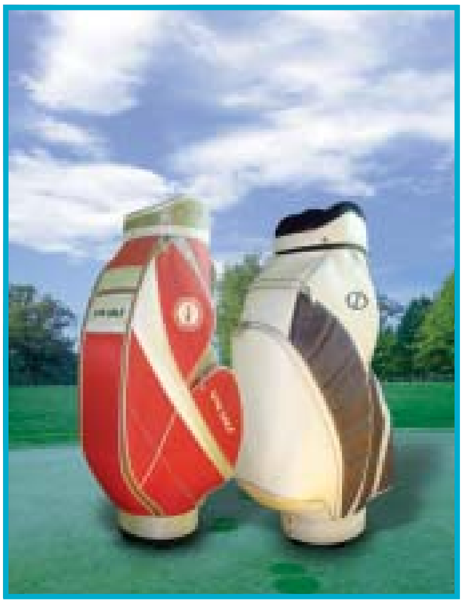
Cash and cash equivalents at 31 December 2006 amounted to approximately HK$73.1 million (31 December 2005: HK$79.1 million) and were denominated mostly in United States dollars and Hong Kong dollars. The decrease in the level of cash and cash equivalents was primarily the result of appropriating funds as scheduled for the construction of the new golf club facility. Besides, in anticipation of increased business volume of the golf bag segment, the Group has stocked up bags related inventories to meet production requirements. At the balance sheet date, the bags related inventory increased by approximately HK$9.2 million compared to that of the preceding yearend date. To help stabilize the impact of rising materials cost and to safeguard production against shortages of raw materials, the Group also selectively stocked up some key inventory items to secure uninterrupted product deliveries. Overall inventory level thus elevated and stood at approximately HK$151 million at the balance sheet date (31 December 2005: HK$124 million).

Without major changes, 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. At 31 December 2006, borrowings (including finance lease payable) aggregated to approximately HK$191.9 million (31 December 2005: HK$175.8 million), of which approximately HK$149.1 million (31 December 2005: HK$138.9 million) is repayable or deemed repayable within one year. The level of bank borrowings increased mainly due to higher utilization of banking facilities to finance the increased business volume. Gearing ratio, defined as total bank borrowings and finance lease payable less cash and cash equivalents of approximately HK$118.8 million divided by the shareholders' equity of approximately HK$200.4 million, was 59.3% as at 31 December 2006 (31 December 2005: 51.9%). The gearing ratio went up as a result of the increase in net bank borrowings.

It has been the Group's objective to maintain a financial position being adequate and supportive of its growth and development needs. At 31 December 2006, the net asset value of the Group amounted to approximately HK$200.4 million (31 December 2005: HK$186.0 million). Current and quick ratios as at 31 December 2006 were approximately 1.05 (31 December 2005: 1.14) and 0.43 (31 December 2005: 0.59) respectively. The current ratio decreased mainly because prepayments on the new golf club facility of approximately HK$29.5 million were classified as non-current assets. The current ratio will improve upon the refinancing of bank loans in due course. On the other hand, the quick ratio fell mainly due to the escalation of the inventory in anticipation of business expansion. Both ratios stayed at acceptable levels with rooms for improvement when bank loans to be matured shortly are refinanced with long term arrangements.

SHORTFALL UNDER PROFIT GUARANTEE

Pursuant to an agreement dated 22 December 2003 (the "Agreement") entered into between Sino Golf Manufacturing Company Limited ("SGMCL"), an indirect wholly owned subsidiary of the Company, and Mr. Chen Chien Hsiang ("Mr. Chen"), SGMCL acquired from 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 2006 was less than the Guaranteed Profit, SGMCL is entitled to a receivable of approximately HK$737,000 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.



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CONTINUING CONNECTED TRANSACTIONS

On 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 (deceased on 13 August 2006), who was a director of the Company, owned 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$5,845,000, of which about HK$3,592,000 represented sales for the period prior to the death of Mr. Takanori Matsuura. The Continuing Connected Transactions have 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 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 favorable 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 (i) have received the approval of the Board; (ii) are in accordance with the pricing policies of the Group; (iii) have been entered into in accordance with the relevant agreement governing the transactions; and (iv) have not exceeded the annual cap of HK$30,000,000.

NEW GOLF CLUB FACILITY UNDER CONSTRUCTION

At 31 December 2006, the Group invested in aggregate HK$62.9 million in respect of the new golf club facility project in Shandong Province, the P.R.C., which comprised land premium and related costs of approximately HK$15.7 million and progress payments on construction of approximately HK$47.2 million. It is estimated that further cost relating mainly to electrical and ventilation systems of approximately HK$20 million will be incurred in 2007, which will be financed by internal funding. Pre-operating expenses of approximately HK$1.6 million incurred during the year have been charged to the profit and loss account.

The completion of the new golf club facility has been rescheduled to around third quarter of 2007 for reasons caused by design modifications and weather conditions. To expedite smooth operations when the new golf club facility is completed, a number of production related positions have been filled up and trainings are currently taking place at the Group's main factory in Guangdong Province, the P.R.C. Trial production at the new golf club facility is anticipated to commence during the fourth quarter of 2007 and mass production is planned to start in early 2008. The new golf club facility is an important milestone for the Group with which we reaffirm our leading status and expect to materialize business dealings with potential top tier customers. The new golf club facility will provide the additional capacity necessary for satisfying the growing needs for golf clubs from both existing and potential new customers. Taking advantage of lower land and labor cost in Shandong Province, it is anticipated that the Group can achieve further cost savings when the new golf club facility commences operations.

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INDEPENDENT VALUATION OF PROPERTIES

In accordance with Group policies, the properties of the Group comprising land and buildings at 31 December 2006 were revalued by an independent professional valuer. A revaluation deficit of approximately HK$483,000 arose and was recorded to the asset revaluation reserve account.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of operations to which they relate. The currencies giving rise to this risk are primarily United States dollars, Japan Yen and Renminbi.

EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2006, the Group employed a total of over 3,100 employees to work in Hong Kong, Macau, the P.R.C. and the United States. It is the Group's policy to pursue and promote a harmonious relation with its employees by offering competitive remuneration packages and training programs. The employees were remunerated based on their performance, experience and expertise as well as industry practices. The remuneration packages are reviewed annually to assure fairness and appropriateness and discretionary bonuses may be awarded to employees based on individual performance and contributions.