Notes to Financial Statements

31 December 2006

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:

- manufacture and trading of golf equipment, and related components and parts; and
- manufacture and trading of golf bags, other accessories, and related components and parts.

In the opinion of the directors, the holding company of the Company is CM Investment Company Limited, which is incorporated in the British Virgin Islands, and the ultimate holding company of the Company 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 and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars 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 2006. 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 not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intra-group forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

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

(c) HK(IFRIC)-*Int 4 Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

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

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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

- 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.

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 non-financial assets other than goodwill

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.

2.4 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 a member of the key management personnel of the Group or its parent;

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

(d) 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 (b) or (c).

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.

2.4 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% to 5%
Leasehold improvements	20%
Plant and machinery	10% to 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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

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

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. 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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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, that is, the date that the Group commits to purchase or sell 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.

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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount as premium on acquisition and includes fees that are an internal part of the effective interest rate and transaction costs. 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.

Impairment of financial assets

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 the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

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 them 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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.

Financial liabilities at amortised cost (including interest-bearing bank and other borrowings)

Financial liabilities, including trade and other payables, interest-bearing bank and other borrowings and amounts due to related parties, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

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 the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedging

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 the income statement.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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; and

(d) other income, on an accrual basis.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. 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.

2.4 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 dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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 by 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Retirement benefits schemes (continued)

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The assets of the scheme 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.

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.

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 the income statement. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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 JUDGEMENTS AND ESTIMATES

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 2006 was HK$25,723,000 (2005: HK$25,723,000). More details are given in note 16 to the financial statements.

Provision against 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 and 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 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 of manufacture and trading of golf equipment, and related components and parts; and

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

4. SEGMENT INFORMATION *(continued)*

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.

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group

	Golf equipment		Golf bag		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**402,188**	301,046	**91,188**	66,211	**–**	–	**493,376**	367,257
Intersegment revenue	**4,475**	4,217	**11,079**	6,242	**(15,554)**	(10,459)	**–**	–
Other revenue	**3,093**	9,124	**1,867**	1,870	**–**	–	**4,960**	10,994
Total	**409,756**	314,387	**104,134**	74,323	**(15,554)**	(10,459)	**498,336**	378,251
Segment results	**48,949**	41,514	**5,547**	1,775			**54,496**	43,289
Interest income							**821**	748
Finance costs							**(20,603)**	(12,058)
Profit before tax							**34,714**	31,979
Tax							**(1,580)**	(1,130)
Profit for the year							**33,134**	30,849

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Golf equipment		Golf bag		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)						(Restated)
Assets and liabilities:								
Segment assets	**373,977**	339,533	**55,504**	53,558	**(13,284)**	(19,501)	**416,197**	373,590
Unallocated assets							**73,105**	79,700
Total assets							**489,302**	453,290
Segment liabilities	**56,078**	80,360	**51,528**	27,172	**(13,284)**	(19,501)	**94,322**	88,031
Unallocated liabilities							**194,619**	179,269
Total liabilities							**288,941**	267,300
Other segment information:								
Depreciation	**11,640**	13,617	**1,917**	1,478	**–**	–	**13,557**	15,095
Impairment of trade receivables	**822**	352	**–**	–	**–**	–	**822**	352
Capital expenditure	**43,270**	41,500	**6,744**	2,969	**–**	–	**50,014**	44,469

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 2006 and 2005.

Group

	North America		Europe		Asia (excluding Japan)		Japan		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	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	**338,244**	248,108	**21,265**	25,018	**57,157**	43,344	**75,616**	41,215	**1,094**	9,572	**493,376**	367,257

	Hong Kong		PRC		Unallocated		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	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	**427,845**	354,753	**363,821**	258,425	**13,710**	18,846	**(389,179)**	(258,434)	**416,197**	373,590
Unallocated assets									**73,105**	79,700
Total assets									**489,302**	453,290
Capital expenditure	**322**	3,501	**49,692**	44,147	**–**	–	**–**	–	**50,014**	44,469

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	
		2006	2005
	Note	***HK$'000***	*HK$'000*
Revenue			
Turnover:			
Sale of goods		**493,376**	367,257
Gross rental income		**1,974**	2,030
Testing income		**9**	1,771
Tooling charges		**2,143**	931
		497,502	371,989
Other income			
Compensation income		**–**	1,170
Commission income		**–**	112
Bank interest income		**821**	736
Interest income from loan receivable		**–**	12
Patent income		**–**	859
Gain on disposal of items of property, plant and equipment		**150**	–
Others		**684**	1,540
		1,655	4,429
Gain			
Gain on disposal of a subsidiary	*33*	**–**	2,581
		1,655	7,010

6. PROFIT BEFORE TAX

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

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Cost of inventories sold		**243,293**	191,735
Depreciation	*14*	**13,557**	15,095
Recognition of prepaid land lease payments	*15*	**493**	161
Minimum lease payments under operating leases:			
Land and buildings		**7,541**	6,479
Motor vehicles		**–**	66
Auditors' remuneration		**1,330**	1,150
Employee benefits expense (including directors' remuneration – *note 8*):			
Wages and salaries		**84,262**	62,287
Equity-settled share option expense		**312**	83
Retirement benefits scheme contributions*		**2,187**	2,305
		86,761	64,675
Impairment of trade receivables**		**822**	352
Foreign exchange differences, net		**1,141**	47
Write-off of items of property, plant and equipment**	*14*	**103**	385
Write-off of obsolete inventories***		**–**	5,379
Gain on disposal of a subsidiary	*33*	**–**	(2,581)
Gain on disposal of items of property, plant and equipment		**(150)**	–
Rental income		**(1,974)**	(2,030)
Bank interest income		**(821)**	(736)
Interest income from loan receivable		**–**	(12)
Loss on derecognition of interest rate swaps	*22*	**172**	–
Fair value gains on interest rate swaps	*22*	**–**	(2,060)

* At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits schemes in future years (2005: Nil).

** The impairment of trade receivables and write-off of items of property, plant and equipment for the year are included in "Other expenses" on the face of the consolidated income statement.

*** The write-off of obsolete inventories for the year is included in "Cost of sales" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Fair value gains on interest rate swaps *(note 22)*	**–**	(2,060)
Loss on derecognition of interest rate swaps *(note 22)*	**172**	–
Factoring charges	**8,236**	3,461
Interest on bank loans	**9,248**	8,498
Interest on finance leases	**106**	5
Bank charges	**2,841**	2,154
Total finance costs	**20,603**	12,058

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	
	2006	2005
	HK$'000	*HK$'000*
Fees	**270**	210
Other emoluments:		
Salaries	**3,698**	3,854
Bonuses	**620**	620
Housing benefits	**1,440**	1,440
Employee share option benefits	**78**	–
Retirement benefits scheme contributions	**24**	24
	5,860	5,938
	6,130	6,148

During the year, one of the directors was granted share options, in respect of his service to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options which has been recognised to the income statement over the vesting period was determined as at the date of grant, and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION *(continued)*

(a) Independent non-executive directors

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

	2006	2005
	HK$'000	*HK$'000*
Choy Tak Ho	**120**	120
Tse Ying Man	**50**	50
Chiu Lai Kuen, Susanna	**100**	40
	270	210

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors

	Salaries	**Bonuses**	**Housing benefits**	**Employee share option benefits**	**Retirement benefits scheme contributions**	**Total remuneration**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006						
Chu Chun Man, Augustine	1,560	200	840	–	12	2,612
Chu Yuk Man, Simon	1,200	300	600	–	12	2,112
Takanori Matsuura*	218	–	–	–	–	218
Chang Hua Jung	720	120	–	78	–	918
	3,698	620	1,440	78	24	5,860
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

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

* Takanori Matsuura passed away on 13 August 2006.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2005: two) executive directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2005: three) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**2,284**	3,134
Performance related bonuses	**230**	350
Employee share option benefits	**–**	45
Retirement benefits scheme contributions	**12**	24
	2,526	3,553

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

	Number of employees	
	2006	2005
HK$1,000,001 to HK$1,500,000	**2**	3

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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	
	2006	2005
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**1,761**	1,814
Current – Elsewhere	**560**	481
Deferred tax *(note 29)*	**(741)**	(1,165)
Tax charge for the year	**1,580**	1,130

10. TAX *(continued)*

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

Group – 2006

	Hong Kong		Mainland China		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	13,942		(7,250)		28,022		34,714	
Tax at the statutory tax rate	2,440	17.5	(2,392)	33.0	4,203	15.0	4,251	12.2
Lower tax rate for specific provinces or local tax authority	–	–	(245)	3.4	–	–	(245)	(0.7)
Income not subject to tax	(1,629)	(11.7)	(1,065)	14.7	(4,373)	(15.6)	(7,067)	(20.3)
Expenses not deductible for tax	209	1.5	827	(11.4)	170	0.6	1,206	3.5
Tax losses not recognised	–	–	3,435	(47.4)	–	–	3,435	9.9
Tax charge at the Group's effective rate	1,020	7.3	560	(7.7)	–	–	1,580	4.6

Group – 2005

	Hong Kong		Mainland China		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	18,841		(5,624)		18,762		31,979	
Tax at the statutory tax rate	3,297	17.5	(1,856)	33.0	2,814	15.0	4,255	13.3
Lower tax rate for specific provinces or local tax authority	–	–	323	(5.7)	8	–	331	1.0
Income not subject to tax	(3,034)	(16.2)	(602)	10.7	(2,840)	(15.1)	(6,476)	(20.2)
Expenses not deductible for tax	371	2.0	804	(14.3)	–	–	1,175	3.7
Tax losses utilised	–	–	(170)	3.0	–	–	(170)	(0.5)
Tax losses not recognised	15	0.1	1,982	(35.3)	18	0.1	2,015	6.2
Tax charge at the Group's effective rate	649	3.4	481	(8.6)	–	–	1,130	3.5

Under the income tax law in the People's Republic of China ("PRC"), all PRC subsidiaries of the Group are subject to corporate income tax ("CIT") at rates ranging from 15% to 24% on the taxable income as reported in their statutory accounts.

10. TAX *(continued)*

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 exemption from the PRC state CIT for the first two profitable financial years and 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 applicable to them ranges from 15% to 24%. The two-year tax exemption periods for these companies have not yet commenced during the year.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK$17,020,000 (2005: HK$22,154,000) which has been dealt with in the financial statements of the Company (note 32(b)).

12. DIVIDENDS

	2006 ***HK$'000***	2005 *HK$'000*
Interim – HK3.3 cents (2005: HK3 cents) per ordinary share	**9,973**	9,066
Proposed final – HK2.2 cents (2005: HK4 cents) per ordinary share	**6,648**	12,088
	16,621	21,154

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

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK$33,315,000 (2005: HK$31,560,000) and the weighted average number of 302,200,000 (2005: 302,200,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issued during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued for nil consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

A diluted earnings per share amount for the year ended 31 December 2005 has not been disclosed as no diluting events existed in the prior year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings	Leasehold improve-ments	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2006							
At 31 December 2005 and at 1 January 2006:							
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
At 1 January 2006, net of accumulated depreciation	85,735	3,917	38,646	1,986	1,186	8,909	140,379
Additions	1,632	1,136	12,703	412	470	11,988	28,341
Disposals	(694)	–	–	–	–	–	(694)
Write-off	–	–	(100)	(3)	–	–	(103)
Deficit on revaluation	(483)	–	–	–	–	–	(483)
Depreciation provided during the year	(3,262)	(818)	(8,227)	(723)	(527)	–	(13,557)
Transfers	761	–	–	–	–	(761)	–
Exchange realignment	1,806	68	656	27	13	221	2,791
At 31 December 2006, net of accumulated depreciation	85,495	4,303	43,678	1,699	1,142	20,357	156,674
At 31 December 2006:							
Cost or valuation	102,654	7,035	94,935	4,260	3,978	20,357	233,219
Accumulated depreciation	(17,159)	(2,732)	(51,257)	(2,561)	(2,836)	–	(76,545)
Net carrying amount	85,495	4,303	43,678	1,699	1,142	20,357	156,674
Analysis of cost or valuation:							
At cost	–	7,035	94,935	4,260	3,978	20,357	130,565
At 31 December 2006 valuation	102,654	–	–	–	–	–	102,654
	102,654	7,035	94,935	4,260	3,978	20,357	233,219

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

Group

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
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

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

Notes:

(a) Certain of the Group's land and buildings were revalued individually as at 31 December 2006 by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK$102,654,000 based on their existing use.

(b) Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$62,164,000 (2005: HK$48,266,000).

(c) The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of plant and machinery and motor vehicles at 31 December 2006 amounted to HK$5,748,000 (2005: HK$139,000).

(d) The gross amount and accumulated depreciation of the property, plant and equipment under operating leases are HK$840,000 and HK$336,000, respectively.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 January	**21,195**	17,833
Additions	**–**	4,641
Disposal of a subsidiary *(note 33)*	**–**	(1,293)
Recognised during the year	**(493)**	(161)
Exchange realignment	**522**	175
Carrying amount at 31 December	**21,224**	21,195
Current portion	**(459)**	(459)
Non-current portion	**20,765**	20,736

15. PREPAID LAND LEASE PAYMENTS *(continued)*

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

	2006	2005
	HK$'000	*HK$'000*
Long-term leases	**–**	247
Medium-term leases	**21,224**	20,948
	21,224	21,195

At 31 December 2006, the Group did not have title to a piece of land with carrying value of HK$3,397,000 (2005: HK$3,397,000). 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.

16. GOODWILL

	Group
	HK$'000
Cost at 1 January 2005 and 2006, net of accumulated impairment	25,723
Impairment during the year	–
Cost and carrying amount at 31 December 2005 and 2006	25,723
At 31 December 2005 and 2006	
Cost	25,723
Accumulated impairment	–
Net carrying amount	25,723

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.

16. GOODWILL *(continued)*

Impairment testing of goodwill *(continued)*

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 cash flow projections is 12%.

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 12%. The growth rate used to extrapolate the cash flows of the golf bag unit is 5%.

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

	Golf equipment		**Golf bag**		**Total**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Carrying amount of goodwill	**12,389**	12,389	**13,334**	13,334	**25,723**	25,723

Key assumptions were used in the value in use calculation of the golf equipment and golf bag cash-generating units for 31 December 2006. 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, increased for expected efficiency improvements, and expected market development.

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

17. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**15,717**	15,717
Due from subsidiaries	**94,106**	98,707
	109,823	114,424

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
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	–	100%	Manufacture and trading of golf equipment and accessories
Guangzhou Sino Concept Golf Manufacturing Co., Ltd.*	PRC	HK$30,000,000	–	100%	Manufacture and trading of golf equipment and accessories
CTB Golf (HK) Limited ("CTB")	Hong Kong	HK$10,000,000 (ordinary) HK$2,730,000 (preference)	–	100%	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	–	100%	Manufacture and trading of golf bags

17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Equity interest attributable to the Company Direct	Equity interest attributable to the Company Indirect	Principal activities
Xiamen Sino Talent Golf Manufacturing Co., Ltd.*	PRC	US$4,000,000	–	100%	Manufacture and trading of golf equipment
Linyi Sinoeia Golf Co., Ltd.*	PRC	HK$59,911,383	–	100%	Manufacture and trading of golf equipment and accessories
Sino Golf Leisure Company Limited	Hong Kong	HK$1,000,000	–	100%	Golf leisure promotion
Sino U.S. Holding Company, L.L.C.	USA	US$100	–	100%	Investment holding
Sino CTB Company, L.L.C.	USA	US$500,000	–	100%	Investment holding
Sino Golf (USA) Inc.	USA	US$1,000	–	100%	Trading of golf bags
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%	Investment holding and provision of trading services
上海順龍商務資訊有限公司*	PRC	US$140,000	–	51%	Provision of consulting and trading services
Sino Golf Victory and Distribution Company Limited	Hong Kong	HK$1,000	–	51% *(Note b)*	Provision of trading services

* Wholly-foreign-owned enterprises established under the PRC law.

17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows: *(continued)*

Notes:

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

(b) A company is newly set up by the Group in current year.

18. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**60,149**	48,718
Work in progress	**35,734**	30,810
Finished goods	**55,179**	44,442
	151,062	123,970

19. TRADE 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 is generally between 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 receivables as at the balance sheet date, based on the date of recognition of sale and net of provisions, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 3 months	**10,862**	18,407
4 to 6 months	**480**	2,169
7 to 12 months	**2,050**	3,187
Over 1 year	**2,903**	3,336
	16,295	27,099

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**2,257**	1,957	**–**	–
Deposits and other debtors	**13,315**	24,248	**1,705**	1,784
Loans to director *(note 21)*	**130**	863	**–**	–
	15,702	27,068	**1,705**	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 2006**	**Maximum amount outstanding during the year**	**1 January 2006**
	HK$'000	*HK$'000*	*HK$'000*
Chu Yuk Man, Simon	**–**	687	687
Chang Hua Jung	**130**	176	176
	130		**863**

The loan granted to Chang Hua Jung of HK$130,000 is interest-free and payable on demand.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest rate swaps	**–**	172

The carrying amounts of interest rate swaps are the same as their far 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. Loss of derecognition of non-hedging interest rate swaps amounting to HK$172,000 were charged to the income statement during the year while changes in the fair value of non-hedging interest rate swaps amounting to HK$2,060,000 were credited to the income statement in year 2005.

23. CASH AND BANK BALANCES

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$18,068,000 (2005: HK$8,448,000). 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 depending on the immediate cash requirements of the Group, 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 date of receipt of goods, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 3 months	**46,310**	40,419
4 to 6 months	**6,933**	3,379
7 to 12 months	**428**	1,307
Over 1 year	**296**	539
	53,967	45,644

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

25. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accruals and other liabilities	**36,826**	42,387	**155**	7
Due to related parties *(note 26)*	**985**	–	**–**	–
	37,811	42,387	**155**	7

Other payables are non-interest-bearing and have an average term of three months.

26. AMOUNTS DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, interest-free and repayable on demand.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 HK$'000	Group 2005 HK$'000
Current				
Finance lease payables *(note 28)*	HIBOR+1.125 to 5.13	2009-2010	**1,269**	84
Bank loans – unsecured	HIBOR+1.45 to HIBOR+0.8	2007-2009	**147,790**	138,776
			149,059	138,860
Non-current				
Finance lease payables *(note 28)*	HIBOR+1.125 to 5.13	2009-2010	**3,468**	–
Bank loans – unsecured	HIBOR+1.45 to HIBOR+0.8	2007-2009	**39,374**	36,950
			42,842	36,950
			191,901	175,810

	Group 2006 HK$'000	Group 2005 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**147,790**	138,776
In the second year	**37,517**	36,950
In the third to fifth years, inclusive	**1,857**	–
	187,164	175,726
Other borrowings repayable:		
Within one year	**1,269**	84
In the second year	**2,331**	–
In the third to fifth years, inclusive	**1,137**	–
	4,737	84
	191,901	175,810

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

Notes:

(a) All the Group's bank and other borrowings are denominated in Hong Kong dollars.

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

(c) 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.

(d) As at 31 December 2006, the Group did not comply with certain financial covenants as set out in the banking facility agreements entered into with two banks. The loans with these two banks of approximately HK$6.2 million and HK$25.5 million were recorded as current liabilities in the balance sheet as of 31 December 2006. As a consequence of the above, a bank loan of approximately HK$40 million with another bank, which was also recorded as current liabilities in the balance sheet as of 31 December 2006, might meet the cross default event as set out in the relevant agreement.

On 20 April 2007, the Group repaid the above HK$6.2 million bank loan in accordance with the original repayment schedule. Management has also received a preliminary indication from bank that it will consider granting a waiver for non-compliance of financial covenants in respect of the above HK$25.5 million. As such, management believes all the above defaults have been remedied.

28. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its golf equipment manufacturing business. These leases are classified as finance leases and have remaining lease terms of 34 months to 43 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 2006 *HK$'000*	Minimum lease payments 2005 *HK$'000*	**Present value of minimum lease payments 2006 *HK$'000***	Present value of minimum lease payments 2005 *HK$'000*
Amounts payable:				
Within one year	**1,488**	86	**1,269**	84
In the second year	**3,710**	–	**3,468**	–
Total minimum finance lease payments	**5,198**	86	**4,737**	84
Future finance charges	**(461)**	(2)		
Total net finance lease payables	**4,737**	84		
Portion classified as current liabilities *(note 27)*	**(1,269)**	(84)		
Non-current portion *(note 27)*	**3,468**	–		

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

29. DEFERRED TAX LIABILITIES

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

	Depreciation allowance in excess of related depreciation	Revaluation of land and buildings	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	1,076	2,383	–	3,459
Deferred tax credited to the income statement during the year *(note 10)*	(741)	–	–	(741)
Deferred tax liabilities at 31 December 2006	335	2,383	–	2,718
At 1 January 2005	1,695	2,383	546	4,624
Deferred tax credited to the income statement during the year *(note 10)*	(619)	–	(546)	(1,165)
Deferred tax liabilities at 31 December 2005	1,076	2,383	–	3,459

The unused tax losses arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose amounting to approximately HK$830,000 (2005: HK$830,000). 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 and it is not considered probable that taxable profits will be available against which tax losses can be utilised.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: 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

	2006	2005
	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

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 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, at 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 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 Scheme, the maximum number of shares in respect of which options may be granted under the Scheme, when aggregated with shares subject to any other share option schemes, must not exceed 30% of the shares in issue of the Company at any time. The maximum number of shares issuable under share options to each eligible participant in the 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.

31. SHARE OPTION SCHEME *(continued)*

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 issuance of a circular by the Company and the approval of the shareholders in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of 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 offer of the share options or the expiry date of the 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 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.

31. SHARE OPTION SCHEME *(continued)*

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

Name or category of participant	Number of share options: At 1 January 2006	Granted during the year	Expired during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of the Company's shares at grant date of options*** HK$ per share
Directors								
Chu Chun Man, Augustine	3,000,000	–	(3,000,000)	–	24 December 2003	29 December 2003 to 31 December 2006	1.51	1.48
Chu Yuk Man, Simon	3,000,000	–	(3,000,000)	–	24 December 2003	29 December 2003 to 31 December 2006	1.51	1.48
Takanori Matsuura****	3,000,000	–	(3,000,000)	–	24 December 2003	29 December 2003 to 31 December 2006	1.51	1.48
Chang Hua Jung	–	1,000,000	–	1,000,000	3 August 2006	3 August 2006 to 31 July 2008	0.7	0.68
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	1.48
In aggregate	–	3,000,000	–	3,000,000	3 August 2006	3 August 2006 to 31 July 2008	0.7	0.68
	18,380,000	4,000,000	(17,280,000)	5,100,000				

* The vesting period of the share options is from the date of grant until the commencement of exercise period.

** The exercise price of 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 grant of the options.

**** Passed away on 13 August 2006.

31. SHARE OPTION SCHEME *(continued)*

The fair value of the share options granted during the year was approximately HK$312,000. The Group recognised a share option expense of HK$312,000 during the year ended 31 December 2006.

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 2006:

Expected volatility (%)	30.00
Risk-free interest rate (%)	4.14
Expected life of option (year)	2.00
Stock asset price (HK$)	0.68
Option strike price (HK$)	0.70

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur.

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

At the balance sheet date, the Company had 5,100,000 share options outstanding under the Scheme. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 5,100,000 additional ordinary shares of the Company and an additional share capital of HK$510,000 and share premium of HK$3,203,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 5,100,000 share options outstanding under the Scheme, which represented approximately 1.69% of the Company's shares in issue as at that date.

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 51.

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.

32. RESERVES *(continued)*

(b) Company

	Share premium account	Contributed surplus	Share option reserve	Retained profits	Proposed final dividend	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	57,270	15,516	–	62	–	72,848
Equity-settled share option expense *(note 31)*	–	–	83	–	–	83
Profit for the year	–	–	–	22,154	–	22,154
2005 interim dividend *(note 12)*	–	–	–	(9,066)	–	(9,066)
Proposed 2005 final dividend *(note 12)*	–	–	–	(12,088)	12,088	–
At 31 December 2005 and 1 January 2006	57,270*	15,516*	83*	1,062*	12,088	86,019
Equity-settled share option expense *(note 31)*	–	–	312	–	–	312
Profit for the year	–	–	–	17,020	–	17,020
2005 final dividend declared	–	–	–	–	(12,088)	(12,088)
2006 interim dividend *(note 12)*	–	–	–	(9,973)	–	(9,973)
Proposed 2006 final dividend *(note 12)*	–	–	–	(6,648)	6,648	–
At 31 December 2006	57,270*	15,516*	395*	1,461*	6,648	81,290

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.

* These reserve accounts comprise the reserves of HK$74,642,000 (2005: HK$73,931,000) in the balance sheet.

33. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2005, 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.

	Notes	**2006**	2005
		HK$'000	*HK$'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 and other receivables		–	2,957
Amount due from Group companies		–	3,722
Cash and bank balances		–	567
Trade payables		–	(4,022)
Other payables and accruals		–	(3,298)
Amount 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:

	2006	2005
	HK$'000	*HK$'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

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$5,208,000 (2005: nil).

35. CONTINGENT LIABILITIES

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	607,860	505,860

As at 31 December 2006, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$305,034,000 (2005: HK$289,654,000).

(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$2,375,000 (2005: HK$2,140,000) as at 31 December 2006, as further explained under the heading "Employee benefits" in note 2.4 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.

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its plant and machinery (note 14 to the financial statements) and subleases certain office properties under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants and lessees 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 and lessees falling due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**1,919**	1,907
In the second to fifth years, inclusive	**2,216**	3,611
	4,135	5,518

36. OPERATING LEASE ARRANGMENTS *(continued)*

(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 13 years.

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

	2006 HK$'000	2005 HK$'000
Within one year	**5,510**	5,461
In the second to fifth years, inclusive	**8,015**	9,666
After five years	**1,419**	2,992
	14,944	18,119

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Contracted, but not provided for:				
Land and buildings	**24,376**	9,893	**–**	–
Plant and machinery	**4,562**	925	**–**	–
Furniture, fixtures and equipment	**168**	–	**–**	–
	29,106	10,818	**–**	–
Authorised, but not contracted for:				
Land and buildings	**–**	6,375	**–**	–
Contracted, but not provided for:				
Capital contribution into subsidiaries	**–**	–	**75,850**	98,679
	–	–	**75,850**	98,679
	29,106	17,193	**75,850**	98,679

38. 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	2006 HK$'000	2005 HK$'000
Purchases of raw materials from Nikko Bussan Co., Ltd. ("Nikko Bussan")	(i)	**11**	9
Sale of finished goods to Nikko Bussan	(ii)	**5,845**	5,688
Rental expenses paid to Progolf Manufacturing Company Limited ("Progolf") and Oriental Leader Limited	(iii)	**1,440**	1,440
Rental income from Sino Sporting Company Limited ("Sino Sporting")	(iv)	**287**	520
Rental expenses paid to Sino Sporting	(iv)	**–**	66

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:

(i) Takanori Matsuura*, a director of the Company, had a beneficial interest in Nikko Bussan. The purchase prices of raw materials and club heads were determined based on the agreement between the parties.

(ii) The sales constitute continuing connected transactions as defined in Chapter 14A of Listing Rules. The selling prices of finished goods were determined based on a cost plus basis.

(iii) Chu Chun Man, Augustine ("Augustine Chu"), a director of the Company, has a beneficial interest in Progolf, and Chu Yuk Man, Simon ("Simon Chu"), a director of the Company, has a beneficial interest in Oriental Leader Limited. The rental expenses were determined at rates agreed between the Group and the corresponding related parties based on market rates.

(iv) Augustine Chu, Takanori Matsuura* and Simon Chu, directors of the Company, have beneficial interests in Sino Sporting. The rental rates were based on agreement among the parties.

* Mr. Takanori Matsuura passed away on 13 August 2006 and his legacies have not yet been arranged.

38. RELATED PARTY TRANSACTIONS *(continued)*

(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) In addition to the balances detailed elsewhere in these financial statements, the Group had the following outstanding balances with other related parties included in trade receivables:

	Due from related parties	
	31 December 2006	31 December 2005
	HK$'000	*HK$'000*
Nikko Bussan	**–**	528

(c) Compensation of key management personnel of the Group:

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, finance lease payables, 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 risks 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.

39. 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 sufficient credit stance and with proven track record are exempt from the down payment requirement. Through factoring and related agreements, the Group assigns the majority of its trade receivables to banks and transfers to banks the credit risk of the debtors' failure to make payments. There was no material credit loss sustained on trade receivables in 2006 and 2005, except as disclosed in last year's annual report.

(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 of the amount and maturity of assets and those of 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 and known funding requirements can be met. The liquidity risk is further mitigated by the availability of standby or unutilised banking facilities for contingency purposes. As at 31 December 2006, the Group's total banking facilities amounted to HK$550 million (2005: HK$476 million), of which HK$237 million (2005: HK$211 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 entity in concern and such risk originates mainly from the currency of United States dollars. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollars and United States dollars is controlled within a narrow range. As at 31 December 2006, 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.

39. 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 interest rate risk, the Group had entered into interest rate swap contracts in 2003 that expired in March 2006.

(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 2006 and 2005. There was no off-balance-sheet arrangement that has or is likely to have a material adverse effect, either currently or in future, on the Group's financial condition, revenue or expenses, results of operations, liquidity, capital expenditure or resources.

40. POST BALANCE SHEET EVENT

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law on the Group cannot be reasonably estimated at this stage.

41. COMPARATIVE AMOUNTS

During the current year, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2007.