Sino Golf Holdings Limited
順龍控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00361

ANNUAL REPORT 2009

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Corporate Information

EXECUTIVE DIRECTORS

CHU Chun Man, Augustine
(Chairman and member of Remuneration Committee)
CHU Yuk Man, Simon
(Member of Remuneration Committee)
CHANG Hua Jung

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHOY Tak Ho
(Member of Audit Committee and Remuneration Committee)
CHIU Lai Kuen, Susanna
(Chairman of Audit Committee and Member of Remuneration Committee)
HSIEH Ying Min
(Chairman of Remuneration Committee and member of Audit Committee)

COMPANY SECRETARY

CO, Man Kwong

AUTHORISED REPRESENTATIVES

CHU Chun Man, Augustine
CHU Yuk Man, Simon

AUDITORS

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INTERNAL CONTROL REVIEW ADVISOR

SHINEWING Risk Services Limited
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Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited
Nanyang Commercial Bank Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

REGISTERED OFFICE

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Bermuda

PRINCIPAL PLACE OF BUSINESS

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Shatin
New Territories
Hong Kong

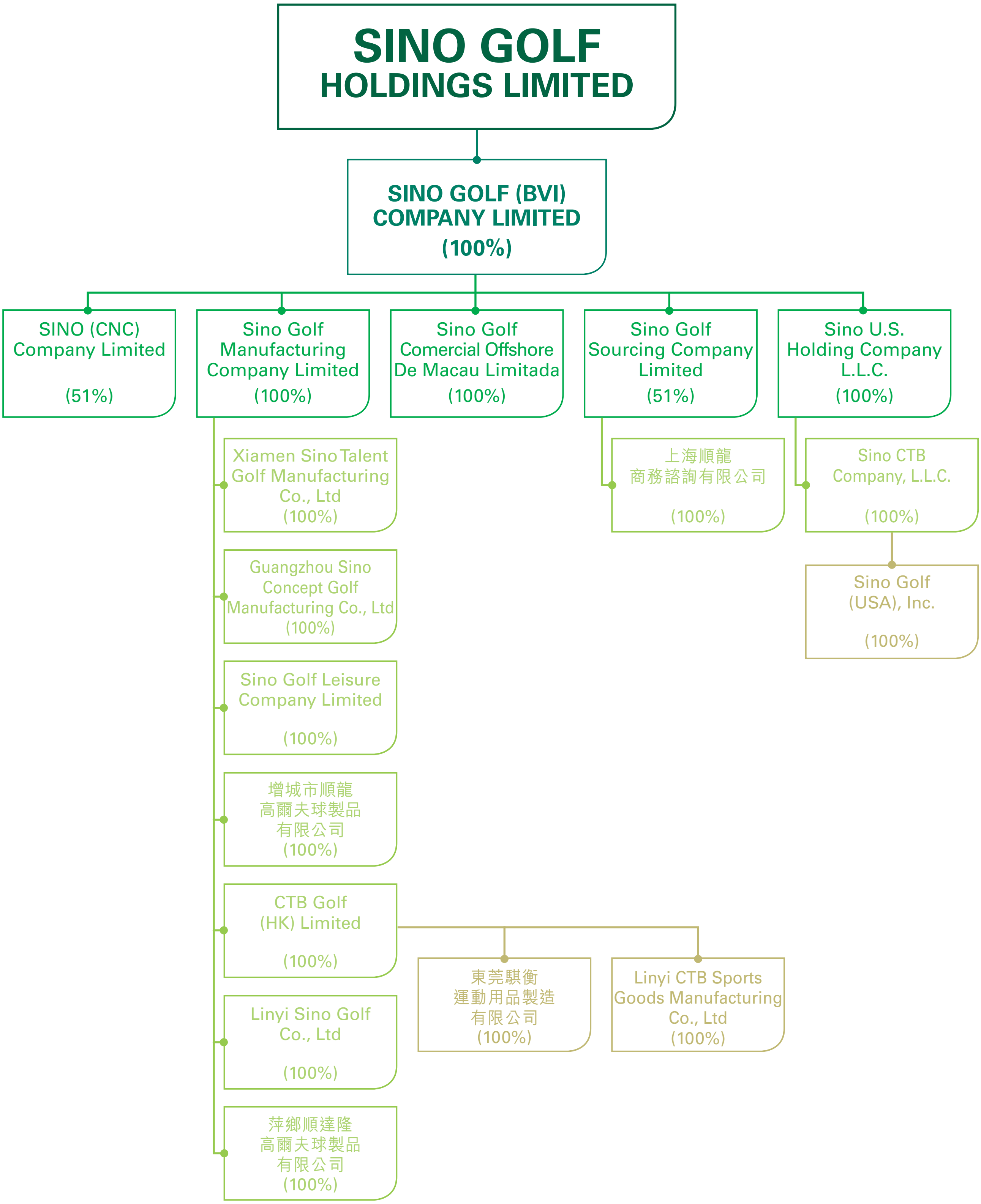
TICKER SYMBOL

Listed on The Stock Exchange of Hong Kong Limited
under the Share ticker number 00361

WEBSITE

http://www.sinogolf.com

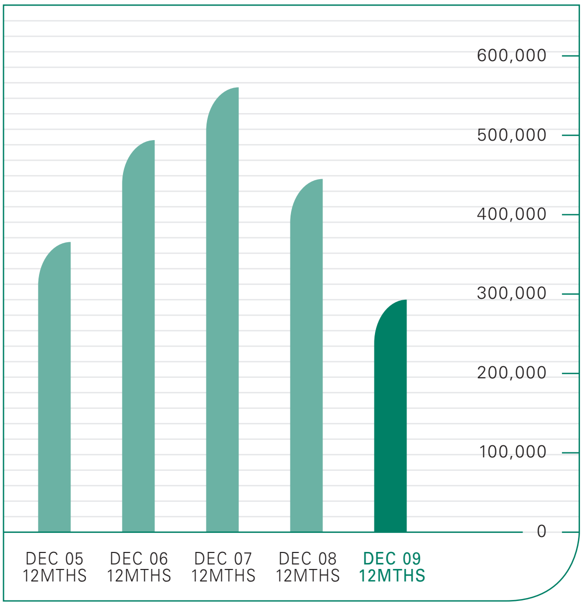
Corporate Structure



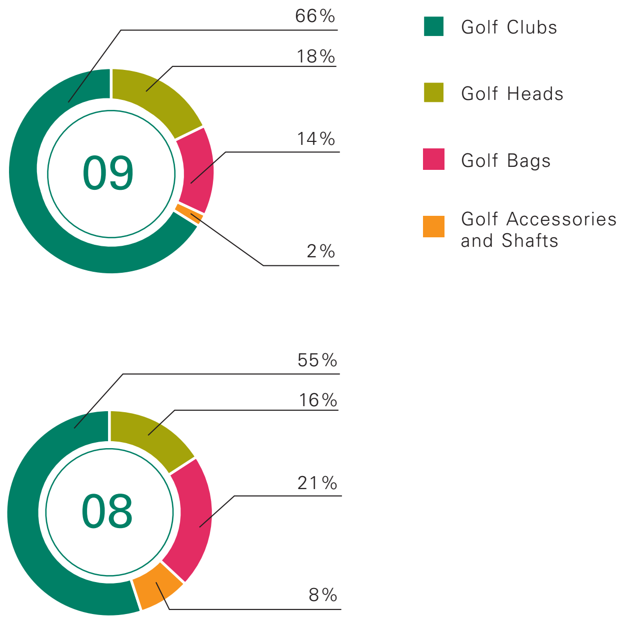
Financial Highlights

Turnover

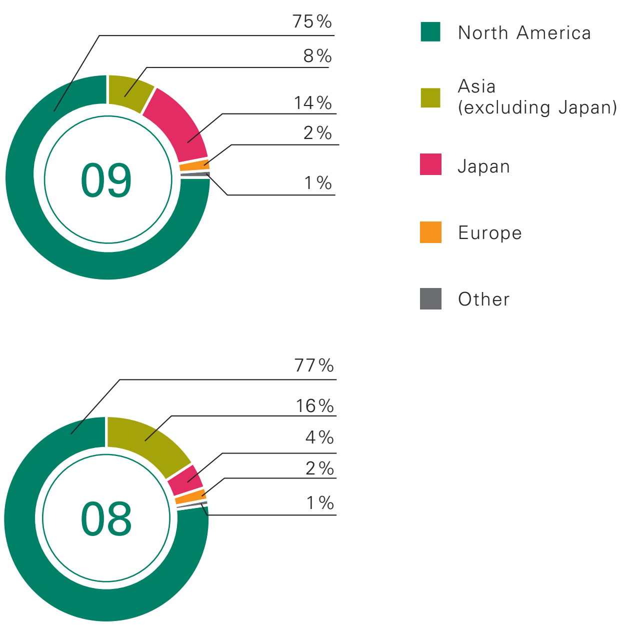
(HK$'000)



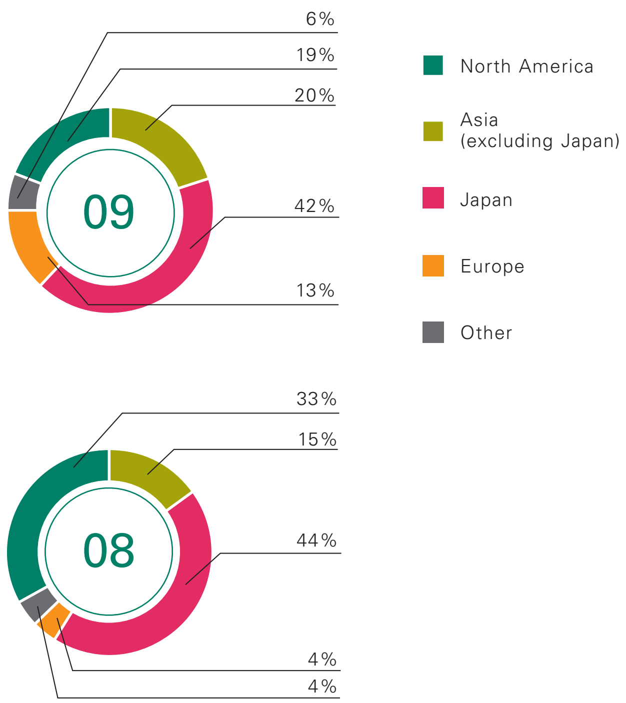
Turnover by Product



Turnover (Club) by Geographical Area



Turnover (Bag) by Geographical Area



Chairman's Statement

On behalf of the Board of Directors (the "Board") of Sino Golf Holdings Limited (the "Company"), I hereby present to shareholders the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2009.

Chu Chun Man, Augustine
Chairman

Chairman's Statement

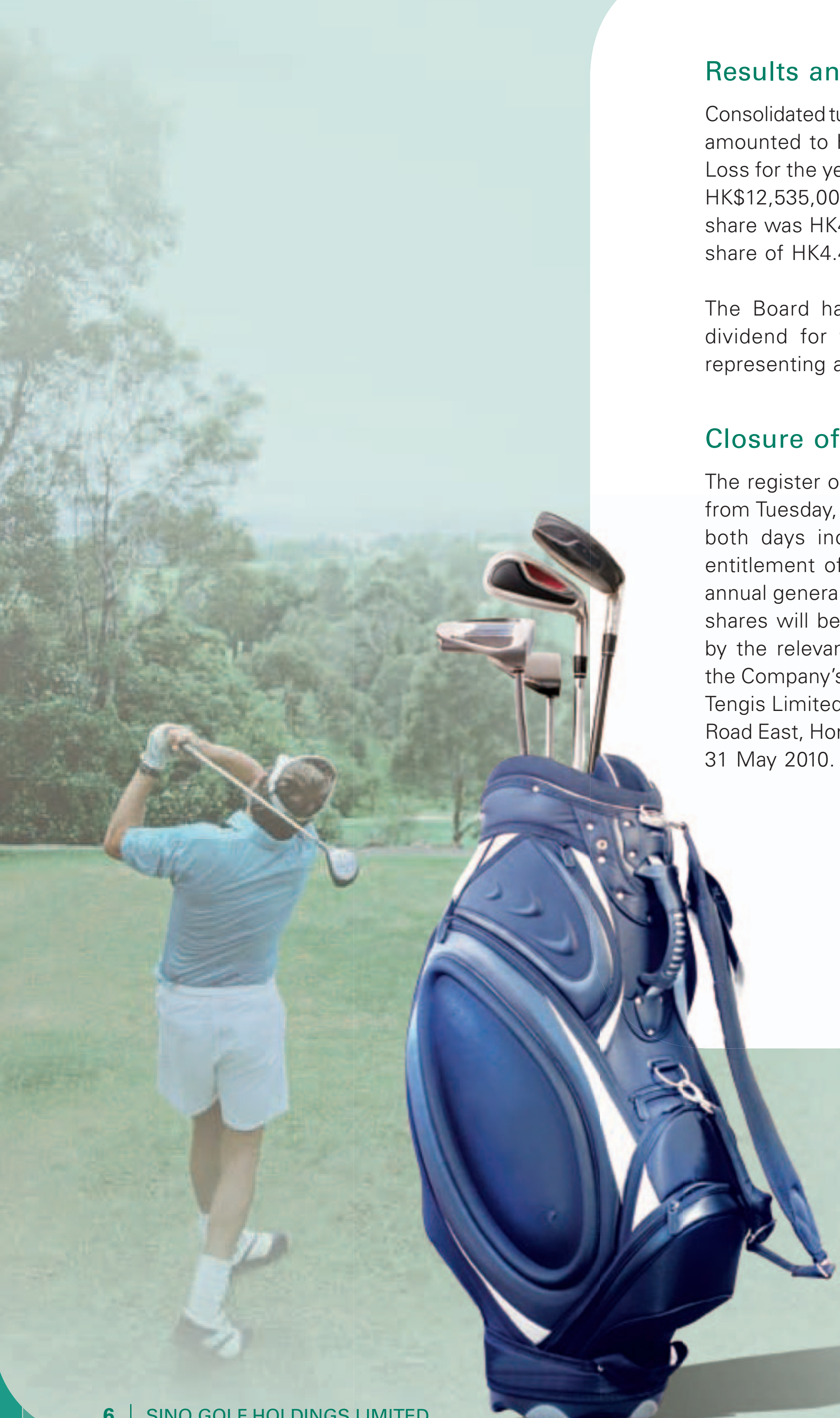
Results and Dividends

Consolidated turnover for the year ended 31 December 2009 amounted to HK$290,329,000 (2008: HK$446,659,000). Loss for the year attributable to owners of the parent was HK$12,535,000 (2008: profit of HK$13,312,000). Loss per share was HK4.15 cents for the year (2008: earnings per share of HK4.41 cents).

The Board has not recommended the payment of a dividend for the year (2008: HK1.5 cents per share representing a payout ratio of 34%).

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 1 June 2010 to Wednesday, 2 June 2010, both days inclusive, for the purpose of establishing entitlement of shareholders to vote at the forthcoming annual general meeting. During the period, no transfer of shares will be effected. All share transfer, accompanied by the relevant share certificates, shall be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Monday, 31 May 2010.



Business Review

OVERVIEW

The outbreak of the financial tsunami had led to a worldwide economic downturn that lasted through 2008 to adversely affect business in 2009.

The golf industry was hard hit by an unprecedented fall in the market demand for golf equipment and related products. During the first half of 2009, our Group's business slipped remarkably, period on period, by 46% as customers had generally been pursuing a conservative approach in their procurement strategies in light of the economic turbulence. The financial crisis has widespread to retard developments of most economies and enterprises. Golf equipment manufacturers thus encountered a tough time with intense competition. It was fortunate that our Group managed to successfully introduce new first-tier customers during this crucial period that helped contribute extra revenues leading to a rebound in the second half of the year. Notwithstanding that, our Group inevitably suffered a decline in turnover from HK$446.7 million in 2008 to HK$290.3 million in 2009, representing a 35.0% drop year on year. With the depressed sales, gross profit for the year decreased to HK$59.7 million from HK$102.4 million in 2008. Average gross profit margin fell moderately from 22.9% for 2008 to 20.6% for 2009, mainly attributable to a lower recovery of fixed costs under a reduced turnover. As a consequence, the Group sustained, for the first time in its history, a loss of HK$12,535,000 for the year, as contrasted to a profit of HK$13,312,000 for the comparative preceding year.

Benefited from the timely start up of business with some first-tier name brands, there was seen a partial recovery during the second half of 2009 and the situation is continually improving given the expanding volume from new business as well as a resumption of purchasing appetites from existing customers. The Group anticipates that there will be a substantial pick up in business during the first half of 2010 based on the current ordering trend and the improved market conditions. The Group's persistent focus on product innovation and customers' fulfillment has proven a successful strategy to uphold

our competitive advantage at times of economic turmoil and paved a firm foundation for substantiating long-term development and growth. Our corporate mission remains unchanged, which is to continually provide customers with best quality one-stop services regardless of the great pressure in our striving to preserve competitiveness under a depressed economy. We are glad that our efforts were rewarded when the Group successfully added some first-tier name brands to the customer profile whilst some market participants were struggling hard for survival during this difficult period.

During the year, the exchange rates of the Renminbi currency remained fairly stable without much appreciation. This has helped ease the cost burden of those manufacturers in the PRC that are mainly engaged in exports, volume of which have shrank significantly since the occurrence of the financial tsunami. Notwithstanding an unfavorable market environment, our Group continued to implement and pursue its reengineering and cost control programs so as to reinforce our status as a fast developing manufacturer in the golf industry. Through effective management and governance practices, the Group had survived the financial crisis and, more importantly, we successfully upgraded our profile to get engaged in manufacturing golf clubs for the world's biggest golf brand commencing since the third quarter of 2009. Though we have suffered a disappointing year in 2009, our Group maintains great confidence in pursuing a year of significant rebound in 2010.

In 2009, golf equipment sales aggregated to HK$251,196,000 representing about 86.5% of the Group's turnover. Sales of the golf bag segment, after eliminating inter-segmental sales of HK$12,800,000, amounted to HK$39,133,000 accounting for the remaining 13.5% of the Group's turnover for the year. Affected by the global recession, the golf equipment and golf bag segments managed to achieve segmental profits of HK$9,466,000 and HK$212,000 for the year, respectively. Profitability of both business segments plummeted as a result of the decline in business.

GOLF EQUIPMENT BUSINESS

The golf equipment business continued to constitute the major operating segment that generated about 86.5% of the Group's turnover for the year. Affected by the economic downturn, customers' orders have shrank through 2008 to bring the golf equipment sales down, period on period, by 42.1% during the first half of 2009 to HK$112,292,000. However, with the benefit from the commencement of business with the world's biggest golf brand and a gradual resumption of orders from existing customers, the Group managed to achieve a partial recovery during the second half of 2009 that helped narrow down the overall sales decline for the year. Nevertheless, golf equipment sales fell 28.5% in 2009 to HK$251,196,000 from HK$351,162,000 for the comparative preceding year. The segment turnover comprised golf clubs sales of HK$192,570,000 and components sales including club heads, shafts and accessories of HK$58,626,000, representing 76.7% and 23.3%, respectively of the segment turnover. For golf clubs sales, the proportion of club sets versus individual clubs was 68.9% and 31.1% respectively. Club sets remained the more popular category in consumers' choice of golf clubs purchase. As regards components sales, club heads accounted for over 90% with shafts and accessories constituting the remaining balance.

During the year, sales comprising mainly hybrid irons to the Group's largest customer dropped 32.7% to HK$121,709,000, representing about 48.5% of the segment sales or 41.9% of the Group's turnover. To strengthen its role as one of the best selling irons in the golf market, the Group's largest customer has launched a series of programs to promote sales through offering discounts and other incentives to consumers. On the other hand, sales of golf equipment by the Group to other less dominant customers generally diminished by a greater extent due to limitations in their ability to offer as much incentives to consumers as those leading name brands. Fortunately, our Group has successfully commenced business with the world's biggest golf brand during the third quarter of 2009 to contribute extra revenue and catch up to some extent the sales decline from existing customers. Shipments to this new customer accounted for nearly 16% or HK$39,726,000 of the segment turnover for the year and its order volume is increasing to boost sales for the ensuing year. Sales of golf equipment to the top five customers in 2009 aggregated to HK$216,778,000, representing about 86.3% of the segment sales or 74.7% of the Group's turnover for the year. Besides, the Group has made good progress with certain leading golf brands in our effort to finalize samples and pass their qualifying run with an aim to get bulk orders soon. It is anticipated that our Group will pick up a few more first-tier customers in the year ahead.

The Group's Shandong manufacturing facility in the PRC has been in full-scale operation by the end of the year to independently produce club heads and assembled clubs for direct export to customers, which facilitated to enhance the overall efficiency by reducing inter-factory transportation of components and eliminating duplicated work processes. Since the third quarter of 2009, it has been producing golf clubs mainly for the new top tier customer with orders then expanding consistently. The Shandong manufacturing facility has taken up the production function and related resources of the Group's manufacturing facility in Xiamen, the PRC, as part of the process to consolidate and streamline our Group's production operations and efficiency. To cope with the increasing volume, production capacity of the Shandong manufacturing facility has been stepped up to reach an average monthly output of 150,000 units, which will further be elevated to over 250,000 units by end of 2010. Production at the Group's manufacturing facilities in Guangdong Province, the PRC, will however be scaled down to about 150,000 units per month to fulfill customers' needs and maintain a balance to take advantage of the cost savings derivable from the operation of the Shandong manufacturing facility. There is a remarkable difference between the labor and operating costs for manufacturing facilities in Guangdong Province and those in Shandong Province. Our Group has possessed distinctive competitive edge for having established a manufacturing base in the northern part of the PRC to take benefit from possible cost savings. The Shandong manufacturing facility represents a milestone to upgrade our Group's capability to provide high quality services for top tier name brands that are seeking competitive alternate supply sources. The start up of business with the world's biggest golf brand during the year was encouraging and good evidence of our success that opens up great potential for us to procure businesses from other major brand names to increase our market share. As planned, the Group has embarked on programs to relocate by stages the bulk production of golf equipment to the Shandong manufacturing facility through consolidating the Guangdong production facilities to more appropriate scale. This is commensurate with our goal to take full advantage of the lower labor and operating costs in the northern part of the PRC. Our Group's competitive strength lies on our capability to produce high-end sophisticated products to customers' satisfaction and our ability to react efficiently to market changes and capture opportunities that emerge from time to time.

The Group has pursued sound governance practice to procure hedging on the recoverability of its receivables through non-recourse factoring and insurance arrangements. Besides, the Group adhered to stringent credit controls to monitor performance of individual customers so as to restrict our exposure to financial risks. Any material exceptions or non-compliance of terms by customers will be promptly dealt with including a decision to take recovery action and/or withhold shipments as deemed appropriate. During the year, the Group made provision of HK$2,128,000 for impairment of receivables mainly relating to warranty disputes with a customer. On the other hand, the Group has received additional distribution of HK$141,000 from the trustee of the Huffy Unsecured Claims Trust to reduce the balance of the debt owed by the reorganized Huffy. Having considered all relevant factors including periodic distributions from the Huffy Unsecured Claims Trust, the management concurred that no provision for impairment in value of the remaining balance owed by the reorganized Huffy is required in the current year.

During the year, raw materials and components prices rationalized to stay at reasonable levels without significant fluctuation. Operating costs such as labor and fuel expenses came down to reflect the reduced production volume under the suppressed business. The Renminbi currency remained relatively stable during the year, which provided a relief on the cost burden of manufacturers in the PRC that are reliant on exports and earn most of their income in foreign currencies to discharge the Renminbi expenses. Besides, our Group has actively participated in customers' programs to support their efforts to modify and adapt product specifications with an aim to stimulate sales through competitive pricing. This strategy was found effective in stabilizing our market share and uphold our competitive edge at times of fierce competition. It is crucial that customers' orders could be satisfactorily fulfilled if we are determined to persistently develop and outperform our competitors.

The business rebound in the second half of 2009 has contributed positively to rebut the segmental loss sustained in the first half year to a segmental profit of HK$9,466,000 for the year, as contrasted to a segmental profit of HK$32,397,000, as restated, for the preceding comparative year. With the improving market conditions and an expanding order volume from the new top-tier customer, the management anticipates a remarkable surge in the golf equipment sales for the ensuing period though the global economy remains volatile and susceptible to uncertainties. We are cautiously optimistic that the golf equipment business will further improve to achieve reasonable performance going forward.

GOLF BAG BUSINESS

The economic turmoil has caused greater impact on the golf bag business due to higher vulnerability of golf bag products relative to golf equipment. As consumers are generally less performance oriented in their choice of golf bags, the market demand for golf bag products would therefore be more susceptible to fluctuations in consumers' spending and economic cycles.

Turnover of the golf bag segment dropped by 59.0% to HK$39,133,000 in 2009 from HK$95,497,000 for the comparative period of 2008. The extent of decrease will be lessened to 47.3% if we adopted the sales amount before inter-segmental elimination of HK$51,933,000 for 2009 and HK$98,450,000 for 2008 to make the comparison, which more realistically presents the actual change in the business volume of segments. There was substantial increase in the inter-segmental sales of golf bags from HK$2,953,000 in 2008 to HK$12,800,000 in 2009, which constituted component parts of the club sets ordered by certain customers with sales of such club sets being classified as turnover of the golf equipment segment. Since the segment turnover is defined to comprise sales to external customers only, the surge in inter-segmental sales of golf bags during the year has the effect of lowering the amount of segment turnover being used for analytical purpose. To properly assess the movement and actual change in business volume of segments, the inter-segmental sales are relevant factors not to be disregarded especially when such sales are substantial or surge to represent a material portion of the segment activities.

Due to higher vulnerability, turnover of the golf bag segment diminished to represent 13.5% of the Group's turnover for the year, as contrasted to 21.4% for the comparative period of 2008. Amongst the segment turnover analyzed by product types, golf bag sales accounted for about 75.7% and amounted to HK$29,639,000, while sales of accessories comprising mainly shoe bags aggregated to HK$9,494,000 or 24.3% of the segment turnover for the year. Golf bags continued to dominate as the principal product type and there has not been significant change in the product mix percentage throughout the years. Pursuant to adopted accounting practice, the inter-segmental sales of HK$12,800,000, which comprised golf bags made to form part of the club sets ordered by certain customers of the golf equipment segment, had been eliminated in computing the turnover of the golf bag segment for the Group's analytical and comparison purposes. Such club sets equipped with golf bags were billed to customers as a unit and categorized as the turnover of golf equipment segment. In 2009, sales to the largest golf bag customer decreased by 42.8% to HK$20,633,000, representing about 52.7% of the segment turnover or 7.1% of the Group's turnover. Sales to the top five golf bag customers during the year aggregated to HK$31,394,000 and accounted for about 80.2% of the segment turnover or 10.8% of the Group's turnover.

As a constituent of the segment turnover analyzed by product lines, sales of the Japan line of products decreased by about 42.1% to HK$21,605,000 in 2009 while sales of the non-Japan line of products, comprising mainly golf bags of American design, fell by a greater extent of 60.3% to HK$17,528,000 mainly due to the surge in inter-segmental sales which belonged to the non-Japan line of products and were eliminated in computing the amount of segment turnover for making comparisons. The Japan line of products continued to dominate by generating 55.2% of the segment turnover but only represented 41.6% of the total segment sales before inter-segmental eliminations. It has been the Group's strategy to exploit both the Japan line and non-Japan line of golf bags with an aim to increase revenues and gain market share. We are committed to allocate necessary resources to develop the golf bag segment for capturing opportunities that bring us the business volume as well as contributions.

It is generally a prerequisite that the manufacturers should be SOE compliant if they are to be recognized as qualified vendors by first-tier name brands. There are not many SOE compliant manufacturers and our Group's golf bag facility is one with high reputation that produces a variety of high-end golf bags for most of the major brand names. The SOE compliant status of the Group's golf bag operations has been an important factor to maintain customers' confidence in our commitments and standard of services. The SOE compliance provides a greater assurance on product quality and service fulfillment, which helps strengthen customers' loyalty and facilitates new business pick-up by the Group from top-tier name brands in a competitive environment. Our Group has established a significant role in the golf bag sector and is well recognized by substantially all the major brand names. We are devoted to exploiting business opportunities to enhance our market share through persistent focus on product innovation and launch of effective marketing programs.

During the year, prices of raw materials for golf bag production such as PVC, PU and nylon did not fluctuate materially while accessories prices like those of metal parts and plastic components had rationalized from the peak to help ease the cost pressure at times of economic downturn. The Group effectively monitored the materials cost of golf bags through (i) periodic review of suppliers' prices against the market trend to ensure we were granted the best terms; and (ii) adoption of a diversified purchasing approach to engage alternate supply sources that could offer us greater discounts with other incentives. On the other hand, operating costs including labor and social insurance came down to reflect the reduced production scale during the year but the labor rates prevailing in the southern part of the PRC had been subject to an upward pressure due to labor shortage since late 2009. To mitigate the impact of cost pressure, the Group reinforced the cost control measures to rationalize and cut expenditures to the extent achievable and pursued its reengineering processes to enhance productivity. It is the Group's strategy to further develop and focus on high-end golf bags with an aim to boost sales and strengthen our position in the golf bag sector.

Suffering from the depressed sales, the golf bag segment managed to achieve a segmental profit of HK$212,000 for the year as compared with HK$4,790,000 for the comparative preceding year. With an improved global economy entering 2010, it is anticipated that the golf bag business would stabilize and start to pick up as customers generally resume to place orders after undertaking vigorous inventory sales during the recession period. We believe that the most difficult period should have gone though the economic recovery is far from uninterrupted and there are still many uncertainties and challenges ahead. Having considered the current order book status and the prevailing market conditions, the management maintains a cautious view that the golf bag segment will continue to operate under a challenging environment with a steady pick up when the economies continue to rebound. Our Group is confident and determined to persistently develop the golf bag business going forward to uphold our industry status.

GEOGRAPHICAL SEGMENTS

There has not been significant fluctuation in the geographical distribution of the Group's business throughout the years. Over two-third of the Group's turnover for the year were for shipments to customers in North America, mainly the United States. Shipments to other geographical regions include Japan; Asia (excluding Japan); Europe; and others. Being the world's largest golf market, North America preserved its dominancy and accounted for 67.3% of the Group's turnover in 2009, close to 67.7% for the comparative period of 2008. Other geographical regions covering Japan, Asia (excluding Japan), Europe; and others contributed 17.8%, 9.1%, 3.3% and 2.5% of the Group's turnover for the year, respectively (2008: 12.5%; 15.9%; 2.6%; and 1.3%, respectively).

As percentages of the Group's turnover, sales to the North American market stayed at similar level to last year while sales to the Japanese market climbed to 17.8% due to incremental sales of golf equipment through specific marketing programs. Affected by the global recession, aggregate sales to other geographical regions including Asia (excluding Japan); Europe and others decreased moderately, as a percentage of the Group's turnover, from 19.8% in 2008 to 14.9% this year.

Chairman's Statement

In monetary terms, sales to the North American market decreased by 35.4% in 2009 to HK$195,348,000, comprising golf equipment and golf bag sales in the proportion of 96% and 4%, respectively. Benefited from the sales campaigns, sales to the Japanese market dropped by a lesser extent of 7.4% to HK$51,727,000 in 2009. On the contrary, sales to other geographical regions covering Asia (excluding Japan); Europe and others decreased remarkably by 51.1% to HK$43,254,000 in 2009 due to the impact of the economic recession.

It is the corporate strategy to strengthen our competitive edge in the North American market through expanding the business volume with the world's biggest golf brand, shipments to which have exceeded HK$39 million during the last quarter of 2009. The Group remains committed to further developing and tapping business opportunities in the Japanese market both for the golf bag and golf equipment segments. To facilitate the long-term goal to increase our market share, the Group is devoted to continually exploring business in the geographical regions covering Asia (excluding Japan); Europe; and others, particularly the Asian market, where golf activities are becoming more popular and affordable by the public in general.

Prospects and Risk Factors

PROSPECTS

The year of 2009 was a challenging though difficult year for the Group. Despite sustaining a loss for the first time under the impact of the financial crisis, our Group made encouraging progress to enter a new era as we successfully commenced business with the world's biggest golf brand during the year. This signifies an enhanced recognition of the Group by the industry peers and a greater potential for us to develop and grow our business. The establishment of the Shandong manufacturing facility was a crucial move to upgrade our Group's technical capability and industry status.

Though the global economy has demonstrated a general recovery entering 2010, it is by no means assured to be persistent or uninterrupted. The threats of further economic or financial fluctuations should not be ignored since there are still many challenges and uncertainties the business sector has to deal with. Our Group is in a relatively advantageous position as we not only benefit from the resumption of orders from existing customers due to general economic rebound, but also enjoy extra contributions from the new first-tier customers with whom we have commenced business. The growth potential of business with the new top-tier customers is huge, which facilitates to strengthen our competitive advantage for further expansion of customer base.

For the first half of 2010, the Group has procured record high orders on golf equipment that more than take up our Group's production capacities. We are making arrangements for extra subcontracting to help achieve as much production as we could. To date, the Group has obtained orders that aggregated to exceed HK$250 million, of which about HK$220 million was for golf equipment with the remaining for golf bags. Shipments during the first quarter of 2010 approximated to HK$80 million. Due to a temporary labor shortage in the southern part of the PRC and a short production period attributable to the lunar new-year holidays during early 2010, the shipments for the first quarter were a bit lag behind in proportion to orders placed. The production and shipments will however be sped up during the second quarter as the labor shortage issue has been dealt with and additional subcontracting arrangements are being secured. The Group is making efforts to fulfill as many orders as we could for the first half of 2010. Based on the current ordering trend and the improved economic conditions, the business outlook for the year of 2010 appears promising. It is anticipated that the golf equipment business is going to demonstrate a significant growth in 2010 whilst the golf bag business will pick up at reasonable pace as the economy continues to recover. The Group has maintained a strong relationship with its customers and we remain confident to continually exploit business opportunities to broaden and diversify our client portfolio. We will also keep ourselves alert of market developments to ensure swift response to opportunities as well as challenges.

RISK FACTORS

Given that the Group's historical results are not necessarily indicative of the Group's future performance and/or financial condition, it is beneficial to present an outline of those factors that could affect the Group's future performance and/or financial condition. These factors could cause the Group's future performance and/or financial condition to differ materially from those of the prior years or from management's expectations or estimates.

STATUS OF UNITED STATES ECONOMY AND CURRENCY FLUCTUATION

As the Group exports the majority of its products to the United States, the status of the United States economy might have a potential effect on the Group's business. The existence of trade conflicts between the PRC and the United States may end up with trade barriers to hinder the business sector if not properly dealt with and resolved by the respective governments. The global recession caused by the financial tsunami has suppressed and may continue to depress consumers' spending and overall market demand in the United States resulting in a shrinkage of exports from the PRC to the United States. Besides, the tendency of continued appreciation of the Renminbi currency may effect the ability of manufacturers in the PRC to maintain their product margins if the Renminbi currency further appreciates.

INTEREST RATES MOVEMENTS

The Group generally utilizes banking facilities to finance its operations, which usually bear interest at floating rates. Movements in the applicable interest rates will affect the level of finance cost to be borne by the Group. Though interest rates stayed at a relatively low level during 2009, any revision of the interest rates up will increase the finance burden to the Group. Though the Group could have the option to enter into interest rate swap contracts to hedge interest payments, there is no assurance that the interest rate swaps would result in any material savings for the Group.

CONCENTRATION OF KEY CUSTOMERS

In 2009, sales to the largest customer represents 48.5% of the turnover of the golf equipment segment or 41.9% of the Group's annual turnover. The five largest customers in aggregate accounted for about 80% of the Group's turnover for the year. It has been the Group's objective to diversify and establish new first-tier customers so as to maintain a more balanced customer portfolio. During the year, the Group has successfully commenced business with the world's biggest golf brand and a few more first-tier name brands are anticipated to be picked up by the Group in the near future. Though there is satisfactory progress on the diversification of customer profile to take on new first-tier name brands, it is inevitable that incidents with material adverse impact on the Group's key customers may also adversely affect the Group's business.

MATERIALS COST AND SOURCES OF SUPPLY

As materials cost represents the major cost component of the Group's products, any material price fluctuation or supply shortage may pose threats on the Group's ability to maintain profit margins even if we could adjust sales prices to recoup the cost increase to some extent. In addition, the trend of relying more on the component makers and suppliers specified by customers may limit the choice and flexibility in selecting suppliers by the Group that might undermine and erode profit margins over the time.

In addition to the risk factors identified above, the Group is subject to other risk factors and uncertainties that could arise when market conditions change from time to time. The management remains alert to keep aware of other possible risks and will adopt prompt measures to mitigate the Group's exposure as appropriate.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my gratitude to the Board members, the management and our employees for their hard work, loyalty and support. We treasure their commitments as a key motivator for the Group's long-term development and success.

Chu Chun Man, Augustine
Chairman

Hong Kong
27 April 2010

Management Discussion and Analysis

This statement provides supplementary information to the Chairman's Statement

Results of Operations

The impact of the financial crisis has persisted to retard business in 2009. The Group's turnover for the year ended 31 December 2009 decreased by 35.0% to HK$290,329,000 (2008: HK$446,659,000). Loss for the year attributable to owners of the parent was HK$12,535,000 (2008: profit of HK$13,312,000). During the year, turnover of the golf equipment and golf bag segments plummeted by 28.5% and 59.0% to HK$251,196,000 and HK$39,133,000, respectively. Due to higher vulnerability, the golf bag business has suffered a greater decline of 59.0% in segment turnover, which will be lessened to 47.3% if inter-segmental sales of golf bags were not eliminated in measuring segment revenues to better quantify the actual change in business volume, particularly in circumstances where the inter-segmental sales were substantial or had surged to represent a significant portion of the segment activities. During the year, there was a surge in inter-segmental sales of golf bags that should not be disregarded for measuring actual change in business volume.

With our effort, the Group has successfully commenced business with the world's biggest golf brand during the third quarter of 2009, shipments to which have exceeded HK$39 million to account for nearly 14% of the Group's turnover for the year. As further benefited from a gradual resumption of orders from existing customers, the Group managed to achieve a rebound in the second half of the 2009 to partially recoup losses sustained during the first half of the year. Given a depressed turnover, gross profit for the year decreased to HK$59,685,000 from HK$102,430,000 in 2008. Average gross profit margin fell from 22.9% for 2008 to 20.6% for the current year.

Other operating income for the year decreased to HK$4,819,000 from HK$6,265,000 in 2008, mainly due to the reduction in rental and tooling charge income. During the year, the Group earned HK$559,000 (2008: HK$311,000) from derivative financial instruments which had matured before the year end and related to forward currency option contracts made up with Hong Kong dollars and United States dollars.

Commensurate with the reduced business volume, selling and distribution costs for the year decreased to HK$7,016,000 from HK$12,654,000 in 2008 primarily owing to the decrease in sales commissions, sample costs and ocean freight charges. Attributable to savings derived from cost control measures, administrative expenses for the year decreased to HK$57,803,000 from HK$66,125,000 for 2008 including reductions in rental expenses and payroll costs.

Finance costs for the year decreased to HK$11,173,000 from HK$15,875,000 in 2008, primarily owing to lower applicable interest rates and a reduction in factoring charges against the depressed export volume.

Impacted by the economic downturn, the Group sustained for the first time a loss of HK$12,535,000 for the year as contrasted to a profit of HK$13,312,000 for the comparative preceding year.

Management Discussion and Analysis

Liquidity and Financial Resources

Pursuant to sound practices, the Group generally relies on internally generated cash flows and banking facilities to finance its operations. To combat the challenges caused by the financial crisis, the immediate holding company has provided extra support to the Group by granting an unsecured, interest-free loan to assure that the Group has sufficient funds to operate and meet with its cash flow requirements when business volume resumes. To limit the exposure to financial risks, the Group has adopted effective policies and guidelines to help identify, monitor and timely deal with those risks to safeguard the Group's interest.

At 31 December 2009, bank and cash balances, which were mostly denominated in United States dollars, Hong Kong dollars and Renminbi yuan, amounted to approximately HK$39.5 million (2008: HK$30.1 million). The bank and cash balance increased mainly due to the additional cash flows extended by the immediate holding company to strengthen the Group's liquidity. To rationalize funds utilization, the Group follows a practice of maintaining sufficient cash to run its operations and discharge the liabilities as they fall due.

Borrowings of the Group other than the loan from immediate holding company are mostly denominated in Hong Kong dollars, United States dollars and Renminbi yuan that carry interest at a certain spread over HIBOR / LIBOR or the interest rate promulgated by the People's Bank of China from time to time. At 31 December 2009, interest-bearing borrowings comprising bank loans and finance lease payable aggregated to HK$232.7 million (2008: HK$236.3 million), of which HK$195.5 million (2008: HK$167.2 million) was repayable within one year. The loan from immediate holding company of HK$23.7 million as at 31 December 2009 (2008: Nil) is unsecured, interest-free and will mature in March 2011. The gearing ratio, defined as bank loans and finance lease payable less bank and cash balances of HK$193.2 million divided by the shareholders' equity of HK$248.0 million, was 77.9% as at 31 December 2009 (2008: 80.4%). The gearing ratio at 31 December 2009 would be restated as 87.5% if the loan from immediate holding company was included in computing the ratio.

It remains the Group's objective to maintain a financial position that is supportive of its growth and long-term development needs. At 31 December 2009, the total assets and net asset value of the Group amounted to HK$574.4 million and HK$248.0 million respectively (2008: HK$585.5 million and HK$256.4 million, respectively). Current and quick ratios as at 31 December 2009 were 1.05 (2008: 1.07) and 0.43 (2008: 0.42), respectively. Both the current ratio and quick ratio did not fluctuate materially during the year. The Group continues to explore feasible means to strengthen and rationalize its financial position as business improves and rebounds in the ensuing year.

Exposure to Fluctuations in Exchange Rates and Contingent Liabilities

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

As at 31 December 2009, the Group had no significant contingent liabilities.

Employee and Remuneration Policies

At 31 December 2009, the Group employed a total of approximately 2,400 employees mainly located in Hong Kong and the PRC. It is the Group's strategy to establish and maintain a harmonious relationship with its employees through provision of competitive remuneration packages and career development opportunities. The employees are remunerated based on their duties, experience and performance as well as industrial practices. The remuneration packages are reviewed annually to assure fairness and competitiveness and discretionary bonuses may be awarded to employees based on individual performance.

Biographical Details of Directors and Management

Executive Directors

CHU Chun Man, Augustine ("Augustine Chu"), aged 52, is the chairman of the Company and a founder of the Group and is responsible for the strategic planning, corporate policy and overall management and marketing aspect of the Group. Augustine Chu holds a bachelor degree in commerce from the University of Calgary, Alberta, Canada and an executive master of business administration from the Chinese University of Hong Kong. He has over 26 years of experience in golf equipment manufacturing industry. He also serves various positions in the public sector including a membership of The Chinese People's Political Consultative Conference (CPPCC) – Guangdong Province.

CHU Yuk Man, Simon ("Simon Chu"), aged 54, is the elder brother of Augustine Chu. He has over 12 years of experience in the golf equipment manufacturing industry. Simon Chu is responsible for the sales and marketing functions as well as the customer relation functions of the Group. Simon Chu graduated with a bachelor degree in science in the Leland Stanford Junior University in the United States and an executive master degree in business administration from the Chinese University of Hong Kong. Prior to joining the Group in November 1997, Simon Chu held an Asia Pacific director position with an international firm which is listed on NASDAQ in the United States.

CHANG Hua Jung, aged 48, graduated from an industrial institution in Taiwan. Mr. Chang has over 27 years of experience in the golf equipment manufacturing industry. He joined the Group in August 1988 and is responsible for the production and the research and development functions of the Group.

Independent Non-executive Directors

CHOY Tak Ho, aged 81, has over 47 years of experience in trading business in Hong Kong. He is the President of Union International (HK) Company Limited. Mr. Choy is the Charter President of Hong Kong Kwun Tong Industries and Commerce Association Limited, Chartered President of Hong Kong and Overseas Chinese Association of Commerce Ltd., Hon. Permanent President of Hong Kong Commerce Industrial Ltd., Hon. Life Chairman of Chinese General Chamber of Commerce, Hong Kong, Hon. President of the Chinese Manufacturers' Association of Hong Kong, Member of The National Committee 9th of the Chinese People's Political Consultative Conference, Executive Committee Member 8th of The All China Federation of Industrial and Commerce, Hon. Director of China Overseas Friendship Association.

Mr. Choy is also an independent non-executive Director of Multifield International Holdings Limited (Stock Code: 898), Oriental Explorer Holdings Limited (Stock Code: 430), EVA Precision Industrial Holdings Limited (Stock Code: 838). Mr. Choy resigned as an independent non-executive director of three listed companies, namely China Leason Investment Group Co., Limited (stock code: 8270), Ocean Grand Holdings Limited (stock code: 1220) and VODone Limited (stock code: 82) with effect from 15 August 2006, 26 July 2006 and 28 May 2007 respectively. Save as disclosed, Mr. Choy did not hold any directorships in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

CHIU Lai Kuen, Susanna, aged 50, is the Senior Vice President of Li & Fung (Trading) Limited, responsible for business operations. Ms. Chiu is a qualified Chartered Accountant from England, holds an executive master of business administration from the Chinese University of Hong Kong. She is currently the Council Member of the HK Institute of Certified Public Accountants and Past President of ISACA (HK Chapter). Ms. Chiu is appointed by the government to serve on the Antiquities Advisory Board, Equal Opportunities Commission and the Pan Pearl River Delta Panel of the Central Policy Unit. She is also a member of the Shannxi Committee of the Chinese People's Political Consultative Conference. Ms. Chiu is a member of the HK Institute of Directors. Ms. Chiu brings considerable experience in business operations, finance, internal control and corporate governance.

HSIEH Ying Min, aged 54, is a Taiwanese. He is the chairman of Approach Golf International Co., Ltd, which is a golf processing factory. Mr. Hsieh has over 35 years of experience in golf manufacturing industry and possesses rich knowledge in the manufacturing processes of golf club as well as a considerable familiarity with the related market and materials.

Senior Management

CO Man Kwong, aged 47, is the operations director and company secretary of the Company and is responsible for the financing activity, investors' relation, operations management and strategic planning of the Group. Mr. Co joined the Group in September 2002. Prior to that, he worked in an international accounting firm for over 6 years before joining the commercial field for more than 11 years. Mr. Co graduated from the Hong Kong Polytechnic University and is a fellow member of the Association of Chartered Certified Accountants, the United Kingdom, and HKICPA.

MAK Yat Ho, Humphrey, aged 37, joined the Group in April 2005, and is the financial controller of the Group. He is responsible for accounting, financial management and company secretarial affairs of the group. He is a member of the Certified Practising Accountants in Australia, an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Institute of Chartered Secretaries. He holds a bachelor degree in Accountancy from the University of Wollongong in Australia and a master degree in Corporate Governance from the Hong Kong Polytechnic University. He has more than 13 years of experience in auditing, finance and accounting.

LEE May Yee, aged 40, is the senior marketing manager of the Group. Ms. Lee has over 17 years of experience in the golf equipment manufacturing industry. She graduated with a bachelor degree in business administration from the University of Baptist. She joined the Group in December 1992 and is currently in charge of the marketing functions of the Group.

HE Xin Hong, aged 46, is the assistant general manager of the Group's production department. He joined the Group in December 1990 and is currently in charge of the overall production of a golf bag subsidiary. Mr. He has more than 19 years of experience in the golf manufacturing industry.

XIE Zi Peng, aged 42, is the internal audit manager of the Group. Mr. Xie graduated with a master degree in world economy from Zhongshan University. He is a member of the Institute of Internal Auditors. He joined the Group in April 2000 and is currently in charge of the overall internal audit of the Group.

HUNG Yi Chuan, aged 47, is the assistant general manager of the Group's production department. He joined the Group in February 2000 and is currently in-charge of the overall production of a golf equiment subsidiary. Mr. Hung has more than 22 years experience in golf manufacturing industry.

Report of the Directors

The directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2009.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in Note 41 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's loss for the year ended 31 December 2009 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 49 to 109 of the annual report.

The directors do not recommend the payment of dividend in respect of the year.

Summary Financial Information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and is set out on page 110 of the annual report. This summary does not form part of the audited consolidated financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 18 to the consolidated financial statements.

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in Notes 34 and 35 to the consolidated financial statements, respectively.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company during the year are set out in Note 40 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2009, the Company's reserves available for distribution amounted to HK$38,212,000. In accordance with the Companies Act 1981 of Bermuda. The Company's contributed surplus may be distributed in certain circumstances. In addition, the Company's share premium account, in the amount of HK$57,270,000, may be distributed in the form of fully paid bonus shares.

Charitable Contributions

During the year, the Group made charitable contributions totalling HK$5,000.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 80% of the total sales for the year and sales to the largest customer included therein amounted to 41.9%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Directors

The directors of the Company during the year were:

EXECUTIVE DIRECTORS:

Mr. CHU Chun Man, Augustine
Mr. CHU Yuk Man, Simon
Mr. CHANG Hua Jung

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. CHOY Tak Ho
Ms. CHIU Lai Kuen, Susanna
Mr. HSIEH Ying Min

In accordance with articles 87 of the Company's bye-laws, Mr. CHANG Hua Jung and Mr. HSIEH Ying Min will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. CHOY Tak Ho, Ms. CHIU Lai Kuen, Susanna and Mr. HSIEH Ying Min, and as at the date of this report still considers them to be independent.

Report of the Directors

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 18 to 19 of the annual report.

Directors' Service Contracts

Each of the executive directors has entered into a service contract with the Company commencing on 1 December 2000 which will continue thereafter unless terminated in accordance with the relevant clauses of the service contracts. These service contracts are exempted from the shareholders' approval requirement under Rule 13.68 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Apart from the foregoing, no director of the Company proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

With the shareholder's approval at general meeting, the Company's board of directors was authorised to fix the director's remuneration including directors' fee. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

Directors' Interests in Contracts

Save as disclosed in Note 39 to the consolidated financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, or subsidiaries was a party during the year.

Directors' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2009, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(I) LONG POSITIONS IN ORDINARY SHARES OF THE COMPANY:

	Number of shares held, capacity and nature of interest				
Name of director	Directly beneficially owned	Through spouse or minor children	Through controlled corporation#	Total	Percentage of the Company's issued share capital
CHU Chun Man, Augustine	2,326,263	–	171,543,775	173,870,038	57.53%
CHU Yuk Man, Simon	636,237	–	–	636,237	0.21%
	2,962,500	–	171,543,775	174,506,275	57.74%

These shares of the Company are held by CM Investment Company Limited, a company incorporated in the British Virgin Islands, of which, approximately 67.46% of issued share capital are owned by A & S Company Limited, approximately 4.18% of issued share capital are owned by Chu Chun Man, Augustine and approximately 1.21% of its issued share capital are owned by Chu Yuk Man, Simon. A & S Company Limited is a company incorporated in the British Virgin Islands and is owned as to approximately 64% by Chu Chun Man, Augustine, approximately 21.71% by Chu Yuk Man, Simon and 14.29% by another family member. The interests of Chu Chun Man, Augustine, and Chu Yuk Man, Simon, in the 171,543,775 shares of the Company therefore duplicate with those of CM Investment Company Limited and A & S Company Limited.

(II) LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF ASSOCIATED CORPORATIONS:

Name of director	Name of associated corporation	Relationship with the Company	Shares	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued non-voting deferred share capital
CHU Chun Man, Augustine	Sino Golf Manufacturing Company Limited	Company's subsidiary	Non-voting deferred shares	1,190,607	Directly beneficially owned	30.98%
CHU Yuk Man, Simon	Sino Golf Manufacturing Company Limited	Company's subsidiary	Non-voting deferred shares	414,297	Directly beneficially owned	10.78%
CHANG Hua Jung	Sino Golf Manufacturing Company Limited	Company's subsidiary	Non-voting deferred shares	3,600	Directly beneficially owned	0.09%

In addition to the above, a director has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Group solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2009, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' Rights to Acquire Shares

Save as disclosed in the share option scheme disclosures in Note 35 to the consolidated financial statements below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies or subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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. Further details of the Scheme are disclosed in Note 35 to the consolidated financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

	Number of share options						
Category of participant	**At 1 January 2009**	**Granted during the year**	**Expired during the year**	**At 31 December 2009**	**Date of grant of share options***	**Exercise period of share options**	**Exercise price of share options** HK$ per share**
Employees							
In aggregate	–	1,500,000	–	1,500,000	2 November 2009	2 November 2009 to 1 November 2011	0.37
Business associates							
In aggregate	–	3,000,000	–	3,000,000	2 November 2009	2 November 2009 to 1 November 2011	0.37
	–	4,500,000	–	4,500,000			

Notes to the table of share options outstanding during the year:

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

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

At 31 December 2009, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO or as otherwise notified to the Company:

LONG POSITIONS:

Name	Notes	**Capacity and nature of interest**	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**
CM Investment Company Limited		Directly beneficially owned	171,543,775	56.76%
A & S Company Limited	(a)	Through a controlled corporation	171,543,775	56.76%
Hung Tze Nga, Cathy	(b)	Through spouse	173,870,038	57.53%

Notes:

(a) The interest disclosed are the shares directly beneficially owned by CM Investment Company Limited. CM Investment Company Limited is held directly as to 67.46% by A & S Company Limited. Accordingly, A & S Company Limited is deemed to be interested in the shares owned by CM Investment Company Limited.

(b) Hung Tze Nga, Cathy, is the spouse of Chu Chun Man, Augustine. Accordingly, Hung Tze Nga, Cathy, is deemed to be interested in the shares owned by Chu Chun Man, Augustine.

Save as disclosed above, as at 31 December 2009, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Report of the Directors

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Auditors

Ernst & Young were the auditors of the Company for the year ended 31 December 2007 and resigned as auditors of the Company on 8 December 2008.

Messr. SHINEWING (HK) CPA Limited ("SHINEWING") was appointed auditors of the Company on 24 December 2008 and the consolidated financial statements for the two years 31 December 2008 and 2009 were audited by SHINEWING.

SHINEWING retires and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chu Chun Man, Augustine
Chairman

Hong Kong
27 April 2010

Corporate Governance Report

The Company recognises the importance of good corporate governance to the Company's healthy growth and has continued to devote efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "CG Code") of the Listing Rules throughout the year ended 31 December 2009, except for certain deviations as explained below. The Company has also put in place certain Recommended Best Practices as set out in the CG Code.

CG Principles/Code Provisions and the Company's Practices

A. DIRECTOR

THE BOARD

Code Principle

The Board should assume responsibilities for leadership and control of the Company; and be responsible for directing and supervising the Company's affairs.

Code provisions	Comply?	Governance Practices for the Company
• At least four Board meetings a year.	✓	• The Board met Five times during the year. • Details of Directors' attendance records in 2009: **Attendance** **Executive Directors** CHU Chun Man, Augustine *(Chairman)* 5/5 CHU Yuk Man, Simon 4/5 CHANG Hua Jung 4/5 **Independent Non-Executive Directors** HSIEH Ying Man 4/5 CHOY Tak Ho 4/5 CHIU Lai Kuen, Susanna 4/5
• All Directors are given an opportunity to include matters in the agenda for regular Board meetings.	✓	• Directors are consulted to include any matter in the agenda for regular Board meetings.
• Notice of at least 14 days is given of a regular Board meeting.	✓	• The Company generally gives notice and draft agenda of regular Board meetings at least 14 days in advance. The company aims at giving reasonable notice generally for all other Board meetings.
• Access to advice and services of the Company Secretary.	✓	• All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters.

Code provisions	Comply?	Governance Practices for the Company
• Minutes of meetings were kept by Company Secretary and were opened for inspection. • Draft and final minutes were sent to all Directors for comments within a reasonable time.	✓	• The Company Secretary is responsible for taking minutes of Board and Board Committee meetings, which would be sent to Directors within a reasonable time (generally within 14 days) after each meeting and generally be made available for inspection by Directors/committee members.
• Agreed procedure for Directors to seek independent professional advice at the Company's expense.	✓	• The Company's corporate governance guidelines provide for Directors taking independent professional advice at the Company's expense.
• If a substantial shareholder/director has a conflict of interest in a material matter, Board meeting should be held. Such Director must abstain from voting and not be counted in quorum.	✓	• There is a prescribed list of matters reserved for full Board decision, which includes material transactions with connected persons. • The Company's Bye Laws provide for voting and quorum requirements conforming with Code requirements (Bye Laws 114 – 116).

The Board of the Company is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The Management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established an Audit Committee and Remuneration Committee and has delegated to these committees various responsibilities set out in their terms of reference respectively.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CODE PRINCIPLE

Clear division of responsibilities – separate offices of Chairman and Chief Executive Officer to ensure a balance of power and authority.

Code provisions	Comply?	Governance Practices for the Company
• Roles of Chairman and Chief Executive Officer should be separated; clearly established and set out in writing.	✗	• Mr. Chu Chun Man, Augustine, who acts as the Chairman of the Company, is also responsible for overseeing the general operations of the Group. The Company does not have an office with the title "Chief Executive Officer". The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. • The Board considers that the existing structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Company has no plan of appointing a "Chief Executive Officer" at the present stage.
• The Chairman should ensure all Directors be briefed on issues arising at the Board meetings. • The Chairman should ensure Directors to receive adequate information in a timely manner.	✓	• The Chairman has a clear responsibility to provide the whole Board with all the information that is relevant to the discharge of the Board's responsibilities. • The Company aims to continually improve on the quality and timeliness of the dissemination of information to Directors.

Corporate Governance Report

Recommended Best Practice	Comply?	Governance Practices for the Company
Various recommended roles for Chairman including: • Drawing up and approving Board agenda.	✓	• The agenda of Board meetings is finalized by the Chairman in consultation with Executive Directors and Company Secretary after taking into consideration any matters proposed by the Independent Non-Executive Directors.
• Establishment of good corporate governance practices and procedures. • Encourage Directors to make a full and active contribution to board affairs. • Facilitate the effective contribution of Non-Executive Directors and ensure constructive relations between Executive and Non-Executive Directors.	✓	• The Chairman plays a key role in driving corporate governance development in the Company. • An Independent Board Committee comprising of Non-Executive Directors will be formed, whenever necessary, to give recommendations to independent shareholders and Board. • An independent financial adviser will be appointed to give recommendations to the Independent Board Committee and independent shareholders where necessary.

BOARD COMPOSITION

The list of all Directors is set out under "Corporate Information" on page 2 of the annual report.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under "Biographical Details of Directors and Management" on pages 18 to 19 of the annual report.

Code Principle

The Board should have a balance of skills and experience appropriate for the requirements of the business of the issuer, which also consists of a balanced composition of Executive and Non-Executive Directors (including Independent Non-Executive Directors) so that independent judgment can effectively be exercised.

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group and that the consolidated financial statements are prepared in accordance with the statutory requirements and applicable accounting standards.

Code provisions	Comply?	Governance Practices for the Company
• Identify the Independent Non-Executive Directors in all corporate communications.	✓	• Composition of the Board, by category of Directors, including names of Chairman, Executive Directors and Independent Non-Executive Directors is disclosed in all corporate communications.
Recommended Best Practice		
• Independent Non-Executive Directors should represent at least one-third of the Board.	✓	• The Board comprises three Independent Non-Executive Directors representing more than one third of the full Board.
• Maintain on the Company's website an updated list of its Directors identifying their role and function and independence	✓	• An updated list of the Executive Directors and Independent Non-Executive Directors is maintained on the Company's website. • Biographies of Directors, including clear designation of their roles and responsibilities, are published in the annual report.

The Company's Board members bring an appropriate diverse set of experience, competencies, skills and judgment to the Board.

SKILL/EXPERIENCE

Executive Directors

- Top management (strategic planning, corporate policy and overall management and marketing of the Company) – Mr. CHU Chun Man, Augustine (Chairman)
- Business line – Mr. CHU Yuk Man, Simon (Director, Marketing and Customer Relation)
- Production and Research Development – Mr. CHANG Hua Jung (Director, Production and Research Development)

Independent Non-Executive Directors

- I.T. and Corporate Governance – Ms. CHIU Lai Kuen, Susanna
- Trading companies exposure – Mr. CHOY Tak Ho
- Related business (Golf manufacturing) – Mr. HSIEH Ying Min

APPOINTMENTS, RE-ELECTION AND REMOVAL

Code Principle

Formal, considered and transparent procedures should be established for the appointment of new directors. There should be plans for orderly succession..

Code provisions	Comply?	Governance Practices for the Company
• Non-Executive Directors should be appointed for a specific term, subject to re-election. • Every Director should be subject to rotation at least once every three years. • All Directors appointed to fill a casual vacancy should be subject to election at the first and subsequent general meeting.	✓ with deviation	• Although the Independent Non-Executive Directors have not been appointed for any specific terms, they are required by the Company's Bye Laws to retire by rotation once every three years at the Company's annual general meeting. • To conform with Code Provision A.4.2, a special resolution was passed at the 2007 annual general meeting of the Company to amend the Company's Bye Laws so that all directors are subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-Executive Directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

According to clauses 87(1) and 87(2) of the Company's Bye-Laws, Mr. Chang Hua Jung and Mr. Hsieh Ying Min will retire and offer themselves for re-election at the 2010 annual general meeting.

The Board recommended the re-appointment of the Directors standing for re-election at the 2010 annual general meeting of the Company.

The Company's circular dated 30 April 2010 contains detailed information of the Directors standing for election and re-election.

RESPONSIBILITIES OF DIRECTORS

Code Principle

All Directors (including Non-Executive Directors) are required to keep abreast of their responsibilities as Directors of the Company and of the conduct, business activities and development of that Company.

Code provisions	Comply?	Governance Practices for the Company
• Every newly appointed Director should receive a comprehensive, formal and tailored induction to ensure that he/she has a proper understanding of the business, his/her responsibilities under the Listing Rules, applicable regulatory requirements, business and governance policies of the issuer.	✓	• On appointment, new Directors will be given a comprehensive orientation package, including introduction to Group activities, induction into their responsibilities and duties, and other regulatory requirements. • Non-Executive Directors are regularly updated with management's strategic plans, lines of business, financial objectives, plans and actions. • The Company Secretary is responsible for keeping all Directors updated on Listing Rules and other statutory requirements.
• Functions of Non-Executive Directors should include: • bringing an independent judgment at the Board meetings; • taking the lead where potential conflicts of interests arise; • serving on committees if invited; • scrutinising the Company's performance and monitoring the reporting of performance.	✓	• Strategic planning and monitoring are two distinct but intertwined roles of the Company Directors. Strategic planning should be based on an identification of the opportunities and the full ranges of risks that will determine which of these opportunities are worth pursuing. On an on-going basis, the Board will review with management how the strategic environment is changing, what major risks and opportunities have emerged, how they are being managed and what, if any, adjustments in strategic direction would be required. • There is satisfactory attendance for Board and Board Committee meetings in 2009.
• Directors should ensure that they can give sufficient time and attention to the affairs of the Company.		

Code provisions	Comply?	Governance Practices for the Company
• Directors must comply with their obligations under the Model Code set out in Appendix 10.	✓	• The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2009. • The Company also has established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines" and "Code for Securities Transactions by Directors and Employees") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. • No incident of non-compliance of the Employees Written Guidelines and Code for Securities Transactions by Directors and Employees was noted by the Company.

SUPPLY OF AND ACCESS TO INFORMATION

Code Principle

Directors should be provided in a timely manner with appropriate information so as to enable them to make an informed decision and to discharge their duties and responsibilities.

Code provisions	Comply?	Governance Practices for the Company
• Board papers should be sent to all Directors at least three days before the date of Board/ Committee meetings.	✓	• Board papers are sent to all Directors at least 3 days before the date of Board/Committee meetings.
• Each Director should have separate and independent access to senior management.	✓	• Senior management is from time to time brought into formal and informal contact with the Board at Board meetings and other events.
• Directors are entitled to have access to board papers; steps must be taken to respond promptly and fully to Director queries.	✓	• Board papers and minutes are available for inspection by Directors and Committee Members.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

THE LEVEL AND MAKE-UP OF REMUNERATION AND DISCLOSURE

Code Principle

A formal and transparent procedure should be established for setting policy on Executive Directors' remuneration and for fixing the remuneration packages for all Directors. No Director should be involved in deciding his own remuneration.

Code provisions	Comply?	Governance Practices for the Company
• Issuers should establish a Remuneration Committee with specific written terms of reference (containing the minimum prescribed duties) which information is available on request and on the Company's website. A majority of the members should be Independent Non-Executive Directors.	✓	• A Remuneration Committee with written terms of reference had been set up that comprises three Independent Non-Executive Directors and two Executive Directors. The terms of reference are available on request and on the Company's website.
• The Committee should consult the Chairman and/or Chief Executive Officer regarding proposed remuneration of other Executive Directors and have access to professional advice where necessary.	✓	• The Remuneration Committee is responsible for formulating and making recommendation to the Board on the Group's policy and structure for all remuneration of the Directors of the Company and senior management of the Group.
• The Remuneration Committee should be provided with sufficient resources to discharge its duties.	✓	• Independent professional advice will be sought to supplement internal resources where necessary.
Recommended Best Practice		
• A significant proportion of Executive Directors' remuneration should be linked to corporate and individual performance.	✓	• The Directors' remuneration is determined by the Company in general meeting. It is delegated to the Board by the shareholders at the AGM. The emolument is determined with reference to the Directors' duties, responsibilities, performance and the results of the Group.

REMUNERATION COMMITTEE

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets towards the end of each year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the Directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee met once during the year ended 31 December 2009 and reviewed the remuneration policy and structure of the Company and remuneration packages of the Directors and the senior management for the year under review.

Details of attendance records of Remuneration Committee meetings in 2009:

Executive Directors	**Attendance**
Mr. CHU Chun Man, Augustine	1/1
Mr. CHU Yuk Man, Simon	1/1
Independent Non-Executive Directors	
Mr. HSIEH Ying Min *(Chairman)*	1/1
Mr. CHOY Tak Ho	1/1
Ms. CHIU Lai Kuen, Susanna	1/1

C. ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

Code Principle

The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

Code provisions	Comply?	Governance Practices for the Company
• Management should provide explanation and information to enable the Board to make informed assessment of relevant matters.	✓	• Directors are regularly kept informed and updated with management's strategic plans, lines of business, financial objectives, plans and actions.
• The Directors should acknowledge their responsibility for preparing the accounts; there should be a statement by the auditors regarding their reporting responsibilities in the auditors' report.	✓	• A statement of Director Responsibilities for the consolidated financial statements is set out in this Annual Report on page 47. • The statement of the external auditors about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 47 to 48.
• The Board's responsibility to present a balanced, clear and understandable assessment extends to annual/interim reports, other price-sensitive announcements and other financial disclosures/reports under the Listing Rules and statutory requirements.	✓	• The Board aims to present a comprehensive, balanced and understandable assessment of the Group's position and prospects in all shareholder communications.

The remuneration paid/payable to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2009 amounted to HK$750,000 and HK$323,000, respectively.

INTERNAL CONTROLS

Code Principle

The Board should maintain a sound and effective internal controls system to safeguard the shareholders' investment and the Company's assets.

Code provisions	Comply?	Governance Practices for the Company
• The Directors should at least annually conduct a review of the effectiveness of the system of internal controls. • The Board should, in particular, consider the adequacy of resources, qualifications and experience of staff who participate in the accounting and financial reporting functions, and their training programmes and budgets.	✓	• The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. • Management is charged with the responsibility to design and implement an appropriate system of internal controls. • Management regularly reviews the effectiveness of the risk management and system of internal controls. Key findings are reported to the Audit Committee and the Board. • The Board has engaged an external professional adviser to assist it to conduct an annual review of the effectiveness of the system of internal controls of the Group and is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report is sound and effective to safeguard the shareholders' investments and the Group's assets. • Adequate accounting personnel were engaged to carry out the accounting and financial reporting functions. Senior staff possesses professional accounting qualifications and periodically attends seminars to update developments in the accountancy profession.

At the Company, Management is primarily responsible for the design, implementation and maintenance of internal controls. The Board and its Audit Committee oversee the actions of Management and monitor the effectiveness of the controls that have been put in place. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage, rather than eliminate, risks of failure in operational systems and achievement of the Group's objectives.

Our system of internal controls comprises of the following five interrelated components:

1. Control Environment
2. Risk Assessment
3. Information and Communication
4. Control Activities
5. Monitoring

1. *CONTROL ENVIRONMENT*

The Company Directors bring an appropriate diverse set of experience, competencies, skill and judgment to the Board, which has a strong commitment to integrity and high ethical values. The Group's ethical value and behavioral standards are explicitly conveyed to all employees through the terms in the employment contracts, internal circulars and a formal Code of Conduct/Staff Hand Book.

The Board and its Audit Committee actively participate in the Group's corporate governance affairs. Major transactions have to be reviewed and approved by the Board/Audit Committee. All members of the Audit Committee are Independent Non-Executive Directors with relevant experiences and expertise and one of them is a qualified accountant who gave valuable recommendations or guidelines to the Group. Independent professional advice, where necessary, is available for them to discharge their duties and responsibilities, which are outlined in the terms of reference.

The Group has well-defined lines of authority and control responsibilities within the organization structure to ensure the work activities are consistent with organizational objectives. Each post has a written job description; performance of employees is evaluated and reviewed annually.

The management team possesses wide range of functional skill and rich experiences appropriate to the Group's business requirement. It is committed to provide sufficient competent personnel to keep pace with the growth and complexity of the business. It has adopted a conservative financial reporting philosophy thereby biases that may affect significant accounting estimates and other judgments are minimized. Significant issues relating to internal control and accounting matters are consulted with the auditors and the Audit Committee. Any identified deficiencies in the internal controls are discussed, investigated and rectified on a timely basis.

2. *RISK ASSESSMENT*

Strategic planning is one of the distinct roles of the Board. It is based on an identification of the opportunities and the full ranges of risks that determine which of these opportunities are worth pursuing. On an on-going basis, the Board reviews with Management of the changes in the strategic environment, the management of major risks, opportunities and adjustments in strategic direction:

- The market trends are actively monitored through internal research and participation in local and overseas business shows and exhibitions and visits to overseas customers.

- Key financial and operational performance indicators are reviewed to monitor the Group's performance.

- Employee performance and reward review is conducted annually to ensure that quality staff is retained in the Group.

The regulatory environment is monitored through attendance to professional seminars and conferences periodically. Qualified accountants are hired in key positions to ensure high level of competence and quality. The accounting department is promptly notified of any changes that may affect the process of recording transactions. Policies and procedures are also revised to reflect significant changes in internal control of the operating environment as a result of new or changing regulations. Significant changes in accounting practices have to be reviewed and approved by the Audit Committee. Procedures are established to identify related party transactions and the latter is reviewed and approved by the Audit Committee. Unauthorized access of confidential and insider information is strictly prohibited and is stipulated in both the employment contracts and the Code of Conduct.

Information that is or is expected to be price-sensitive will be submitted to the Board for discussion. Professional advice is sought promptly whenever necessary and details of the enquiries, discussion and advice are documented. Consultation with the Exchange is also sought promptly whenever there is any doubt. Once a decision is made and approved for the disclosure of price-sensitive information, arrangement will be made for reporting to the Exchange and announcement to the public through the websites of the Exchange and the Company as soon as practicable. All such information is kept strictly confidential until an announcement is made.

3. INFORMATION AND COMMUNICATION

The Group has provided sufficient human and financial resources to develop or improve the necessary information systems in response to the Group's business strategy, or process and application objectives.

The Group's information systems provide Management with sufficient details on a timely basis to enable it to carry out its responsibilities efficiently and effectively. All important information will be documented and recorded for review purpose.

Procedures and guidelines are established for timely and appropriate response to external enquiries about the Group's affairs. Senior staff of the Group are identified and authorised to act as its spokespersons in response to enquiries in designated area of issues.

The Group's objectives are communicated to the employees through staff meetings and internal circulars. All employees are encouraged to report any potential improprieties or constructive suggestions to Management and they will be handled confidentially to the extent possible under the circumstances. Lines of authority and responsibilities are clearly defined and each post has a written job description.

Procedures and guidelines are established to ensure that proper controls are in place for safeguarding assets and recording of complete, accurate and timely accounting and management information. They are reviewed by management periodically and discussed with the Audit Committee where necessary. Regular audits are carried out to ensure that the financial statements are prepared in accordance with generally accepted accounting principles, legislation, regulations, and the group's policies.

4. CONTROL ACTIVITIES

Management has implemented the following control activities that are effective and efficient:

- Policies and procedures are reviewed periodically for appropriateness to the Group's business.

- To safeguard the assets, all valuable assets are properly secured and register is maintained for all fixed assets. Physical checks are performed periodically.

- Programs and data files are backed up daily and access to specific applications and databases are restricted to authorized personnel.

- Procedures and guidelines are established for implementing, documenting, testing and approving changes to computer programs. Major information system projects and resources priorities are to be reviewed by the Audit Committee.

- Duties are segregated so that different staff are responsible for asset custody and records keeping separately.

- All transactions are properly documented and approved by authorized personnel.

- Significant accounting estimates and unusual transactions are to be reviewed by the Board/Audit Committee. Accounting and closing practices are followed consistently throughout the year. Key performance indicators and monthly financial information accompanied by analytical comments are prepared and submitted to Management for review. Quarterly information are to be reviewed by the Audit Committee where necessary.

5. MONITORING

Internal audit plays an important role in monitoring the Group's internal governance and provides an objective assurance to the Board that a sound internal control system is maintained and operated by Management in compliance with the Group's policies.

An internal audit department, headed by a member of the Institute of Internal Auditors, is in place to monitor the Group's activities and to ensure that they are carried out in accordance with the policies laid down by Management to help achieve the Group's mission. The scope of planned internal audit activities is reviewed in advance with Management. Independent reviews of different financial, business and functional operations and activities are conducted with resources focused on higher risk areas.

Ad hoc reviews are also conducted on areas of concern identified by Management. Procedures and control processes are reviewed periodically to ensure that the controls are in place and applied as expected.

Exceptions and overrides are investigated and corrective actions are taken promptly on deficiencies. Findings and recommendations from internal auditors and regulators are timely addressed by Management.

AUDIT COMMITTEE

Code Principle

The Audit Committee should have clear terms of reference, including arrangements for considering how it applies the financial reporting and internal controls principles. The committee should maintain an appropriate relationship with the Company's auditors.

Code provisions	Comply?	Governance Practices for the Company
• Minutes be kept by a duly appointed secretary; and should be sent to all committee members within a reasonable time.	✓	• Draft minutes prepared by the Company Secretary are sent to members generally within 14 days of each meeting.
• A former partner of the existing auditors should not sit on the Audit Committee.	✓	• None of the three Audit Committee members are former partners of the external auditors.
• The terms of reference of Audit Committee (containing the minimum prescribed duties) be made available on request and on the Company's website.	✓	• Full terms of reference are available on request and on the Company's website.
• Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or the dismissal of the external auditors, there should be a statement from the Audit Committee explaining its recommendation and the reason(s) why the Board has taken a different view.	✓	• Audit Committee recommended to the Board (which in turn endorsed the view) that, subject to shareholders' approval at the forthcoming AGM, SHINEWING (HK) CPA Limited, be reappointed as the external auditors for 2010.
• The Audit Committee should be provided with sufficient resources to discharge its duties.	✓	• There is an agreed procedure for Audit Committee members to take independent professional advice at Company's expense.

Recommended Best Practice	Comply?	Governance Practices for the Company
• Terms of reference include: – Review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties. – Oversee the Company's relation with the external auditors.	✓	• The arrangement is included in the Company's Code of Conduct – Employees/Directors. • The Audit Committee oversees the relationship of management with the external auditors.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-Executive Directors of the Company. It has reviewed with management the accounting policies and practice adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the consolidated financial statements for the year ended 31 December 2009.

The main duties of the Audit Committee include the following:

(a) To review the consolidated financial statements and reports and consider any significant or unusual items raised by the responsible accounting and internal audit personnel or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 December 2009 to review the financial results and reports, financial reporting and compliance procedures, the internal control and risk management, the report of External Auditors to the Audit Committee in relation to the audit of the consolidated financial statements of the Group and the re-appointment of the external auditors.

The Company's annual results for the year ended 31 December 2009 has been reviewed by the Audit Committee.

Details of attendance records of Audit Committee Meetings in 2009:

Independent Non-Executive Directors	**Attendance**
Ms. CHIU Lai Kuen, Susanna *(Chairperson)*	2/2
Mr. CHOY Tak Ho	2/2
Mr. HSIEH Ying Min	2/2

D. DELEGATION BY THE BOARD

MANAGEMENT FUNCTIONS

Code Principle

The Company should have a formal schedule of matters reserved to the Board for its decision. The Board should give clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company.

Code provisions	Comply?	Governance Practices for the Company
• Board must give clear directions as to the powers of management, including circumstances where management should report back and obtain prior approval from the Board.	✓	• Matters reserved for the Board's decision includes: – Long– term objectives and strategies of the Group; – Material change in or extension of group activities into new business areas; – Preliminary announcements of interim and final results; – Dividends; – Material banking facilities; – Material acquisitions and disposals of assets and/or business; – Annual assessment of the effectiveness of the internal controls; – Appointment of members to the Board; and – Other matters of significance, which the management submits for the Board's consideration and decision.
• Formalize the functions reserved to the Board and those delegated to management		
Recommended Best Practice		
• Companies should have formal letters of appointment for Directors setting out the key terms and conditions relative to their appointment.	✓	• A formal appointment letter, setting out the key terms and conditions relative to their appointment, will be prepared for each newly appointed Director.

BOARD COMMITTEES

Code Principle

Board committees should be formed with specific written terms of reference that deal clearly with the committees' authority and duties.

Code provisions	Comply?	Governance Practices for the Company
• Clear terms of reference to enable proper discharge of committee functions.	✓	• The Board has established two Board Committees (i.e. the Audit Committee and the Remuneration Committee) with specific terms of reference.
• The terms of reference should require committees to report their decisions to the Board.	✓	• Board Committees present their respective reports to the Board after each meeting, which address their work and findings.

E. COMMUNICATION WITH SHAREHOLDERS

EFFECTIVE COMMUNICATION

Code Principle

The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participations.

Code provisions	Comply?	Governance Practices for the Company
• A separate resolution be proposed by the Chairman for each substantially separate issue.	✓	• Separate resolutions are proposed at the meeting on each substantially separate issue, including the election of individual Directors.
• The Chairman of the Board should attend the annual general meeting and arrange for the Chairmen of the Audit, Remuneration and Nomination Committees (as appropriate) to be present. Companies should arrange for the notice to shareholders to be sent at least 20 clear business days before the AGM and 10 clear business days for all other general meetings.	✓	• The Chairman of the Board and three other Directors including two Independent Non-Executive Directors were present in the 2009 Annual General Meeting to answer questions raised by the shareholders. • Notice of 2009 AGM were sent to shareholders 21 clear business days before the meeting.

The Company has also established a web site (http://www.sinogolf.com) to communicate with its shareholders.

VOTING BY POLL

Code Principle

The Company should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.

Code provisions	Comply?	Governance Practices for the Company
• Chairman of a meeting should adequately explain the poll procedures at the commencement of the meeting and then answer any questions from shareholders regarding voting by way of a poll.	✓	• Poll procedures were explained by the Chairman at the commencement of the AGM proceedings. The Chairman of the meeting has demanded poll on each and every resolution put to the vote in the 2009 AGM. • Poll results were posted on the websites of the Stock Exchange and the Company on the business day following the meeting.

Independent Auditor's Report

信永中和
ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE MEMBERS OF SINO GOLF HOLDINGS LIMITED
順龍控股有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sino Golf Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 109, which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practising Certificate Number: P03427

Hong Kong
27 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	9	**290,329**	446,659
Cost of sales		**(230,644)**	(344,229)
Gross profit		**59,685**	102,430
Other operating income	9	**4,819**	6,265
Selling and distribution costs		**(7,016)**	(12,654)
Administrative expenses		**(57,803)**	(66,125)
Finance costs	11	**(11,173)**	(15,875)
(Loss) profit before taxation		**(11,488)**	14,041
Income tax expense	12	**(1,047)**	(748)
(Loss) profit for the year	13	**(12,535)**	13,293
Other comprehensive income			
Exchange difference arising on translation		**116**	13,676
Gain on revaluation of leasehold land and buildings		**2,524**	–
Income tax relating to components of other comprehensive income		**(631)**	–
Total other comprehensive income, net of tax		**2,009**	13,676
Total comprehensive (expenses) income for the year		**(10,526)**	26,969
(Loss) profit for the year attributable to:			
Owners of the parent		**(12,535)**	13,312
Minority interests		**–**	(19)
		(12,535)	13,293
Total comprehensive (expenses) income for the year attributable to:			
Owners of the parent		**(10,526)**	26,988
Minority interests		**–**	(19)
		(10,526)	26,969
(Loss) earnings per share	14		
Basic and diluted		**HK(4.15) cents**	HK4.41 cents

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	18	**254,600**	258,786
Prepaid lease payments	19	**20,451**	21,094
Goodwill	20	**20,385**	22,180
Club debentures	21	**2,135**	2,135
Deposits and other receivables	22	**957**	2,166
Prepayments for the acquisition of property, plant and equipment		**807**	3,044
		299,335	309,405
Current assets			
Inventories	23	**162,127**	168,359
Trade and other receivables	24	**72,850**	77,003
Prepaid lease payments	19	**597**	551
Derivative financial instruments	26	**–**	97
Bank balances and cash	27	**39,522**	30,079
		275,096	276,089
Current liabilities			
Trade and other payables	28	**65,675**	89,178
Amounts due to minority shareholders of a subsidiary	29	**462**	462
Income tax payable		**1,248**	1,120
Bank borrowings – due within one year	30	**194,794**	165,774
Obligations under finance leases – due within one year	31	**730**	1,382
		262,909	257,916
Net current assets		**12,187**	18,173
		311,522	327,578
Non-current liabilities			
Bank borrowings – due after one year	30	**37,184**	68,408
Obligations under finance leases – due after one year	31	**–**	730
Loan from immediate holding company	32	**23,678**	–
Deferred taxation	33	**2,641**	2,010
		63,503	71,148
		248,019	256,430

Consolidated Statement of Financial Position

At 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Capital and reserves			
Share capital	34	**30,220**	30,220
Reserves		**215,297**	223,708
Equity attributable to owners of the parent		**245,517**	253,928
Minority interests		**2,502**	2,502
Total equity		**248,019**	256,430

The consolidated financial statements on pages 49 to 109 were approved and authorised for issue by the board of directors on 27 April 2010 and are signed on its behalf by:

Chu Chun Man, Augustine
Director

Chu Yuk Man, Simon
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to owners of the parent											
	Share capital HK$'000	**Share premium** HK$'000	**Other reserve** HK$'000	**Contributed surplus** HK$'000	**Assets revaluation reserve** HK$'000	**Exchange fluctuation reserve** HK$'000	**Share options reserve** HK$'000	**Retained profits** HK$'000	**Proposed final dividend** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
			(Note i)	(Note ii)								
At 1 January 2008	30,220	57,270	–	10,564	24,360	19,684	312	89,063	7,555	239,028	2,571	241,599
Total comprehensive income for the year, net of tax	–	–	–	–	–	13,676	–	13,312	–	26,988	(19)	26,969
Reserves released through deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	(50)	(50)
Lapse of share options	–	–	–	–	–	–	(312)	312	–	–	–	–
2007 final dividend paid	–	–	–	–	–	–	–	–	(7,555)	(7,555)	–	(7,555)
2008 interim dividend	–	–	–	–	–	–	–	(4,533)	–	(4,533)	–	(4,533)
At 31 December 2008	30,220	57,270	–	10,564	24,360	33,360	–	98,154	–	253,928	2,502	256,430
Total comprehensive income (expenses) for the year, net of tax	–	–	–	–	1,893	116	–	(12,535)	–	(10,526)	–	(10,526)
Deemed contribution by immediate holding company arising from non-interest bearing loan (Note 32)	–	–	1,652	–	–	–	–	–	–	1,652	–	1,652
Recognition of equity-settled share based payment	–	–	–	–	–	–	463	–	–	463	–	463
At 31 December 2009	30,220	57,270	1,652	10,564	26,253	33,476	463	85,619	–	245,517	2,502	248,019

Note i : The other reserve represents the capital contribution from the Company's immediate holding company in the form of a non-interest bearing loan. The amounts are estimated by discounting the nominal value of the non-interest bearing loan to the Group at an effective interest rate of 5.22%.

Note ii: The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefore.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before taxation		**(11,488)**	14,041
Adjustments for:			
Amortisation of prepaid lease payments		**597**	551
Bad debts directly written off		**1,143**	35
Change in fair value of derivative financial instruments		**–**	(97)
Depreciation of property, plant and equipment		**20,947**	19,283
Equity-settled share based payment		**463**	–
Finance costs		**11,173**	15,875
Impairment loss recognised in respect of goodwill		**1,795**	–
Impairment loss recognised in respect of trade receivables		**2,128**	1,576
Interest income		**(113)**	(670)
Income from derivative financial instruments		**(559)**	(311)
Loss on deregistration of a subsidiary	36	**30**	52
Loss (gain) on disposal of property, plant and equipment		**2,118**	(88)
Waiver of other payables		**(1,009)**	–
Write-off of inventories		**2,447**	–
Write-off of property, plant and equipment		**–**	1,043
Operating cash flows before movements in working capital		**29,672**	51,290
Decrease (increase) in inventories		**3,785**	(6,802)
Decrease (increase) in trade and other receivables		**852**	(4,971)
Decrease in trade and other payables		**(22,378)**	(37,956)
Cash generated from operations		**11,931**	1,561
People's Republic of China Enterprise Income Tax paid		**(865)**	(569)
Hong Kong Profits Tax paid		**(54)**	(1,097)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**11,012**	(105)
INVESTING ACTIVITIES			
(Increase) decrease in bank deposits		**(22,508)**	7,906
Purchase of property, plant and equipment		**(14,383)**	(44,849)
Prepayments for acquisition of property, plant and equipment		**(807)**	(3,044)
Decrease in deposit and other receivables		**1,209**	1,373
Proceeds from disposal of property, plant and equipment		**1,072**	88
Net cash from derivative financial instruments		**656**	311
Interest income		**113**	670
NET CASH USED IN INVESTING ACTIVITIES		**(34,648)**	(37,545)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
FINANCING ACTIVITIES			
New bank borrowings raised		**225,344**	102,616
Loan from immediate holding company		**25,185**	–
Repayments of bank borrowings		**(228,545)**	(80,040)
Interest and factoring charges paid		**(11,028)**	(15,105)
Repayments of obligations under finance leases		**(1,382)**	(1,358)
Dividends paid		**–**	(12,088)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**9,574**	(5,975)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(14,062)**	(43,625)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**30,079**	72,163
EFFECT ON FOREIGN EXCHANGE RATE CHANGES		**–**	1,541
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**16,017**	30,079
ANALYSIS OF CASH AND CASH EQUIVALENTS, represented by,			
Bank balances and cash	27	**15,014**	28,079
Short-term time deposits with original maturity of less than three months	27	**2,000**	2,000
Bank overdrafts	30	**(997)**	–
		16,017	30,079

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. GENERAL

Sino Golf Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in Bermuda under the Bermuda Companies Act. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company, the immediate holding company of the Company is CM Investment Company Limited, which is incorporated in the British Virgin Islands ('BVI") and the ultimate holding company is A & S Company Limited, which is incorporated in the BVI.

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The functional currency of the Company and its subsidiaries (collectively referred to as the Group) is United States dollars ("US$") and for those subsidiaries established in the People's Republic of China (the "PRC") is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") for the convenience of users of the consolidated financial statements as the Company is a listed company in Hong Kong.

The principal activities of the Company is investment holding and the principal activities of its subsidiaries are set out in Note 41.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Interpretation ("Int") 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the above new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) "Presentation of Financial Statements"

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 "Operating Segments"

HKFRS 8 is a disclosure standard. The adoption of HKFRS 8 has not resulted in a re-designation of the Group's reportable segments nor changes in basis of measurement of segment profit or loss, segment assets and segment liabilities.

Improving Disclosures about Financial Instruments
(Amendments to HKFRS 7 "Financial Instruments: Disclosures")

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments. At 31 December 2009, there were no such financial instruments. As the amendments do not require retrospective disclosure, thus no disclosure was made for the related financial instruments at 31 December 2008.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-INT 14 (Amendment)	Payments of a Minimum Funding Requirement[6]
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (continued)

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvement to HKFRSs (2009), HKAS17 *Leases* has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, Lessee were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain leasehold land and buildings and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

(c) Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment

Property, plant and equipment, including land and buildings held for use in the production or supply of goods, or for administrative purposes (other than construction in progress) are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any revaluation increase arising on revaluation of land and buildings is recognised in other comprehensive income and accumulated in assets revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the assets revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Land use right

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, amortisation is charged to consolidated statement of comprehensive income over the period of the rights using the straight-line method.

(f) Club debentures

Club debentures are carried at cost less accumulated impairment losses, if any.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

(h) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into one of two categories including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Derivative instruments are classified as held for trading and measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including deposits, trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to minority shareholders of a subsidiary, bank borrowings, obligations under finance leases and loan from immediate holding company are subsequently measured at amortised cost, using the effective interest method.

Equity Instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. 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

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment losses on assets other than goodwill (see the accounting policies in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal impairment loss is treated as a revaluation increase under that standard.

(j) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts, returns and sales related taxes.

i) Sale of goods

Revenue from sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Deposits and instalments from purchasers prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

ii) Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

iii) Service income

Service income is recognised when services are provided.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period/recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Share options granted to business associates

Share options issued in exchange for goods or services are measured at the fair value of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

(l) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownerships to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and buildings

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a stralight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

(n) Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(o) Retirement benefit costs

Payments to state-managed retirement benefit schemes and defined contribution retirement plans are charged as an expense when employees have rendered service entitling them to the contributions.

(p) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (exchange fluctuation reserve).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange fluctuation reserve.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying the entity's accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effects on the amounts recognised in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgments in applying the entity's accounting policies (continued)

Legal title of buildings

As detailed in Note 18 certain of the Group's buildings have not been granted legal title from the relevant government authorities yet. Although, the Group has not obtained the relevant legal title, the directors of the Company having regard to the legal opinion have recognised the buildings on the grounds that they expect the legal title to be obtained in the near future with no major difficulties and the Group is in substance controlling these buildings.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Valuation of land and buildings

The Group estimates the valuation of leasehold land and buildings with reference to the valuation conducted by an independent firm of professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's leasehold land and buildings and corresponding adjustments to the amount of gain or loss reported in the consolidated statement of changes in equity.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. At 31 December 2009, the carrying amount of goodwill is HK$20,385,0000 (2008: HK$22,180,000), net of impairment loss of approximately HK$1,795,000 (2008: Nil). Details of impairment testing on goodwill are set out in Note 20(b).

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Impairment loss recognised in respect of property, plant and equipment

The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue with a stable growth rate and a suitable discount rate. No impairment was provided for in both years.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Impairment loss recognised in respect of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. At 31 December 2009, the carrying amount of trade receivables was approximately HK$28,458,000 (2008: HK$38,493,000), net of impairment losses of approximately HK$13,544,000 (2008: HK$11,416,000).

Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated selling prices. The cost of inventories is written down to the net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The amount written off to the consolidated statement of comprehensive income is the difference between the carrying value and net realisable value of inventories. In determining whether the cost of inventories can be recovered, significant judgments are required. In making this judgment, the Company evaluates, amongst other factors, the duration and extent and the means by which the amount will be recovered. These estimates are based on the current market and past experience in sales of similar products. It could change significantly as a result of changes in customer preferences and competitor actions in response to changes in market condition. At 31 December 2009, the carrying amount of inventories was approximately HK$162,127,000 (2008: HK$168,359,000). No impairment was provided for in both years.

5. CAPITAL RISK MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders value. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes amounts due to minority shareholders of a subsidiary disclosed in Note 29, bank borrowings disclosed in Note 30, obligations under finances leases disclosed in Note 31 and loan from immediate holding company disclosed in Note 32 and bank balances and cash disclosed in Note 27 and equity attributable to owners of the parent, comprising issued share capital, reserves and retained profits.

5. CAPITAL RISK MANAGEMENT (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital. The Group's policy is to maintain the gearing ratio not more than 100% (2008: 100%), which is determined and reviewed with reference to the funding needs of the Group periodically. Net debt includes amounts due to minority shareholders of a subsidiary, bank borrowings, obligations under finance leases and loan from immediate holding company less bank balances and cash. Total equity includes equity attributable to the owners of the parent and minority interests. The gearing ratios as at the end of the reporting period were as follows:

	2009 **HK$'000**	2008 HK$'000
Amounts due to minority shareholders of a subsidiary	**462**	462
Bank borrowings	**231,978**	234,182
Obligations under finance leases	**730**	2,112
Loan from immediate holding company	**23,678**	–
Less: Bank balances and cash	**(39,522)**	(30,079)
Net debts	**217,326**	206,677
Equity attributable to owners of the parent	**245,517**	253,928
Minority interests	**2,502**	2,502
Total equity	**248,019**	256,430
Gearing ratio	**88%**	81%

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2009 **HK$'000**	2008 HK$'000
Financial assets		
Derivative financial instrument	**–**	97
Loans and receivables (including bank balances and cash)	**111,577**	107,377
	111,577	107,474
Financial liabilities		
Financial liabilities at amortised cost	**322,523**	325,934

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES

The Group's major financial instruments include deposit and other receivables, trade and other receivables, bank balances and cash, trade and other payables, amounts due to minority shareholders of a subsidiary, bank borrowings, obligations under finance leases and loan from immediate holding company are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. None (2008: 5%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst 36% (2008: 36%) of costs are denominated in the group entity's functional currency.

The carrying amounts of the Group's foreign currency denominated monetary liabilities at the reporting date are as follows:

	Liabilities	
	2009	2008
	HK$'000	HK$'000
RMB	**1,708**	807

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The Group is mainly exposed to RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in US$ against RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates a decrease in post-tax loss (2008: increase in post-tax profit) where US$ strengthen 5% against the relevant currency. For a 5% weakening of US$ against the relevant currency, there would be an equal and opposite impact on the loss/profit, and the balances below would be negative. The analysis is performed on the same basis for the year ended 31 December 2008.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES (continued)

Currency risk (continued)

Sensitivity analysis (continued)

	RMB	
	2009 **HK$'000**	2008 HK$'000
Impact on (loss) profit for the year	**71**	33

This is mainly attributable to the exposure on outstanding trade and other payables denominated in RMB at the end of the reporting period.

Interest rate risk

The interest income is derived from the Group's current and short-term time deposits that carry interest at the respective banking deposit rate of the banks located in the PRC and Hong Kong.

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 30 for details of these borrowings) for the year ended 31 December 2009 (2008: Nil). The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group's cash flow interest rate risk relates primarily to variable-rate bank deposits (see Note 27 for details of these deposits) and variable-rate borrowings (see Note 30 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's bank deposits are short-term in nature and the exposure of the interest rate risk is minimal and no sensitivity to interest rate risk is presented.

The Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of base lending rate published by the People's Bank of China and the Hong Kong Interbank Offered Rate.

Sensitivity analysis

As of 31 December 2009, it is estimated that a general 100 basis point increase or decrease in interest rates, with all other variables held constant, would increase or decrease the Group's loss/profit for the year ended and retained profits by approximately HK$705,000 (2008: HK$1,699,000).

The above sensitivity analysis has been determined assuming that a change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents directors' assessment of a reasonably possible change in interest rates over the period until the next reporting period. The analysis was performed on the same basis for year ended 31 December 2008.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES (continued)

Credit risk

At 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks in Hong Kong with high credit ratings assigned by international credit-ratings agencies and authorised banks in the PRC with high credit ratings.

The Group's concentration of credit risk is 29% and 92% (2008: 27% and 88%) of the total trade receivables due from the Group's largest customer and the five largest customers, respectively.

The Group's concentration of credit risk by geographical locations is mainly in the United States of America ("US"), which accounted for 68% (2008: 74%) of the total trade receivables as at 31 December 2009.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES (continued)

Liquidity tables

	At 31 December 2009				
	Within one year or on demand HK$'000	**More than one year less than two years HK$'000**	**More than two years less than five years HK$'000**	**Total contractual undiscounted cash flow HK$'000**	**Carry amount HK$'000**
Non-derivative financial liabilities					
Trade and other payables	65,675	–	–	65,675	65,675
Amounts due to minority shareholders of a subsidiary	462	–	–	462	462
Bank borrowings	202,462	32,043	7,371	241,876	231,978
Obligations under finance leases	733	–	–	733	730
Loan from immediate holding company	–	25,185	–	25,185	23,678
	269,332	57,228	7,371	333,931	322,523

	At 31 December 2008				
	Within one year or on demand HK$'000	More than one year less than two years HK$'000	More than two years less than five years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities					
Trade and other payables	89,178	–	–	89,178	89,178
Amounts due to minority shareholders of a subsidiary	462	–	–	462	462
Bank borrowings	169,788	53,987	17,437	241,212	234,182
Obligations under finance leases	1,404	733	–	2,137	2,112
	260,832	54,720	17,437	332,989	325,934

8. FAIR VALUE

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of other financial assets and financial liabilities (excluding derivate instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- the fair value of derivative financial instruments are measured at fair value by reference to the valuation provided by bankers.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their short-term maturities.

9. TURNOVER AND OTHER OPERATING INCOME

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less discounts, returns and sales related taxes.

Analysis of the Group's turnover for the year is as follows:

	2009 **HK$'000**	2008 HK$'000
Turnover		
Sales of golf equipment and related components and parts	**251,196**	351,162
Sales of golf bags, other accessories and related components and parts	**39,133**	95,497
	290,329	446,659
Other operating income		
Change in fair value of derivative financial instruments	**–**	97
Gain on disposal of property, plant and equipment	**–**	88
Income from derivative financial instruments	**559**	311
Interest income	**113**	670
Rental income (Note)	**285**	1,974
Sale of scrap materials	**432**	134
Sample income	**89**	214
Sundry income	**1,398**	1,561
Tooling income	**934**	1,216
Waiver of other payables	**1,009**	–
	4,819	6,265
Total revenues	**295,148**	452,924

Note : There was no outgoings for rental income in both years.

10. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical), using a risks and returns approach.

In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a re-designation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

For management purposes, the Group is currently organised into two operating divisions – golf equipment and golf bags.

Golf equipment – The manufacture and trading of golf equipment, and related components and parts.

Golf bags – The manufacture and trading of golf bags, other accessories, and related components and parts.

10. SEGMENT INFORMATION (continued)

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 December

	Golf equipment		Golf bags		Eliminations		Consolidated	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Segment revenue:								
Sales to external customers	**251,196**	351,162	**39,133**	95,497	**–**	–	**290,329**	446,659
Inter-segment revenue	**–**	–	**12,800**	2,953	**(12,800)**	(2,953)	**–**	–
Other operating income	**3,024**	2,225	**1,123**	5,062	**–**	(2,100)	**4,147**	5,187
Total	**254,220**	353,387	**53,056**	103,512	**(12,800)**	(5,053)	**294,476**	451,846
Segment results	**9,466**	32,397	**212**	4,790	**–**	–	**9,678**	37,187
Interest income							**113**	670
Unallocated corporate income							**559**	408
Unallocated corporate expenses							**(10,665)**	(8,349)
Finance costs							**(11,173)**	(15,875)
(Loss) profit before taxation							**(11,488)**	14,041
Income tax expense							**(1,047)**	(748)
(Loss) profit for the year							**(12,535)**	13,293

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment results represents the results of each segment without allocation of interest income, central administration costs and directors' remuneration, finance costs and income tax expense. This is the measure reported to the chief operating decision maker of the Group for the purposes of resource allocation and assessment of segment performance.

Inter-segment sales are charged with reference to market price.

10. SEGMENT INFORMATION (continued)

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment.

At 31 December

	Golf equipment		Golf bags		Consolidated	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Assets and liabilities						
Segment assets	**486,774**	487,698	**43,290**	62,476	**530,064**	550,174
Unallocated corporate assets						
– Club debentures					**2,135**	2,135
– Derivative financial instruments					**–**	97
– Bank balances and cash					**39,522**	30,079
– Others					**2,710**	3,009
Total assets					**574,431**	585,494
Segment liabilities	**53,355**	67,400	**11,988**	19,674	**65,343**	87,074
Unallocated corporate liabilities						
– Amounts due to minority shareholders of a subsidiary					**462**	462
– Income tax payable					**1,248**	1,120
– Bank borrowings					**231,978**	234,182
– Obligations under finance leases					**730**	2,112
– Loan from immediate holding company					**23,678**	–
– Deferred taxation					**2,641**	2,010
– Others					**332**	2,104
Total liabilities					**326,412**	329,064

10. SEGMENT INFORMATION (continued)

(b) Segment assets and liabilities (continued)

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than club debentures, derivative financial instruments and bank balances and cash. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

- all liabilities are allocated to reportable segments other than amounts due to minority shareholders of a subsidiary, income tax payable, bank borrowings, obligations under finance leases, loan from immediate holding company and deferred taxation. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

(c) Geographical information

The Group's operations are located in North America, Europe, Asia (excluding Japan), Japan and others.

The Group's revenue from external customers by geographical location of revenue from external customers is detailed below:

	Revenue from External customers	
	2009 HK$'000	2008 HK$'000
North America	**195,348**	302,307
Europe	**9,596**	11,660
Asia (excluding Japan)	**26,530**	71,094
Japan	**51,727**	55,850
Others	**7,128**	5,748
	290,329	446,659

Less than 1% of the Group's revenue from external customers is derived from the PRC including Hong Kong (country of domicile) for both years.

The Group's non-current assets, other than financial instruments, by geographical location is detailed below:

	2009 HK$'000	2008 HK$'000
Hong Kong (country of domicile)	**24,726**	26,935
The PRC	**273,641**	280,291
Others	**11**	13
	298,378	307,239

10. SEGMENT INFORMATION (continued)

(d) Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

For the year ended 31 December

	Golf equipment		Golf bags		Consolidated	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Other segment information:						
Addition to non-current assets (Note)	**13,223**	63,862	**4,204**	3,346	**17,427**	67,208
Amortisation of prepaid lease payments	**496**	454	**101**	97	**597**	551
Bad debts directly written off	**1,143**	35	**–**	–	**1,143**	35
Depreciation of property, plant and equipment	**17,419**	15,643	**3,528**	3,640	**20,947**	19,283
Impairment loss recognised in respect of goodwill	**–**	–	**1,795**	–	**1,795**	–
Impairment loss recognised in respect of trade receivables	**2,128**	1,576	**–**	–	**2,128**	1,576
Loss on deregistation of a subsidiary	**30**	52	**–**	–	**30**	52
Loss (gain) on disposal of property, plant and equipment	**827**	(88)	**1,291**	–	**2,118**	(88)
Waiver of other payables	**(1,009)**	–	**–**	–	**(1,009)**	–
Write-off of property, plant and equipment	**–**	1,043	**–**	–	**–**	1,043
Write-off of inventories (included in cost of sales)	**2,447**	–	**–**	–	**2,447**	–

Note: Non-current assets excluded financial instruments.

10. SEGMENT INFORMATION (continued)

(e) Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total revenue of the Group as follows:

	Revenue generated from	**2009 HK$'000**	2008 HK$'000
Customer A	Golf equipment	**121,709**	180,792
Customer B	Golf equipment	**39,726**	N/A*
Customer C	Golf equipment	**41,439**	N/A*
Customer D	Golf bags	**N/A***	48,129

* The corresponding revenue does not contribute over 10% of the total revenue of the Group in the respective year.

11. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Factoring and bank charges	**3,178**	8,891
Interest expenses on:		
– bank overdraft	**55**	41
– bank borrowings wholly repayable within five years	**7,773**	6,756
– imputed interest on non-interest bearing loan from immediate holding company	**145**	–
– obligations under finance leases	**22**	187
	11,173	15,875

12. INCOME TAX EXPENSE

	2009 HK$'000	2008 HK$'000
Hong Kong Profits Tax		
– Current	**–**	132
– Underprovision in prior years	**–**	300
	–	432
PRC Enterprise Income Tax Income ("EIT")		
– Current	**934**	219
– Underprovision in prior years	**113**	420
	1,047	639
Deferred taxation (Note 33)		
– Current period	**–**	(194)
– Attributable to a change in tax rate	**–**	(129)
	–	(323)
	1,047	748

(i) On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced the corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009.

Hong Kong Profits Tax has not been provided for in the consolidated financial statements as there is no estimated assessable profit derived from Hong Kong for the year ended 31 December 2009.

Hong Kong Profits Tax was calculated at 16.5% of the estimated profit for the year ended 31 December 2008.

(ii) Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

(iii) Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of certain subsidiaries of the Company is 25% for both years.

In accordance with approval documents issued by various PRC tax bureaus, certain indirectly wholly-foreign owned PRC subsidiaries of the Company, including, Guangzhou Sino Concept Golf Manufacturing Co., Ltd.* ("Sino Concept") (廣州順興高爾夫球製品有限公司), Linyi Sino Golf Co., Ltd. ("Linyi Sino Golf"), Dongguan Qi Heng CTB Co., Ltd.* ("Dongguan Qi Heng") 東莞騏衡運動用品製造有限公司 and, Xiamen Sino Talent Golf Manufacturing Co., Ltd* ("Xiamen Sino") are entitled to exemption from PRC EIT in the first two years starting from the first profit-making year, followed by a 50% reduction in the next three years.

Certain PRC subsidiaries were either in loss-making position for the current and the previous years or had sufficient tax losses brought forward from previous year to offset the estimated assessable income for the year and accordingly did not have any assessable income.

* *The English names are for identification only.*

12. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the (loss) profit before taxation per the consolidated statement of comprehensive income as follows:

	2009 HK$'000	2008 HK$'000
(Loss) profit before taxation	**(11,488)**	14,041
Tax calculated at rates applicable to profits in the respective tax jurisdiction concerned	**(1,844)**	2,980
Underprovision in prior years	**113**	720
Effect of tax exemptions granted	**(2,222)**	(3,964)
Tax effect of income not taxable for tax purposes	**(143)**	(3,391)
Tax effect of expense not deductible for tax purposes	**4,255**	3,692
Tax effect of tax losses and deductible temporary differences not recognised	**893**	840
Utilisation of tax losses previously not recognised	**(5)**	–
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate used	**–**	(129)
Income tax expense for the year	**1,047**	748

Details of the deferred taxation are set out in Note 33.

13. (LOSS) PROFIT FOR THE YEAR

	2009 HK$'000	2008 HK$'000
(Loss) profit for the year has been arrived at after charging:		
Staff cost (including directors' emoluments):		
Salaries, wages and other benefits in kind	**70,173**	85,081
Equity-settled share-based payment (Note 35)	**154**	–
Retirement benefit scheme contributions	**5,403**	4,893
Total staff cost	**75,730**	89,974
Amortisation of prepaid lease payments	**597**	551
Auditor's remuneration	**819**	805
Bad debts directly written off **	**1,143**	35
Cost of inventories sold	**228,197**	344,229
Depreciation of property, plant and equipment	**20,947**	19,283
Exchange loss (net)**	**1,408**	1,847
Equity-settled share based payment (business associates) (Note)	**309**	–
Impairment loss recognised in respect of goodwill**	**1,795**	–
Impairment loss recognised in respect of trade receivables**	**2,128**	1,576
Loss on deregistration of a subsidiary (Note 36)**	**30**	52
Loss on disposal of property, plant and equipment	**2,118**	–
Operating leases rentals in respect of land and buildings	**5,880**	9,392
Research and development costs**	**3,457**	5,475
Write-off of property, plant and equipment**	**–**	1,043
Write-off of inventories (included in cost of sales)	**2,447**	–

** *These amounts are included in administrative expenses.*

Note: The amount represents the fair value of consultancy services provided to the Group in the current period in relation to the financial affairs of the Group. The consultancy service fees are settled through the issue of 3,000,000 share options in the current year as set out in Note 35.

14. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the loss for the year attributable to owners of the parent of HK$12,535,000 (2008: profit for the year of HK$13,312,000) and the weighted average number of 302,200,000 (2008: 302,200,000) ordinary shares in issue during the year.

The computation of diluted loss per share for the year ended 31 December 2009 does not assume the conversion of the Company's outstanding share options since their exercise would result in a decrease in the loss per share.

The computation of diluted earnings per share for the year ended 31 December 2008 does not assume the conversion of the Company's outstanding share options because the exercise price of those share options was higher than the average market price for the shares.

15. DIVIDENDS

	2009 HK$'000	2008 HK$'000
Dividends recognised as distribution during the year:		
2008 interim dividend of HK1.5 cents per ordinary share	**–**	4,533
2007 final dividend paid of HK2.5 cents per ordinary share	**–**	7,555
	–	12,088

No dividends was paid or proposed during the year ended 31 December 2009, nor has any dividend been proposed since the end of the reporting period.

16. STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS)

	2009 HK$'000	2008 HK$'000
Salaries, allowances and other benefits in kind	**64,983**	79,121
Equity-settled share-based payment	**154**	–
Retirement benefits schemes contributions	**5,379**	4,869
	70,516	83,990

Subsidiaries in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of comprehensive income 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 subsidiaries in an independently administered fund. The subsidiaries' employer contributions vest fully with the employees when contributed into the MPF Scheme.

16. STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS) (continued)

The employees in the Group who work in the PRC are required to participate in pension schemes operated by the local governments. The Group is required to contribute 5% to 13% (2008: 5% to 13%) of their payroll costs to the schemes. The contributions are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the pension schemes.

At 31 December 2009, the Group had no forfeited contributions available to reduce its contributions to the above schemes in future years (2008: Nil).

17. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors remuneration

The emoluments paid or payable to each of the six (2008: six) directors were as follows:

	For the year ended 31 December 2009					
	Fees HK$'000	Salaries HK$'000	Bonuses HK$'000 *(Note)*	Housing benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors						
Chu Chun Man, Augustine ("Augustine Chu")	–	1,560	–	840	12	2,412
Chu Yuk Man, Simon ("Simon Chu")	–	1,200	–	600	12	1,812
Chang Hua Jung	–	720	–	–	–	720
Independent non-executive directors						
Choy Tak Ho	120	–	–	–	–	120
Hsieh Ying Min	50	–	–	–	–	50
Chiu Lai Kuen, Susanna	100	–	–	–	–	100
	270	3,480	–	1,440	24	5,214

17. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS (continued)

(a) Directors remuneration (continued)

	For the year ended 31 December 2008					
	Fees HK$'000	Salaries HK$'000	Bonuses HK$'000 (Note)	Housing benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors						
Augustine Chu	–	1,560	400	840	12	2,812
Simon Chu	–	1,200	300	600	12	2,112
Chang Hua Jung	–	720	70	–	–	790
Independent non-executive directors						
Choy Tak Ho	120	–	–	–	–	120
Hsieh Ying Min	50	–	–	–	–	50
Chiu Lai Kuen, Susanna	100	–	–	–	–	100
	270	3,480	770	1,440	24	5,984

Note: The performance related bonuses were determined by management based on individual performance.

No directors waived or agreed to waive any emoluments during the two years ended 31 December 2009 and 2008.

(b) Senior management's emoluments

Of the five individuals with highest emoluments, three (2008: three) were directors of the Company whose emoluments are set out in the above. The emoluments of the remaining two (2008: two) highest paid individuals were as follows:

	2009 HK$'000	2008 HK$'000
Salaries, allowances and other benefits in kind	**2,031**	1,760
Bonuses	**–**	188
Retirement benefits schemes contributions	**12**	23
	2,043	1,971

17. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS (continued)

(b) Senior management's emoluments (continued)

Their emoluments were within the following bands:

	Number of individuals	
	2009	2008
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	2	2

(c) No emolument have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office for the two years ended 31 December 2009 and 2008.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings at revalued amount HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST/VALUATION							
At 1 January 2008	112,074	7,762	115,963	4,985	4,761	47,860	293,405
Exchange realignment	9,921	521	10,550	357	321	2,287	23,957
Additions	367	220	19,168	950	881	45,622	67,208
Transfers	93,656	–	–	–	–	(93,656)	–
Disposals/written off	(176)	(685)	(1,748)	(111)	(676)	–	(3,396)
At 31 December 2008	215,842	7,818	143,933	6,181	5,287	2,113	381,174
Adjustment arising on valuation	(31,683)	–	–	–	–	–	(31,683)
Additions	1,937	768	12,162	1,010	614	936	17,427
Transfers	2,053	–	60	–	–	(2,113)	–
Disposals	(1,579)	–	(12,788)	(159)	(1,055)	–	(15,581)
At 31 December 2009	186,570	8,586	143,367	7,032	4,846	936	351,337
At cost	–	8,586	143,367	7,032	4,846	936	164,767
At valuation	186,570	–	–	–	–	–	186,570
	186,570	8,586	143,367	7,032	4,846	936	351,337
ACCUMULATED DEPRECIATION							
At 1 January 2008	22,463	3,503	64,486	3,310	3,474	–	97,236
Exchange realignment	1,838	146	5,820	215	203	–	8,222
Provided for the year	4,357	744	12,906	724	552	–	19,283
Eliminated on disposals/written off	(99)	(176)	(1,336)	(100)	(642)	–	(2,353)
At 31 December 2008	28,559	4,217	81,876	4,149	3,587	–	122,388
Provided for the year	6,197	574	12,872	872	432	–	20,947
Eliminated on disposals	(549)	–	(10,719)	(130)	(993)	–	(12,391)
Eliminated on revaluation	(34,207)	–	–	–	–	–	(34,207)
At 31 December 2009	–	4,791	84,029	4,891	3,026	–	96,737
CARRYING VALUES							
At 31 December 2009	186,570	3,795	59,338	2,141	1,820	936	254,600
At 31 December 2008	187,283	3,601	62,057	2,032	1,700	2,113	258,786

18. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the lease or 20-50 years
Leasehold improvements	10% to 20%
Plant and machinery	10% to 20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

(b) The leasehold land and buildings are held in the PRC under medium-term lease.

(c) The leasehold land and buildings of the Group were revalued on 31 December 2009 by LCH (Asia-Pacific) Surveyors Limited ("LCH"), independent qualified professional valuers not connected with the Group. LCH has appropriate qualifications and has recent experiences in the valuation of similar properties in the relevant locations. The valuations have been arrived at on depreciated replacement cost basis.

(d) If the leasehold land and buildings had not been revalued, they would have been included in these consolidated financial statements at historically cost less accumulated depreciation of approximately HK$167,777,000 (2008: HK$166,187,000).

(e) The carrying value of plant and machinery of approximately HK$59,338,000 (2008: HK$62,057,000) includes an amount of approximately HK$1,858,000 (2008: HK$3,384,000) in respect of assets under finance leases.

(f) Certain of the Group's property, plant and equipment are leased to a related party, further details of which are included in Note 39(a).

(g) At 31 December 2009, the property usage permit of certain buildings have not been granted by relevant government authorities with the aggregate carrying values of approximately HK$9,620,000 (2008: HK$5,630,000). In the opinion of the directors of the Company, the absence of property usage permits to these buildings does not impair the value of the relevant buildings to the Group. The directors of the Company also believe that property usage permits to these buildings will be granted to the Group in due course.

(h) At 31 December 2009, the Group's leasehold land and buildings with a carrying value of approximately HK$157,283,000 (2008: Nil) was pledged as security for banking facilities granted to the Group.

19. PREPAID LEASE PAYMENTS

	2009 HK$'000	2008 HK$'000
Prepaid lease payments comprises of leasehold land held in the PRC under medium-term lease and are analysed for reporting purposes as follows:		
Current assets	**597**	551
Non-current assets	**20,451**	21,094
	21,048	21,645

At 31 December 2009, the carrying value of the Group's prepaid lease payment pledged as security for the banking facilities granted to the Group amounted to approximately HK$15,664,000 (2008: Nil).

20. GOODWILL

(a)

	2009 HK$'000	2008 HK$'000
COST		
At the beginning of the year	**22,180**	25,723
Adjustment to cost (Note)	**–**	(3,543)
At the end of the year	**22,180**	22,180
IMPAIRMENT		
At the beginning of the year	**–**	–
Impairment loss recognised in the year	**1,795**	–
At the end of the year	**1,795**	–
CARRYING VALUES		
At 31 December 2009		20,385
At 31 December 2008		22,180

Note: The adjustment to goodwill represented the compensation received for the shortfall of guaranteed profits in accordance with the terms of the acquisition agreement.

20. GOODWILL (continued)

(b) Impairment Testing on Goodwill

For the purpose of impairment testing, goodwill set out above has been allocated to two individual cash generating units (2008: two). The carrying amounts of goodwill (net of impairment losses) as at the end of the reporting period allocated to these units are as follows:

	2009 HK$'000	2008 HK$'000
Golf equipment		
– Sino Concept	**1,669**	1,669
– Xiamen Sino	**5,565**	5,565
– Zengcheng Sino Golf Manufacturing Co., Ltd * ("Zengchen Sino Golf") 增城市順龍高爾夫球製品有限公司	**5,155**	5,155
	12,389	12,389
Golf bags		
– CTB Golf (HK) Limited ("CTB")	**7,996**	7,996
– Sino CTB Company, LLC ("Sino CTB")	**–**	971
– Sino Golf USA Inc ("USA Golf")	**–**	824
	7,996	9,791
	20,385	22,180

* *The English names are for identification only.*

During the year ended 31 December 2009, the Group recognised impairment losses of approximately HK$1,795,000.

Golf equipment

Companies comprising of the golf equipment segment are engaged in the manufacture and trading of golf equipment. The management of the Group prepared a profit forecast and cash flow forecast in respect of this CGU (the "Golf Equipment Forecast"). The Golf Equipment Forecast were based on financial budgets approved by the management covering a period of five years at a discount rate of 4.94% (2008: 6%). The cash flows beyond the period of one year were extrapolated using a steady growth rate of 8%-12% (2008: 8%-12%). This growth rate was based on the relevant industry growth rate forecasts and does not exceed the average long-term growth rate for the relevant industry. The Golf Equipment Forecast for the budgeted period was based on the budgeted sales and budgeted gross margins during the budget period. Budgeted gross margins were determined based on management's expectation for market development and past experience, and the management believes that the budgeted gross margins were reasonable. The directors of the Company were of the opinion, based on the Golf Equipment Forecast, that the recoverable amount exceeds its carrying amount in the consolidated statement of financial position and no impairment loss was necessary.

20. GOODWILL (continued)

(b) Impairment Testing on Goodwill (continued)

Golf bags

Companies comprising of the golf bag segment are engaged in the manufacture and trading of golf bags.

Sino CTB and USA Golf operate in the United States of America (the "US") and due to the uncertainties left behind following the global financial tsunami in 2008, the directors of the Company have made due assessment of the future viability of the Group's golf bag operations in the US. It was considered that the carrying amount of goodwill arising on acquisition of the US golf bag segment in the amount of approximately HK$1,795,000 (2008: Nil) was fully impaired during the year ended 31 December 2009.

For the remaining companies comprising of the golf bag segment, the management of the Group prepared a profit forecast and cash flow forecast in respect of this CGU (the "Golf Bag Forecast"). The Golf Bag Forecast were based on financial budgets approved by the management covering a period of five years at a discount rate of 6.85% (2008: 6%). The cash flows beyond the one year period were extrapolated using a steady growth rate of 8%-12% (2008: 8%-12%). This growth rate was based on the relevant industry growth rate forecasts and does not exceed the average long-term growth rate for the relevant industry. The Golf Bag Forecast for the budgeted period was based on the budgeted sales and budgeted gross margins during the budget period. Budgeted gross margins were determined based on management's expectation for market development and past experience, and the management believes that the budgeted gross margins were reasonable. The directors of the Company were of the opinion, based on the Golf Bag Forecast, that the recoverable amount exceeds its carrying amount in the consolidated statement of financial position and no impairment loss was necessary.

21. CLUB DEBENTURES

The club debentures represent club membership in the PRC private clubs. The directors of the Company consider no impairment identified with reference to the second hand market price of the club debentures as at the end of the reporting period.

22. DEPOSITS AND OTHER RECEIVABLES

Included in the deposits and other receivables of approximately HK$410,000 (2008: HK$875,000) represents loans advanced to employees of the Group. The loans are unsecured, bear interest at rates ranging from 1.5% to 5.5% per annum (2008: 1.5% to 5.5% per annum) and are not repayable within the next twelve months from the end of the reporting period. The remaining balances are the deposits and receivables which are unsecured, non-interest bearing and are not repayable within the next twelve months from the end of the reporting period.

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For the year ended 31 December 2009

23. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials	**50,048**	58,582
Work in progress	**65,385**	50,904
Finished goods	**46,694**	58,873
	162,127	168,359

24. TRADE AND OTHER RECEIVABLES

	2009 HK$'000	2008 HK$'000
Trade receivables	**42,002**	49,909
Less: impairment loss recognised	**(13,544)**	(11,416)
	28,458	38,493
Prepayments	**1,625**	1,178
Deposits and other receivables	**42,767**	37,308
Amount due from a director (Note 25)	**–**	24
	44,392	38,510
	72,850	77,003

(i) 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 and 90 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management.

(ii) The movements in impairment loss of trade receivables of the Group are as follows:

	2009 HK$'000	2008 HK$'000
At the beginning of the year	**11,416**	9,840
Impairment loss recognised	**2,128**	1,576
At the end of the year	**13,544**	11,416

24. TRADE AND OTHER RECEIVABLES (continued)

(iii) At 31 December 2009, included in the impairment loss of trade receivables are individually impaired trade receivables with an aggregate balances of approximately HK$13,544,000 (2008: HK$11,416,000) which due to long outstanding. The Group does not hold any collateral over these balances.

(iv) The aging analysis of the trade receivables (net of impairment) of the Group was as follows:

	2009 HK$'000	2008 HK$'000
Neither past due nor impaired	**16,396**	9,205
1 to 3 months past due	**10,120**	12,894
4 to 6 months past due	**48**	10,206
7 to 12 months past due	**1,894**	1,624
Over 1 year past due	**–**	4,564
	28,458	38,493

Trade receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

(v) Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(vi) Included in deposits and other receivable is an amount approximately HK$1,379,000 pledged to an independent third party for obtaining banking facilities.

25. AMOUNT DUE FROM A DIRECTOR

Particulars of amount due from a director, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Name			Maximum amount outstanding during the year	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Chang Hua Jung	**–**	24	**24**	36

The amount was unsecured, non-interest bearing and was fully settled during the year ended 31 December 2009.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2009 HK$'000	2008 HK$'000
Derivatives not under hedge accounting consists of the fair value of foreign currency forward contracts	**–**	97

The foreign currency option contract represented the exchange of US$ and HK$ with various transaction dates at the end of the reporting period. The contract is normally settled other than by physical delivery of the underlying foreign currency and hence are classified as derivative financial instruments. On each of the transaction dates, the contracted rate is compared to the market rate and the differential is applied to the notional amounts. A net amount is paid or received by the Group. The derivative is measured at fair value at the end of the reporting period. The fair value is determined based on the banker's valuation of the option at the end of the reporting period. The Group's derivative financial instrument is denominated in US$.

The profit arising from changes in fair value of foreign currency option contracts for the year ended 31 December 2008 was approximately HK$97,000 (2009: Nil).

27. BANK BALANCES AND CASH

	2009 HK$'000	2008 HK$'000
Bank balances and cash	**15,014**	28,079
Short-term time deposits with original maturity of less than three months	**2,000**	2,000
Short-term time deposits with original maturity of more than three months	**22,508**	–
	39,522	30,079
Less: Short-term time deposits with original maturity of more than three months	**(22,508)**	–
Less: Bank overdrafts (Note 30)	**(997)**	–
Cash and cash equivalents	**16,017**	30,079

(a) Bank balances carried interest rate ranged from 0.01% to 0.36% per annum (2008: 0.01% to 0.72% per annum).

(b) The short-term time deposits with original maturity of less than three months carried interest rate at approximately 0.20% per annum (2008: 0.20% per annum).

(c) The short-term time deposits with original maturity of more than three months carried interest rate at approximately 2.25% per annum (2008: Nil).

(d) At 31 December 2009, the Group's time deposits, and bank balances and cash denominated in RMB amounted to approximately RMB25,174,000, equivalent to approximately HK$28,936,000 (2008: RMB5,387,000, equivalent to approximately HK$6,192,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations.

28. TRADE AND OTHER PAYABLES

	2009 HK$'000	2008 HK$'000
Trade and bills payables	**46,405**	58,314
Customers' deposits received	**2,973**	6,620
Amount due to a director	**1,160**	730
Accrual and other payables	**15,137**	23,514
	65,675	89,178

(i) The aging analysis of trade and bill payables presented based on the invoice date at the end of the reporting period of the Group was as follows:

	2009 HK$'000	2008 HK$'000
Within 3 months	**30,028**	38,616
4 to 6 months	**8,064**	13,528
7 to 12 months	**5,104**	4,861
Over 1 year	**3,209**	1,309
	46,405	58,314

The average credit period on purchases of goods is from 30 days to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

(ii) The amount due to a director is unsecured, non-interest bearing and repayable on demand.

(iii) Included in trade and other payables in the consolidated statement of financial position are mainly the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	2009 HK$'000	2008 HK$'000
RMB	**1,708**	807

29. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF A SUBSIDIARY

The amounts due to minority shareholders of a subsidiary are unsecured, non-interest bearing and repayable on demand.

30. BANK BORROWINGS

	2009 HK$'000	2008 HK$'000
Bank overdraft	**997**	–
Term loans	**199,242**	172,083
Trust receipts and packing loans	**31,739**	62,099
	231,978	234,182
Secured	**45,977**	–
Unsecured	**186,001**	234,182
	231,978	234,182
Bank borrowings repayable:		
On demand or within one year	**194,794**	165,774
More than one year but not exceeding two years	**30,295**	51,996
More than two years but not exceeding five years	**6,889**	16,412
	231,978	234,182
Less: Amounts due within one year shown under current liabilities	**(194,794)**	(165,774)
	37,184	68,408

(i) At 31 December 2009, bank borrowings approximately HK$106,897,000 and HK$125,081,000 are fixed-rate borrowings and floating-rate borrowings, respectively. The fixed-rate borrowings carry interest ranging from 4.80% to 6.90% per annum and the floating-rate borrowings carrying ranging from Hong Kong Interbank Offered Rate ("HIBOR") plus 0.5% to 2% and 115% of The People's Bank of China base lending rate.

At 31 December 2008, bank borrowings of the Group bear interest at floating rates of interest. The floating rate borrowings carrying interest ranging from HIBOR plus 0.75% to 1.75% per annum and 115% of The People's Bank of China base lending rate.

(ii) During the year ended 31 December 2009, the Group obtained new borrowings of approximately HK$225,344,000 (2008: HK$102,616,000) to finance its working capital.

(iii) At 31 December 2009, the Company had provided guarantees in relation to bank borrowings and banking facilities granted to certain subsidiaries. At the end of the reporting period, the Group had unused banking facilities of approximately HK$136,217,000 (2008: HK$86,043,000).

30. BANK BORROWINGS (continued)

(iv) At 31 December 2009, included in the unsecured bank borrowings are guaranteed by an independent third party, a related company (Note 39) and a director of the Company (Note 39).

31. OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain of its plant and machinery for its golf equipment manufacturing business. These leases are classified as finance leases, the average lease term of these leases is five year (2008: five years).

At the end of reporting period, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		**Present value of minimum lease payments**	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Amounts payable under finance leases:				
Within one year	**733**	1,404	**730**	1,382
More than one year, but not exceeding two years	**–**	733	**–**	730
	733	2,137	**730**	2,112
Less: Future finance charges	**(3)**	(25)	**–**	–
Present value of lease obligations	**730**	2,112	**730**	2,112
Less: Amounts due within one year shown under current liabilities			**(730)**	(1,382)
Amounts due after one year			**–**	730

All obligations under finance leases of the Group bear interest at floating interest rates. The effective interest rates of these obligations under finance leases ranging from 1.70% to 1.90% (2008: 2.10% to 5.60%). The Group's obligation under finance leases are secured by the lessor's charge over the leased assets.

All obligations under finance leases are denominated in HK$.

32. LOAN FROM IMMEDIATE HOLDING COMPANY

The amount is unsecured, non-interest bearing and repayable on 31 March 2011. The effective interest rate of the loan from immediate holding company is 5.22%.

33. DEFERRED TAXATION

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

	Depreciation allowance in excess of related depreciation HK$'000	**Revaluation of land and buildings** HK$'000	**Total** HK$'000
At 1 January 2008	14	2,319	2,333
Credited to profit or loss during the year (Note 12)	(14)	(180)	(194)
Effect of change in tax rate	–	(129)	(129)
At 31 December 2008	–	2,010	2,010
Charge to other comprehensive income during the year	–	631	631
At 31 December 2009	–	2,641	2,641

At the end of the reporting period, the Group had tax losses of approximately HK$6,164,000 (2008: HK$3,298,000) available for offset against future profits. No deferred asset has been recognised in respect of the tax losses due to the unpredictability of future income stream. At 31 December 2009, approximately HK$3,278,000 (2008: HK$3,298,000) included in the above unused tax losses will expire after five years from, the year of assessment to which they relate to. The remaining balances may be carried forward indefinitely.

At 31 December 2009, the Group also had deductible temporary differences of approximately HK$2,866,000 (2008: HK$339,000). No deferred tax asset has been recognised in relation to the above deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards (the "Post-2008 Earnings"). Deferred taxation has not been provided for in the consolidation financial statements in respect of temporary difference attributable to the "Post-2008 Earnings" amounting to approximately HK$2,367,000 (2008: HK$1,265,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

34. SHARE CAPITAL

	2009 & 2008
	HK$'000
Authorised:	
1,000,000,000 ordinary shares of HK$0.10 each	100,000
Issued and fully paid:	
302,200,000 ordinary shares of HK$0.10 each	30,220

There is no change in share capital in both years.

35. 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.

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 share options or the expiry date of the Scheme, whichever is earlier.

35. SHARE OPTION SCHEME (continued)

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 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.

At 31 December 2009, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 4,500,000 (2008: Nil), representing 1.49% of the ordinary shares in issue at that date.

Movements of the Company's share options during the year are set out below.

		Number of share options						
	Date of grant	Outstanding at 1 January 2008	Expired during the year	Outstanding at 31 December 2008	Granted during the year	Outstanding at 31 December 2009	Exercise period	Exercise price per share
								HK$
Director								
Chang Hua Jung	3 August 2006	1,000,000	(1,000,000)	–	–	–	3 August 2006 to 31 July 2008	0.70
Other employees								
In aggregate	2 November 2009	–	–	–	1,500,000	1,500,000	2 November 2009 to 1 November 2011	0.37
Business associates								
In aggregate	3 August 2006	3,000,000	(3,000,000)	–	–	–	3 August 2006 to 31 July 2008	0.70
	2 November 2009	–	–	–	3,000,000	3,000,000	2 November 2009 to 1 November 2011	0.37
		4,000,000	(4,000,000)	–	4,500,000	4,500,000		
Weighted average exercise price (HK$)		0.70	0.70	NA	0.37	0.37		

Note: All the share options are exercisable on the grant date.

During the year ended 31 December 2009, options were granted on 2 November 2009 and the estimated fair value of the options granted is HK$463,000.

35. SHARE OPTION SCHEME (continued)

The fair values of the share options granted during the year ended 31 December 2009 were calculated using the Black-Scholes Options Pricing Model. The inputs into the model were as follows:

	2 November 2009
Weighted average share price	HK$0.36
Exercise price	HK$0.37
Expected volatility	87.30%
Expected life	2 years
Risk-free rate	0.14%
Expected dividend yield	7.16%

Expected volatility was determined by using the historical volatility of the Company's share price over 250 days.

The Group recognised total expenses of HK$463,000 for the year ended 31 December 2009 (2008: Nil) in relation to share options granted by the Company.

36. DEREGISTRATION OF A SUBSIDIARY

(a) On 20 October 2009, a 51% owned subsidiary of the Group, Linyi (CNC) Manufacturing Company Limited ("Linyi CNC") was de-registered. The net assets of Linyi CNC at the date of de-registration were as follows:

	HK$'000
Other receivables	30
Loss on deregistration	(30)
	–

The subsidiary de-registered during the year ended 31 December 2009 had no significant impact on the results and cash flows of the Group.

(b) On 5 July 2008, a 51% owned subsidiary of the Group, Sino Victory Sourcing and Distribution Company Limited ("Sino Victory") was de-registered. The net assets of Sino Victory at the date of de-registration were as follows:

	HK$'000
Other receivables	102
Minority interests	(50)
Loss on deregistration	(52)
	–

The subsidiary de-registered during the year ended 31 December 2008 had no significant impact on the results and cash flows of the Group.

37. COMMITMENT UNDER OPERATING LEASE

(a) The Group as lessor

The Group leases certain of its plant and machinery (Note 18) under operating lease arrangements, the general lease term for the leases are one year.

Rental income earned from leasing of certain plant and machinery during the year ended 31 December 2009 was HK$124,000 (2008: HK$186,000). At 31 December 2008, all of the plant and machinery held have committed tenants for the next year.

At 31 December 2008, the Group had contracted lessees with minimum lease receivables within one year of HK$124,000 (2009: Nil).

(b) The Group as lessee

The Group leases certain of its office properties, production plants and staff quarters under operating lease arrangements. Leases are negotiated for a term ranging from one to ten years. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which are payable as follows:

	2009 **HK$'000**	2008 HK$'000
Within one year	**3,615**	6,093
In the second to fifth years, inclusive	**1,063**	4,581
	4,678	10,674

38. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2009 **HK$'000**	2008 HK$'000
Contracted, but not provided for:		
Leasehold land and buildings	**1,460**	2,518
Plant and machinery	**126**	4,373
	1,586	6,891

39. RELATED PARTY TRANSACTIONS

(a) In addition to the balances detailed in the consolidated financial statements and Notes 24, 28, 29 and 32, respectively, the Group entered into the following significant transactions with related parties during the year:

	Notes	2009 HK$'000	2008 HK$'000
Rental expenses paid to Progolf Manufacturing Company Limited ("Progolf")	(i)	**840**	840
Rental income in respect of renting plant and equipment to Sino Sporting Company Limited ("Sino Sporting")	(ii)	**124**	186

Notes:

(i) Augustine Chu has beneficial interests in Progolf. The rental expenses were determined at rates agreed between the Group and Progolf.

(ii) Augustine Chu and Simon Chu both have beneficial interests in Sino Sporting. The rental rates were based on the terms of the agreement entered into among the parties.

b) At 31 December 2009, Guangzhou Li Hu Golf Club Limited (廣州荔湖高爾夫球有限公司) ("Sino Golf and Country Club") provided a corporate guarantee to bankers of approximately RMB45,000,000 (equivalent to approximately HK$51,724,000) for banking facilities granted to the Group (2008: Nil). Augustine Chu has beneficial interests in Sino Golf and Country Club.

c) At 31 December 2009, Augustine Chu provided a personal guarantee to a bank of approximately RMB8,000,000 (equivalent to approximately HK$9,195,000) for banking facilities granted to the Group (2008: Nil).

(d) Key management compensation

The key management personnel of the Group comprises all the directors of the Company and the five highest paid individuals. Details of compensation of directors and the five highest paid individuals are included in Note 17.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2009 HK$'000**	2008 HK$'000
Non-current assets			
Investments in subsidiaries		**15,717**	15,717
Club debentures		**1,560**	1,560
		17,277	17,277
Current assets			
Amounts due from subsidiaries	(a)	**114,029**	88,123
Other receivables		**–**	152
Bank balances and cash		**37**	38
		114,066	88,313
Current liabilities			
Other payables		**52**	44
Financial guarantee liabilities		**3,474**	–
		3,526	44
Net current assets		**110,540**	88,269
		127,817	105,546
Capital and reserves			
Share capital		**30,220**	30,220
Reserves	(b)	**97,597**	75,326
		127,817	105,546

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Notes:

(a) The amounts are unsecured, non-interest bearing and repayable on demand.

(b) Reserves

	Share premium HK$'000	Other reserve HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000
		(Note i)	(Note ii)				
At 1 January 2008	57,270	–	15,516	312	2,559	7,555	83,212
Total comprehensive income for the year, net of tax	–	–	–	–	4,202	–	4,202
Lapse of share options	–	–	–	(312)	312	–	–
2007 final dividend paid	–	–	–	–	–	(7,555)	(7,555)
2008 interim dividend	–	–	–	–	(4,533)	–	(4,533)
At 31 December 2008	57,270	–	15,516	–	2,540	–	75,326
Total comprehensive income for the year, net of tax	–	–	–	–	20,156	–	20,156
Deemed contribution by immediate holding company arising from non-interest bearing loan (Note 32)	–	1,652	–	–	–	–	1,652
Recognition of equity-settled share based payment	–	–	–	463	–	–	463
At 31 December 2009	57,270	1,652	15,516	463	22,696	–	97,597

Note i: The other reserve represents the capital contribution from the Company's immediate holding company in the form of a non-interest bearing loan. The amounts are estimated by discounting the nominal value of the non-interest bearing loan to the Group at an effective interest rate of 5.22%.

Note ii: 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 Bermuda Companies Act, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

41. PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2009 and 31 December 2008.

Name of subsidiary	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid up capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Sino Golf (BVI) Company Limited	BVI/Hong Kong	US$101	100	–	Investment holding
Sino Golf Manufacturing Company Limited	Hong Kong	HK$2 (ordinary) HK$3,842,700 (non-voting deferred) (note c)	–	100	Investment holding and trading of golf equipment and accessories
Zengcheng Sino Golf (Note b)	PRC	HK$111,700,000	–	100	Manufacture and trading of golf equipment and accessories
Sino Concept (Note b)	PRC	HK$30,000,000	–	100	Manufacture and trading of golf equipment and accessories
CTB	Hong Kong	HK$10,000,000 (ordinary) HK$2,730,000 (preference)	–	100	Trading of golf bags and accessories
Dongguan Qi Heng (Note b)	PRC	HK$38,000,000	–	100	Manufacture and trading of golf bags
Xiamen Sino (Note b)	PRC	US$5,212,680	–	100	Manufacture and trading of golf equipment
Linyi Sino Golf (Notes b & d)	PRC	HK$98,000,000	–	100	Manufacture and trading of golf equipment and accessories
Sino Golf Comercial Offshore De Macao Limitada	Macau	MOP 100,000	–	100	Trading of golf equipment and accessories
Pingxiang Shun Da Long Golf Manufacturing Co., Ltd *("Pingxiang") (萍鄉順達隆高爾夫球製品有限公司) (Notes b & e)	PRC	–	–	100	Not commenced business

* *The English names are for identification only*

41. PRINCIPAL SUBSIDIARIES (continued)

Notes:

(a) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantive portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(b) Wholly-foreign-owned enterprises established under the PRC law.

(c) The non-voting deferred shares carry no rights to dividends and no rights to receive notice of or attend or vote at any general meeting of Sino Golf Manufacturing Company Limited. The holders of the non-voting deferred shares shall be entitled to any surplus in return of capital in respect of one half of the balance of assets after the first HK$100,000,000,000,000 has been distributed to the holders of ordinary shares, in a winding up or otherwise the assets of Sino Golf Manufacturing Company Limited to be returned.

(d) Pursuant to four verification reports, the paid-up capital of Linyi Sino Golf was increased from HK$54,561,228 to HK$98,000,000, which was fully paid up by the Group during the year ended 31 December 2008.

(e) Pingxiang was established under the laws of the PRC with limited liability on 2 July 2008 with an operating period of 20 years. The registered capital of Pingxiang was US$2,500,000 (equivalent to HK$19,500,000). No paid-up capital has been paid as at 31 December 2009. The unpaid registered capital should be contributed by the Group within two years from the date of establishment of Pingxiang.

None of the subsidiaries had any debt securities outstanding as at the end of the years or at any time during both years.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extract from the published audited consolidated financial statements and restated as appropriate, is set out below.

	Year ended 31 December 2009 HK$'000	Year ended 31 December 2008 HK$'000	Year ended 31 December 2007 HK$'000	Year ended 31 December 2006 HK$'000	Year ended 31 December 2005 HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
Turnover	**290,329**	446,659	567,668	493,376	367,257
Cost of sales	**(230,644)**	(344,229)	(423,478)	(359,597)	(264,935)
Gross profit	**59,685**	102,430	144,190	133,779	102,322
Other operating income	**4,819**	6,265	7,661	5,781	11,742
Selling and distribution costs	**(7,016)**	(12,654)	(21,590)	(23,850)	(12,273)
Administrative expenses	**(57,803)**	(66,125)	(64,696)	(60,393)	(57,754)
Finance costs	**(11,173)**	(15,875)	(22,576)	(20,603)	(12,058)
(LOSS) PROFIT BEFORE TAXATION	**(11,488)**	14,041	42,989	34,714	31,979
Income tax expense	**(1,047)**	(748)	(1,179)	(1,580)	(1,130)
(LOSS) PROFIT FOR THE YEAR	**(12,535)**	13,293	41,810	33,134	30,849
Attributable to:					
Owners of the parent	**(12,535)**	13,312	41,810	33,315	31,560
Minority interests	**–**	(19)	–	(181)	(711)
	(12,535)	13,293	41,810	33,134	30,849

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
TOTAL ASSETS	**574,431**	585,494	587,549	489,302	453,290
TOTAL LIABILITIES	**(326,412)**	(329,064)	(345,950)	(288,941)	(267,300)
MINORITY INTERESTS	**(2,502)**	(2,502)	(2,571)	(2,567)	(2,672)
	245,517	253,928	239,028	197,794	183,318