



24 August 2015

*To the Independent Board Committee*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY  
KINGSTON SECURITIES LIMITED  
FOR AND ON BEHALF OF THE OFFEROR TO ACQUIRE  
ALL THE ISSUED SHARES (OTHER THAN THOSE ALREADY OWNED BY  
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT) IN  
SINO GOLF HOLDINGS LIMITED**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee, which in turn provides recommendation to the Independent Shareholders, in respect of the Offer. Details of the Offer are set out in the composite offer and response document jointly issued by the Offeror and the Company dated 24 August 2015 (the “**Composite Document**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document.

The Offeror and the Vendors entered into the Sale and Purchase Agreement on 30 June 2015, pursuant to which the Offeror has agreed to acquire the Sale Shares, which represent approximately 61.33% of the total issued share capital of the Company, from the Vendors. Prior to the Completion, the Offeror and parties acting in concert with it did not hold, own, control or have direction over any Shares or other relevant securities of the Company. The Completion of the Sale and Purchase Agreement took place on 30 June 2015 and, pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make the Offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

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The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Mr. CHOY Tak Ho, Ms. CHIU Lai Kuen Susanna and Mr. ZHU Shengli, has been established to advise the Independent Shareholders in respect of the Offer. The Independent Board Committee has approved our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Offer.

As at the Latest Practicable Date, apart from the existing engagement in connection with the Offer, we did not have any business relationship with the Company within the past two years. We consider ourselves independent to form our opinion in respect of the Offer.

In formulating our opinion with regard to the Offer, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including those contained or referred to in the Joint Announcement and the Composite Document). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group, and for which they are wholly responsible, were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the Composite Document. We consider that the information we have received is sufficient for us to reach an informed view and we have no reason to believe that any material information have been withheld, nor doubt the truth, accuracy or completeness of the information provided. We have also relied on certain information available to the public and we have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Offeror or the associates of any of them, nor have we carried out any independent verification of the information supplied. We have also not considered the tax, regulatory and other legal implications on the Independent Shareholders in respect of their acceptance or non-acceptance of the Offer, respectively, since these depend on their individual circumstances. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers. Should there be any subsequent major changes which occur during the period of the Offer that would affect or alter our opinion, we will notify the Independent Board Committee and the Independent Shareholders as soon as practicable.

## **PRINCIPAL TERMS OF THE OFFER**

Kingston Securities is making the Offer for and on behalf of the Offeror in accordance with Rule 26.1 of the Takeovers Code on the following terms:–

**For each Offer Share . . . . . HK\$1.0684 in cash**

The Offer Price is referenced to the price per Sale Share paid by the Offeror under the Share Transfer pursuant to the Sale and Purchase Agreement of approximately HK\$1.0683 per Sale Share.

Further details of the terms of the Offer, including but not limited to the procedures for acceptance, are set out in the Composite Document. We urge the Independent Shareholders to read the Composite Document in full.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the terms of the Offer, we have taken into consideration the following principal factors and reasons:—

### 1. Business and financial information on the Group

The Group is principally engaged in the manufacturing and trading of golf equipment, golf bags and other accessories.

#### (i) *Historical financial performance of the Group*

Based on the published financial results of the Group, the following table sets out the breakdown of the turnover of the Group by product type and by geographical area:—

|                             | For the year ended 31 December |      |      |
|-----------------------------|--------------------------------|------|------|
|                             | 2012                           | 2013 | 2014 |
| <b>By product type</b>      |                                |      |      |
| Golf clubs                  | 74%                            | 86%  | 83%  |
| Golf bags                   | 10%                            | 6%   | 12%  |
| Golf heads                  | 13%                            | 6%   | 4%   |
| Golf accessories and shafts | 3%                             | 2%   | 1%   |
|                             | 100%                           | 100% | 100% |
| <b>By geographical area</b> |                                |      |      |
| North America               | 50%                            | 67%  | 53%  |
| Japan                       | 16%                            | 13%  | 24%  |
| Asia (excluding Japan)      | 19%                            | 9%   | 10%  |
| Europe                      | 12%                            | 7%   | 9%   |
| Others                      | 3%                             | 4%   | 4%   |
|                             | 100%                           | 100% | 100% |

We note that golf club was the principal product and North America was the major market of the Group for each of the years ended 31 December 2012 and 2013 and 2014.

The following table summarises the income statement of the Group for each of the years ended 31 December 2012 and 2013 and 2014 and for the six months ended 30 June 2014 and 2015:—

|  | For the year ended 31 December |                           |                           | For the six months ended 30 June |                             |
|--|--------------------------------|---------------------------|---------------------------|----------------------------------|-----------------------------|
|  | 2012                           | 2013                      | 2014                      | 2014                             | 2015                        |
|  | HK\$ million<br>(Audited)      | HK\$ million<br>(Audited) | HK\$ million<br>(Audited) | HK\$ million<br>(Unaudited)      | HK\$ million<br>(Unaudited) |
| <b>Turnover</b>  | <b>272</b>                     | <b>434</b>                | <b>401</b>                | <b>243</b>                       | <b>138</b>                  |
| Cost of sales  | (240)                          | (358)                     | (329)                     | (203)                            | (120)                       |
| <b>Gross profit</b>  | <b>32</b>                      | <b>76</b>                 | <b>72</b>                 | <b>40</b>                        | <b>18</b>                   |
| Administrative expenses                                    | (41)                           | (49)                      | (53)                      | (28)                             | (27)                        |
| Finance costs  | (8)                            | (9)                       | (8)                       | (5)                              | (3)                         |
| Other items  | (1)                            | (2)                       | (2)                       | —                                | (2)                         |
| <b>(Loss)/Profit before tax</b>                            | <b>(18)</b>                    | <b>16</b>                 | <b>9</b>                  | <b>7</b>                         | <b>(14)</b>                 |
| Income tax expense   | (1)                            | (2)                       | (1)                       | —                                | —                           |
| <b>(Loss)/Profit for the period</b>                        | <b>(19)</b>                    | <b>14</b>                 | <b>8</b>                  | <b>7</b>                         | <b>(14)</b>                 |
| <b>(Loss)/Profit attributable to owners of the Company</b> | <b>(19)</b>                    | <b>14</b>                 | <b>8</b>                  | <b>7</b>                         | <b>(14)</b>                 |

(a) For the year ended 31 December 2012

Turnover and gross profit of the Group amounted to approximately HK\$272 million and approximately HK\$32 million, respectively, for the year ended 31 December 2012, representing a gross profit margin of approximately 12%. After taking into account, among other items, administrative expenses of approximately HK\$41 million and finance costs of approximately HK\$8 million, the Group recorded loss before tax of approximately HK\$18 million for the year ended 31 December 2012. Loss attributable to owners of the Company was approximately HK\$19 million for the year ended 31 December 2012.

(b) For the year ended 31 December 2013

Turnover of the Group was approximately HK\$434 million for the year ended 31 December 2013, representing an annual growth of approximately 60%. The growth in turnover was primarily attributable to the increase in sales of golf clubs, which rose from approximately HK\$200 million for the year ended 31 December 2012 to approximately HK\$373 million for the year ended 31 December 2013. Gross profit margin of the Group improved from approximately 12% for the year ended 31 December 2012 to approximately 18% for the year ended 31 December 2013, which

was mainly due to the boost in sales to recover fixed costs. The Group turned around from recording loss before tax of approximately HK\$18 million for the year ended 31 December 2012 to recording profit before tax of approximately HK\$16 million for the year ended 31 December 2013, which was due to, among other factors, (i) the improvement in turnover; (ii) the increase in gross profit margin; and (iii) the decrease in administrative expenses as a percentage of turnover for the year ended 31 December 2013 as compared with the preceding year. Profit attributable to owners of the Company was approximately HK\$14 million for the year ended 31 December 2013.

*(c) For the year ended 31 December 2014*

Turnover of the Group was approximately HK\$401 million for the year ended 31 December 2014, representing an annual decline of approximately 8% or approximately HK\$33 million. As advised by the management of the Group, the decline in turnover was attributable to, among other factors, the reduction in sales to the largest customer in the golf equipment segment for the year ended 31 December 2014 (the “**Largest Customer**”) from approximately HK\$188 million (representing approximately 43% of turnover) for the year ended 31 December 2013 to approximately HK\$125 million (representing approximately 31% of turnover) for the year ended 31 December 2014, representing an annual decrease of approximately HK\$63 million, which may be due to the reorganisation undertaken by the Largest Customer to merge its operations with its parent company, whereby the Largest Customer changed the procurement practice to increase cooperation and place more orders with the suppliers of its parent company. Gross profit margin of the Group maintained at approximately 18% for each of the years ended 31 December 2013 and 2014. Nonetheless, the profit before tax margin of the Group lowered from approximately 4% for the year ended 31 December 2013 to approximately 2% for the year ended 31 December 2014, which was attributable to, among other factors, the increase in administrative expense as a percentage of turnover for the year ended 31 December 2014 as compared with the preceding year mainly due to the increase in staff costs, social insurance, retirement benefit expenses, exchange differences and impairment loss on club debentures. Profit attributable to owners of the Company amounted to approximately HK\$8 million for the year ended 31 December 2014, representing an annual decline of approximately 43%.

*(d) For the six months ended 30 June 2015*

Turnover of the Group was approximately HK\$138 million for the six months ended 30 June 2015, representing a year on year decline of approximately 43%, as shipments to the major customers of the Group, including the Largest Customer, had significantly shrank during the period because of the unfavorable market conditions which adversely affected certain customers and led to a curtailment in the orders placed with the Group. Sales to the Largest Customer lowered from approximately HK\$101 million (representing approximately 42% of turnover) for the six months ended 30 June 2014 to approximately HK\$16 million (representing approximately 12% of turnover) for the six months ended 30 June 2015, representing a year on year decrease of approximately HK\$85 million. Gross profit margin of the Group lowered from

approximately 16% for the six months ended 30 June 2014 to approximately 13% for the six months ended 30 June 2015, which was mainly due to the impact of the depressed sales as advised by the management of the Group. The Group deteriorated from recording profit before tax of approximately HK\$7 million for the six months ended 30 June 2014 to recording loss before tax of approximately HK\$14 million for the six months ended 30 June 2015, which was attributable to, among other factors, the decline in turnover and gross profit and the increase in administrative expense as a percentage of turnover for the six months ended 30 June 2015 as compared with those for the six months ended 30 June 2014.

(ii) *Historical financial position of the Group*

The following table summarises the balance sheet of the Group as at 30 June 2015:–

|  | <b>As at 31<br/>December<br/>2014</b> | <b>As at 30<br/>June 2015</b> |
|--|---------------------------------------|-------------------------------|
|  | <i>HK\$ million</i>                   | <i>HK\$ million</i>           |
|  | (Audited)                             | (Unaudited)                   |
| Non-current assets                               | 234                                   | 231                           |
| Current assets                                   | 229                                   | 219                           |
| <b>Total assets</b>                              | <b>463</b>                            | <b>450</b>                    |
| Current liabilities                              | 148                                   | 145                           |
| Non-current liabilities                          | 2                                     | 1                             |
| <b>Total liabilities</b>                         | <b>150</b>                            | <b>146</b>                    |
| Net assets attributable to owners of the Company | 311                                   | 301                           |
| Non-controlling interests                        | 2                                     | 3                             |
| <b>Net assets</b>                                | <b>313</b>                            | <b>304</b>                    |

Property, plant and equipment were the principal assets and bank borrowings were the principal liabilities of the Group as at 30 June 2015. Non-current assets of the Group amounted to approximately HK\$231 million as at 30 June 2015, which primarily comprised property, plant and equipment of approximately HK\$203 million. Current assets of the Group amounted to approximately HK\$219 million as at 30 June 2015, which primarily comprised inventories of approximately HK\$167 million. Current liabilities of the Group amounted to approximately HK\$145 million as at 30 June 2015, which primarily comprised bank borrowings of approximately HK\$102 million. Non-current liabilities of the Group amounted to approximately HK\$1 million as at 30 June 2015, which were deferred tax liabilities. Net assets attributable to owners of the Company amounted to approximately HK\$301 million as at 30 June 2015.

The Company did not pay, declare or propose any dividend during each of the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015.

Further details of the financial information of the Group are set out in Appendix II to the Composite Document.

## 2. Background of the Offeror and its intentions regarding the Group

The Offeror is an investment holding company incorporated in the BVI on 1 May 2015. As at the Latest Practicable Date, the Offeror is owned as to 80% by Mr. Jiang and as to 20% by Mr. Yan Kim Po. The biographies of Mr. Jiang and Mr. Yan are set out in the letter from Kingston Securities in the Composite Document.

The following table illustrates the change in shareholding of the Group before and after the Completion:—

|  | Immediately prior<br>to the Completion |                | Immediately following<br>Completion and as at the<br>Latest Practicable Date |                |
|--|--|----------------|--|----------------|
|  | <i>Shares</i>                          | <i>%</i>       | <i>Shares</i>  | <i>%</i>       |
| The Offeror and parties acting<br>in concert with it                         | —                                      | —              | 287,074,657  | 61.33%         |
| Mr. Chu and parties acting in<br>concert with him (including<br>the Vendors) | 297,471,116                            | 63.55%         | 10,396,459   | 2.22%          |
| Other Shareholders   | 170,578,884                            | 36.45%         | 170,578,884  | 36.45%         |
|  | <u>468,050,000</u>                     | <u>100.00%</u> | <u>468,050,000</u>   | <u>100.00%</u> |

*Note:* Please refer to page 11 of the Composite Document for a detailed shareholding table.

Following the close of the Offer, the Offeror intends to continue the existing principal businesses of the Group. The Offeror will conduct a review on the financial position and the operations of the Company and will formulate long-term business plans and strategies of the Company, explore other business opportunities and consider whether any asset disposal, asset acquisition, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Company.

The Board is currently made up of six Directors, comprising (i) Mr. Chu, Mr. Chu Yuk Man Simon and Mr. Chang Hua Jung as executive Directors; and (ii) Mr. Choy Tak Ho, Ms. Chiu Lai Kuen Susanna and Mr. Zhu Shengli as independent non-executive Directors. Pursuant to the terms of the Sale and Purchase Agreement, the Vendors shall cause such Directors as may be notified by the Offeror to the Vendors to give notice to resign as Directors with effect from the earliest time permitted under the Takeovers Code. Such resignation will not take effect earlier than the date of the



close of the Offer. In addition, pursuant to the terms of the Sale and Purchase Agreement, the Vendors shall cause such persons as the Offeror may nominate to be validly appointed as Directors with effect from the earliest time permitted under the Takeovers Code. The Offeror currently intends to nominate five new members to the Board, the details of such nominees are set out in the letter from Kingston Securities in the Composite Document, and such appointments will only take effect after the date of despatch of the Composite Document in accordance with the requirements of the Takeovers Code. Mr. Chu intends to remain as director of certain subsidiaries of the Company and have his family to retain approximately 2% interest in the Company so as to show his commitment to continue to manage the existing business of the Group following Completion and to maintain staff stability for the normal daily operations of the Group in view of the change in control of the Company.

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offer. The sole director of the Offeror and the new directors to be appointed to the Board have jointly and severally undertaken to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offer to ensure that a sufficient public float exists for the Shares. In the event that the public float of the Company falls below 25% after the completion of the Offer, the Offeror and the Company will undertake to the Stock Exchange that they will take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible following the close of the Offer to ensure that sufficient public float exists for the Shares. The Stock Exchange has stated that if, upon closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.

### **3. Prospect of the principal business of the Group**

Golf club is the principal product and North America is the major market of the Group for each of the years ended 31 December 2012 and 2013 and 2014.

We have reviewed an article titled *World Wide Golf Report 2015* dated January 2015 published on the website of Golf Datatech, LLC ("**Golf Datatech**"), which provides industry data on retail sales, inventory, pricing and distribution of golf products. Based on the aforementioned article, we understand (i) the top five golf markets are the United States, Japan, South Korea, the United Kingdom and Canada and they represent over 80% of the total equipment sales of the world; (ii) the United States and Japan control over 65% of the world golf equipment market; (iii) the PRC, including Hong Kong and Macau, is the sixth largest golf equipment market; and (iv) golf will be introduced into the 2016 Summer Olympics.

Moreover, we have reviewed two industry articles in respect of the future growth trend of the golf equipment business. Based on the article titled *Global Golf Equipment Manufacturing Market 2014-2019: Trend, Profit and Forecast Analysis, July 2014* published on the website of Lucintel LLC ("**Lucintel**"), which is a market research firm, we understand that the global golf equipment manufacturing market declined from 2008 to 2013 and is expected to grow at a compound annual growth rate of 1.9% by 2019. With reference to the article titled *Global Golf Equipment Market 2015-*



2019 dated June 2015 and published on the website of Infiniti Research Limited (“Infiniti”), which is a technology research and advisory firm, we understand that the global golf equipment market is expected to grow at a compound annual growth rate of 2.01% from 2014 to 2019.

We have also reviewed as to whether Golf Datatech, Lucintel and Infiniti are recognised and independent research organisations. We note that (i) based on the 2014 annual report of Callaway Golf Company, which is a renowned golf equipment manufacturer listed on the New York Stock Exchange, the management of Callaway Golf Company evaluates, among other materials, the market research information from Golf Datatech to gauge the company; (ii) statistics published by Golf Datatech had been quoted on the website of golf periodicals, such as *Golf Digest* and *Golfweek*; (iii) based on the website of Lucintel, Lucintel has served more than 1,000 companies in more than 70 countries, with clients including but not limited to golf equipment brands; and (iv) based on the website of Infiniti, Infiniti has served more than 400 clients including 45 Fortune 500 companies and has over 400 analysts and consultants across the globe. Accordingly, we consider Golf Datatech, Lucintel and Infiniti to be recognised research organisations. In addition, we are advised by the management of the Group that Golf Datatech, Lucintel and Infiniti are independent to the Company.

We note that the business of the Group relies on its key customers. Sales to the largest customer represented approximately 43% and 31% of the turnover of the Group for each of the years ended 31 December 2013 and 2014, respectively. Sales to the five largest customers in aggregate accounted for approximately 92% and 88% of the turnover of the Group for each of the years ended 31 December 2013 and 2014, respectively. Therefore, as stated in the annual report of the Company for the year ended 31 December 2014 (the “**2014 Annual Report**”), any incidents with material adverse impact on the key customers of the Group could also adversely affect the business of the Group. For instance, we note that the annual decline in the turnover of the Group for the year ended 31 December 2014 was attributable to, among other factors, the reduction in sales to the Largest Customer. According to the 2014 Annual Report, (i) following the merge of the operations of the Largest Customer with its parent company, the business volume of the Group with the Largest Customer is envisaged to remain depressed and could further reduce depending on the strategy and arrangements adopted by the new management of the Largest Customer; and (ii) the market conditions have become more challenging and competitions are intense amongst the golf equipment manufacturers facing a lower and unstable market demand.

Based on the aforementioned, particularly (i) the deterioration of the financial performance of the Group for the year ended 31 December 2014 and for the six months ended 30 June 2015; (ii) the sales to the Largest Customer might continue to be depressed; and (iii) the expected low single-digit industry growth for the upcoming years, we understand that the growth potential of the principal business of the Group is uncertain.

#### **4. Evaluation of the terms of the Offer**

Kingston Securities is making the Offer for and on behalf of the Offeror in accordance with Rule 26.1 of the Takeovers Code on the following terms:–

**For each Offer Share . . . . . HK\$1.0684 in cash**

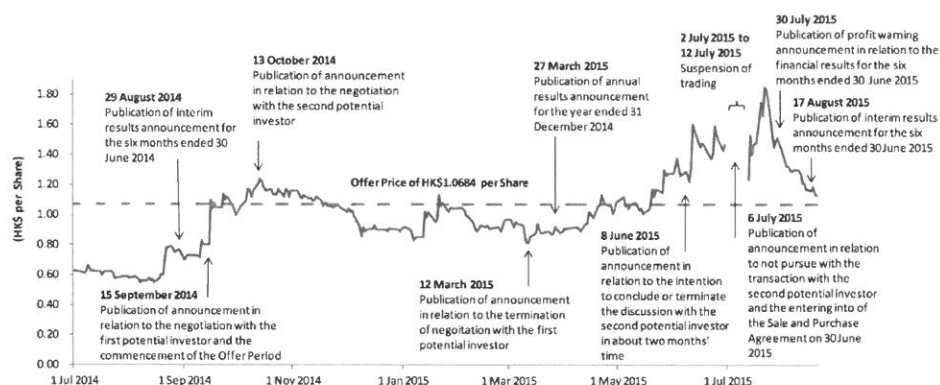
The Offer Price is referenced to the price per Sale Share paid by the Offeror under the Share Transfer pursuant to the Sale and Purchase Agreement of approximately HK\$1.0683 per Sale Share.

(i) *Historical price performance of the Shares*

We note that the Offer Price of HK\$1.0684 per Share represents:-

- (a) a discount of approximately 5% to the closing price as quoted on the Stock Exchange as at the Latest Practicable Date of HK\$1.130 per Share;
- (b) a discount of approximately 27% to the closing price as quoted on the Stock Exchange on the Last Trading Day of HK\$1.470 per Share;
- (c) a discount of approximately 27% to the average of the closing prices as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of HK\$1.470 per Share;
- (d) a discount of approximately 21% to the average of the closing prices as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$1.346 per Share;
- (e) a discount of approximately 2% to the average of the closing prices as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Day of approximately HK\$1.090 per Share;
- (f) a premium of approximately 61% over the latest published audited net assets attributable to shareholders per Share of the Group, being the audited net assets attributable to owners of the Company of approximately HK\$311 million as at 31 December 2014 divided by 468,050,000 Shares as at the Latest Practicable Date, of approximately HK\$0.664 per Share; and
- (g) a premium of approximately 66% over the latest published unaudited net assets attributable to shareholders per Share of the Group, being the unaudited net assets attributable to owners of the Company of approximately HK\$301 million as at 30 June 2015 divided by 468,050,000 Shares as at the Latest Practicable Date, of approximately HK\$0.643 per Share.

The chart below depicts the closing prices of the Shares from 1 July 2014, being approximately one year before the Last Trading Day, up to and including the Latest Practicable Date (the “**Review Period**”).



Source: Bloomberg and the website of the Stock Exchange

The closing prices of the Shares were mainly around HK\$0.60 in July 2014 and early August 2014. Prior to the publication of the interim results announcement for the six months ended 30 June 2014 on 29 August 2014, the closing prices of the Shares reached HK\$0.78 on 22 August 2014. Following the publication of the announcement in relation to the negotiation with the first potential investor dated 15 September 2014, the closing price of the Shares surged from HK\$0.80 on 15 September 2014 to HK\$1.10 on 16 September 2014. After the publication of the announcement in relation to the negotiation with the second potential investor dated 13 October 2014, the closing price of the Shares further increased from HK\$1.21 on 13 October 2014 to HK\$1.24 on 14 October 2014, but the closing prices then began to demonstrate a decline trend. On 12 March 2015, the closing price of the Shares bottomed at HK\$0.81 and the announcement in relation to the termination of negotiation with the first potential investor was published. On 27 March 2015, the annual results announcement for the year ended 31 December 2014 was published and the closing prices of the Shares began to show an upward trend. On 8 June 2015, the closing price of the Shares was HK\$1.29 and the announcement in relation to the intention to conclusion or termination of the discussion with the second potential investor in about two months' time was published. The closing prices of the Shares had its two peaks at HK\$1.60 on 12 June 2015 and at HK\$1.59 on 24 June 2015. On 2 July 2015, the trading of the Shares was suspended, pending the publication of the Joint Announcement, and the closing price on the Last Trading Day was HK\$1.47. On 13 July 2015, following the publication of the Joint Announcement, the trading of the Shares resumed and the closing price of the Shares was HK\$1.23, representing a decline of approximately 16% as compared with that on the Last Trading Day. The closing prices of the Shares continued to be volatile up to the Latest Practicable Date, where the closing price reached a high point of HK\$1.85 on 22 July 2015 and reached a low point of HK\$1.13 on 19 August 2015, representing a decline of approximately 39% from the high point to the low point during this recent short period.

Overall, the Offer Price had generally been around or higher than the level of the closing prices of the Shares from the commencement of the Offer Period on 15 September 2014 to approximately one and a half month before the Last Trading Day. During the two-month period before the Last Trading Day, the lowest and highest closing prices of the Shares were HK\$1.01 on 15 May 2015 and HK\$1.60 on 12 June 2015, respectively, and such surge may be attributable to the anticipation of the Offer. The closing price of the Shares plummeted immediately following the publication of the Joint Announcement and, subsequently, continued to be volatile. The sustainability of the growth of the price of the Share is uncertain.

**(ii) Liquidity of the Shares**

The following table sets out the total trading volume per month and the average daily trading volume per month of the Shares during the Review Period:–

|  | Total monthly trading volume of the Shares<br>(million Shares) | Average daily trading volume of the Shares during the month<br>(million Shares) | Percentage of average daily trading volume of the Shares to average total issued Shares | Percentage of average daily trading volume of the Shares to average public float |
|--|--|---|---|--|
| <b>2014</b>                                |  |   |   |  |
| July                                       | 22.93  | 1.04  | 0.23%   | 0.64%  |
| August                                     | 78.34  | 3.73  | 0.81%   | 2.29%  |
| September                                  | 195.05   | 9.29  | 2.02%   | 5.71%  |
| October                                    | 85.73  | 4.08  | 0.89%   | 2.88%  |
| November                                   | 23.24  | 1.16  | 0.25%   | 0.83%  |
| December                                   | 18.83  | 0.90  | 0.19%   | 0.64%  |
| <b>2015</b>                                |  |   |   |  |
| January                                    | 59.88  | 2.85  | 0.62%   | 2.05%  |
| February                                   | 12.39  | 0.69  | 0.15%   | 0.49%  |
| March                                      | 26.79  | 1.22  | 0.26%   | 0.87%  |
| April                                      | 60.69  | 3.19  | 0.69%   | 2.23%  |
| May  | 71.57  | 3.77  | 0.80%   | 2.55%  |
| June                                       | 107.34   | 4.88  | 1.04%   | 3.30%  |
| July                                       | 223.34   | 14.89   | 3.18%   | 10.09%   |
| August (up to the Latest Practicable Date) | 33.06  | 2.36  | 0.50%   | 1.60%  |

Source: Bloomberg

We note from the above table that the trading volume of the Shares has been thin during the Review Period, where (i) the percentages of average daily trading volume of the Shares to the average total issued Shares were mainly below 1% and the percentages of average public float during the Review Period were mainly below 3%; and (ii) such percentages were higher in July 2015 mainly due to the hike in trading volume during the ten trading days following the publication of the Joint Announcement and such higher trading volume may not be sustainable. Accordingly, the Independent Shareholders may find it difficult to dispose of a large volume of Shares in the open market in a short period of time without exerting downward pressure on the price of the Shares. Therefore, the Offer provides a viable alternative exit for the Independent Shareholders, particularly for those who hold a large volume of Shares, to realise their investments in the Company.

## **DISCUSSION AND RECOMMENDATION**

Having considered the above principal factors and reasons, in particular, the following:–

- the business of the Group relies on its key customers. The financial performance of the Group deteriorated for the year ended 31 December 2014 and became loss-making for the six months ended 30 June 2015, which was attributable to, among other factors, the reduction in sales to the Largest Customer and, as disclosed in the 2014 Annual Report, in the future, the sales to the Largest Customer might continue to be depressed;
- the compound annual growth rate of the global golf equipment industry in the upcoming years is expected to be at a low single-digit level;
- the trading price of the Share has been volatile and the sustainability of the growth of the price of the Share is uncertain;
- the Offer Price per Offer Share is HK\$1.0684, whereas the price per Sale Share paid by the Offeror under the Share Transfer pursuant to the Sale and Purchase Agreement is approximately HK\$1.0683; and
- the trading volume of the Shares has been thin, where the Independent Shareholders may find it difficult to dispose of a large volume of Shares in the open market in a short period of time without exerting downward pressure on the price of the Shares. Therefore, the Offer provides a viable alternative exit for the Independent Shareholders, particularly for those who hold a large volume of Shares, to realise their investments in the Company,


**We consider the terms of the Offer to be fair and reasonable so far as the Independent Shareholders are concerned and, on such grounds, we recommend the Independent Shareholders to accept the Offer. Nonetheless, we would like to remind the Independent Shareholders who would like to realise part or all of their investments in the Shares to closely monitor the market price of the Shares during the period of the Offer and may, instead of accepting the Offer, consider selling their Shares in the open market should the proceeds, net of all transaction costs, of such sale exceed the amount receivable under the Offer.**

In any case, the Independent Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Shareholders should consult their own professional advisers for professional advice. Furthermore, the Independent Shareholders who wish to accept the Offer are recommended to carefully read the procedures for accepting the Offer as detailed in the Composite Document.

Yours faithfully,  
For and on behalf of  
**First Shanghai Capital Limited**



**Fanny Lee**  
*Managing Director*



**Allen Wang**  
*Director*

*Note:* Ms. Fanny Lee and Mr. Allen Wang have been responsible officers of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and 2014, respectively. Both of them have participated in the provision of independent financial advisory services for various types of transactions involving companies listed in Hong Kong.