

Notes to the Financial Statements

1 BASIS OF PRESENTATION AND PRINCIPAL ACTIVITIES

The Company was incorporated on 26 February 2004 in the Cayman Islands as an exempted company with limited liability under the Company Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation (the "Reorganisation") which include exchange of shares to rationalise the structure of the Group in preparation for the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, the Company acquired the entire issued share capital of RealSports Pte Ltd. ("RealSports"), the then holding company of the other companies comprising the Group on 5 June 2004 and became the holding company of the Group. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for in a manner similar to pooling-of-interests, under which the accompanying consolidated profit and loss account and cash flow statement were presented as if the current structure of the Group had been in existence from 1 January 2003 or since their effective dates of incorporation. The accompanying balance sheets have been prepared to present the financial positions of the Company as at 31 December 2004 and of the Group as at 31 December 2003 and 31 December 2004 as if the current group structure had been in existence since 1 January 2003.

The Company is an investment holding company. Its subsidiaries are principally engaged in branding development, design, manufacturing and sales of sport-related footwear, apparel and accessories.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention.



Notes to the Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

(b) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Segment reporting

Business segments provide products or services that are subject to risks and returns different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns different from those components operating in other economic environments.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Segment reporting (Continued)

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format. No geographical segment is presented as all the Group's operations are in the PRC.

Segment assets consist primarily of property, plant and equipment, land use rights, intangible assets, inventories, operating receivables and cash and cash equivalents, and mainly exclude deferred tax assets. Segment liabilities comprised operating liabilities and exclude items such as employee benefits, current and deferred tax liabilities. Capital expenditure mainly comprise additions to property, plant and equipment, land use rights and intangible assets.

(d) Property, plant and equipment (excluding construction-in-progress)

Property, plant and equipment (excluding construction-in-progress) is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the purchase price of the asset and any directly attributable costs of bringing the asset to its working condition for its intended use.

Depreciation is calculated on a straight-line basis to write off the cost less impairment losses of each asset to their residual values over their estimated useful lives as follows:

Buildings	20-40 years
Leasehold improvement	2 years or over the lease term, whichever is a shorter period
Machinery	10-18 years
Motor vehicles and office equipment	3-12 years

Repairs and maintenance are charged to the profit and loss accounts during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the profit and loss accounts.



Notes to the Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Construction-in-progress

Construction-in-progress represents buildings, plant and/or machinery under construction and pending installation and is stated at cost less accumulated impairment losses. Cost, includes the costs of construction of buildings, the costs of plant and machinery, installation, testing and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2(d) of this section.

(f) Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represented consideration paid for the rights to use the land in the PRC on which various plants and buildings are situated for periods varying from 20 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

(g) Intangible assets

(i) Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

(ii) Trademark

Expenditure to acquire trademark is capitalised and amortised using the straight-line method over their useful lives not exceeding a period of 10 years and is not revalued.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Impairment for long live assets

Property, plant and equipment, construction-in-progress, land use rights and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Accounts receivable

Accounts receivable are carried at original invoice amounts less provision made for impairment of these receivables. Such provision for impairment of accounts receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheets at cost. For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and deposits held at call with banks.



Notes to the Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are stated subsequently at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss accounts over the period of the borrowings.

(m) Borrowing costs

All borrowing costs are expensed as incurred.

(n) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(o) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investment in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Employee benefits

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the People's Republic of China (the "PRC"), including the Hong Kong Special Administrative Region. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(r) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss accounts on a straight-line basis over the period of the lease.

(s) Foreign currency translation

(i) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "measurement currency"). The consolidated accounts are presented in Renminbi, which is the measurement currency of all entities comprising the Group.



Notes to the Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Foreign currency translation (Continued)

(ii) Transactions and balances

Foreign currency transactions are translated into measurement currency using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in other currencies are translated into measurement currency at the exchange rates prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss accounts.

(t) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements, if any. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements, if any, when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(u) Revenue recognition

Revenue from sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Government grants

A government grant is recognised, when there is reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss accounts over the period necessary to match them with the costs they are intended to compensate.

(w) Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the board of directors. Dividends proposed or declared after the balance sheet date are disclosed as a post balance sheet event and are not recognised as a liability at the balance sheet date.

3 TURNOVER AND SEGMENT INFORMATION

Turnover comprises the invoiced value for the sale of goods net of value added tax, rebates and discount.

Primary reporting format – business segment

The Group has its own brands, it operates in one business segment which is the branding development, design, manufacturing and sales of sport-related footwear, apparel and accessories.

Secondary reporting format – geographical segment

All assets and operations of the Group for the year were located in the PRC (including the Hong Kong Special Administrative Region). No geographical segments analysis is presented as less than 10% of the Group's turnover and contribution to operating profit is attributable to markets outside the PRC.



Notes to the Financial Statements

4 OTHER REVENUE

	2004 RMB'000	2003 RMB'000
Government grants	17,399	8,114
Others	–	32
Total	17,399	8,146

5 OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	2004 RMB'000	2003 RMB'000
Charging/(crediting)		
Amortisation of land use rights (charged to administrative expenses)	207	207
Amortisation of intangible assets (charged to administrative expenses)		
– trademark	81	106
– computer software	1,986	811
Costs of inventories recognised as expenses included in cost of sales	987,622	659,462
Auditors' remuneration	2,758	500
Depreciation on property, plant and equipment	18,147	14,049
Loss on disposals of property, plant and equipment	4,908	3,185
Operating lease rentals in respect of land and buildings	80,794	40,177
Accounts receivable – (write-back of impairment charge)/impairment charge	(7,030)	14,894
Staff costs including directors' emoluments (<i>Note 12</i>)	178,580	124,599
(Reversal of write-down)/write-down of inventories to net realisable value	(5,201)	11,873

6 FINANCE COSTS, NET

	2004 RMB'000	2003 RMB'000
Interest expenses on bank borrowings		
wholly repayable within 5 years	4,369	5,710
Interest income on bank balances and deposit	(3,715)	(1,123)
Foreign currency exchange gain, net	(1,475)	(41)
	(821)	4,546

7 TAXATION

	2004 RMB'000	2003 RMB'000
Current taxation		
– Hong Kong profits tax (<i>Note a</i>)	430	–
– PRC current income tax (<i>Note b</i>)	57,056	22,029
	57,486	22,029

Notes:

- (a) Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit arising in Hong Kong for the year ended 31 December 2004.
- (b) Provision for PRC enterprise income tax is calculated based on the statutory tax rate of 33% of the assessable income of each of the group companies, except that certain subsidiaries of the Company are taxed at preferential tax rates of 15% based on the relevant PRC tax rules and regulations.



Notes to the Financial Statements

7 TAXATION (Continued)

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the tax rate of 33% as follows:

	2004 RMB'000	2003 RMB'000
Profit before taxation	192,264	114,563
Tax calculated at a tax rate of 33%	63,447	37,806
Effects of different tax rate in Hong Kong	(380)	–
Preferential tax rates on the income of certain subsidiaries	(42,121)	(23,597)
Expenses not deductible for tax purposes	36,828	23,939
Income not subject to tax	(288)	(16,119)
Taxation charge	57,486	22,029

Deferred tax assets are recognised for provisions for accounts receivable and inventory and other expenses to the extent that realization of the related tax benefit through the future taxable profits is probable. As at 31 December 2004, the Group had unrecognised deferred tax assets of approximately RMB16,305,000 (2003: RMB28,549,000), in respect of provisions for accounts receivable and inventory and other expenses.

8 DIVIDENDS

	2004 RMB'000	2003 RMB'000
Dividend paid by RealSports to its then shareholders (Note 25 & a)	40,000	65,772
Final, proposed, of RMB4.57 cents (equivalent to Hong Kong 4.30 cents; 2003: Nil) per ordinary share (Note b)	46,753	–
	86,753	65,772

8 DIVIDENDS (Continued)

Notes:

- (a) The dividend rates and number of shares ranking for the dividend in respect of the dividend paid by RealSports to its then shareholders before the Reorganisation are not presented as such information is not considered meaningful for the purpose of these financial statements.
- (b) At a board meeting held on 29 March 2005, the directors proposed a final dividend of RMB4.57 cents (equivalent to Hong Kong 4.30 cents) per ordinary share for the year ended 31 December 2004. This proposed dividend is not reflected as a dividend payable in these accounts.

9 LOSS ATTRIBUTABLE TO SHAREHOLDERS

Loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB8,543,000.

10 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit attributable to shareholders for the year ended 31 December 2004 of RMB133,439,000 (2003: RMB93,960,000) and the weighted average of 888,392,000 (2003: 750,000,000) shares in issue during the year. The weighted average number of shares for 2003 was based on the assumption that the Reorganisation has been completed on 1 January 2003.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the Group's net profit attributable to shareholders for the year of RMB133,439,000 and the weighted average of 891,696,000 shares. The weighted average number of shares used in the calculation comprises the 888,392,000 shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 3,304,000 shares assumed to have been issued at no consideration on the deemed exercise of options granted under the Company's share option scheme during the year (see Note 26).

No diluted earnings per share has been presented for the year ended 31 December 2003 as the Company has no dilutive potential shares.



Notes to the Financial Statements

11 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the directors of the Company by the Group during the year are as follows:

	2004 RMB'000	2003 RMB'000
Executive directors		
– Fees	–	–
– Salaries, allowances and other benefits	10,751	3,910
– Contribution to retirement benefit scheme	404	106
	11,155	4,016
Non-executive directors		
– Fees	243	–
Independent non-executive directors		
– Fees	243	–
	11,641	4,016

11 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(Continued)

(a) Directors' emoluments (Continued)

The emoluments of the directors of the Company fell within the following band:

	Number of directors	
	2004	2003
Nil to RMB1,060,000 (equivalent to HK\$1,000,000)	6	6
RMB1,060,000 (equivalent to HK\$1,000,000) to RMB1,590,000 (equivalent to HK\$1,500,000)	–	1
RMB1,590,000 (equivalent to HK\$1,500,000) to RMB2,120,000 (equivalent to HK\$2,000,000)	1	–
RMB2,120,000 (equivalent to HK\$2,000,000) to RMB2,650,000 (equivalent to HK\$2,500,000)	–	–
RMB2,650,000 (equivalent to HK\$2,500,000) to RMB3,180,000 (equivalent to HK\$3,000,000)	2	–
RMB3,180,000 (equivalent to HK\$3,000,000) to RMB3,710,000 (equivalent to HK\$3,500,000)	1	–
	10	7

None of the directors of the Company waived any emoluments during the year ended 31 December 2004 (2003: Nil).

(b) Five highest paid individuals

	2004	2003
Directors	4	4
Employee	1	1
	5	5



Notes to the Financial Statements

11 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(Continued)

(b) Five highest paid individuals (Continued)

The five individuals whose emoluments were the highest in the Group included four executive directors for the year ended 31 December 2004 (2003: same), and their emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining individual whose emoluments were the highest in the Group for the year are as follows:

	2004	2003
	RMB'000	RMB'000
Fees	—	—
Salaries, allowances and other benefits	959	669
Contributions to retirement benefit scheme	47	26
	1,006	695

The emoluments fell within the following bands:

	Number of individuals	
	2004	2003
Nil to RMB1,060,000 (equivalent to HK\$1,000,000)	1	1

- (c) During the year ended 31 December 2004, no emoluments were paid 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 (2003: Nil).

12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2004 RMB'000	2003 RMB'000
Wages and salaries	133,605	92,404
Staff quarters and housing benefits	3,861	1,754
Contributions to retirement benefit scheme	16,255	9,276
Other benefits	24,859	21,165
	178,580	124,599

The average number of employees in 2004 is 4,402 (2003: 3,131).



Notes to the Financial Statements

13 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Machinery	Motor vehicles and office equipment	Leasehold improvement	Construction- in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2003						
Opening net book amount	53,738	6,445	14,774	4,149	1,067	80,173
Additions	1,461	1,786	12,435	7,812	363	23,857
Disposals	(1,395)	(371)	(1,580)	–	–	(3,346)
Transfer	1,430	–	–	–	(1,430)	–
Reclassification	1,315	–	(1,315)	–	–	–
Impairment charge	(5,151)	–	–	–	–	(5,151)
Depreciation charge	(3,814)	(667)	(2,794)	(6,774)	–	(14,049)
Closing net book amount	47,584	7,193	21,520	5,187	–	81,484
As at 31 December 2003						
Cost	70,873	11,442	38,883	11,961	–	133,159
Accumulated depreciation and impairment losses	(23,289)	(4,249)	(17,363)	(6,774)	–	(51,675)
Net book value	47,584	7,193	21,520	5,187	–	81,484
Year ended 31 December 2004						
Opening net book amount	47,584	7,193	21,520	5,187	–	81,484
Additions	600	998	14,454	11,574	3,519	31,145
Disposals	(2,715)	(265)	(2,103)	–	–	(5,083)
Transfer	–	–	3,369	–	(3,369)	–
Depreciation charge	(2,812)	(1,996)	(7,111)	(6,228)	–	(18,147)
Closing net book amount	42,657	5,930	30,129	10,533	150	89,399
As at 31 December 2004						
Cost	68,759	9,527	43,339	23,535	150	145,310
Accumulated depreciation and impairment losses	(26,102)	(3,597)	(13,210)	(13,002)	–	(55,911)
Net book value	42,657	5,930	30,129	10,533	150	89,399

Buildings are located in the PRC and are held under land use rights varying from 20 to 50 years.

14 LAND USE RIGHTS

Group

	RMB'000
Year ended 31 December 2003	
Opening net book amount	4,471
Amortisation charge	(207)
Closing net book amount	4,264
As at 31 December 2003	
Cost	5,390
Accumulated amortisation	(1,126)
Net book amount	4,264
Year ended 31 December 2004	
Opening net book amount	4,264
Amortisation charge	(207)
Closing net book amount	4,057
As at 31 December 2004	
Cost	5,390
Accumulated amortisation	(1,333)
Net book amount	4,057



Notes to the Financial Statements

15 INTANGIBLE ASSETS

Group

	Trademark	Computer software	Total
	RMB'000	RMB'000	RMB'000
Year ended 31 December 2003			
Opening net book amount	599	1,246	1,845
Additions	887	1,960	2,847
Amortisation charge	(106)	(811)	(917)
Closing net book amount	1,380	2,395	3,775
As at 31 December 2003			
Cost	1,526	4,566	6,092
Accumulated amortisation	(146)	(2,171)	(2,317)
Net book amount	1,380	2,395	3,775
Year ended 31 December 2004			
Opening net book amount	1,380	2,395	3,775
Additions	–	7,655	7,655
Amortisation charge	(81)	(1,986)	(2,067)
Closing net book amount	1,299	8,064	9,363
As at 31 December 2004			
Cost	1,526	12,221	13,747
Accumulated amortisation	(227)	(4,157)	(4,384)
Net book amount	1,299	8,064	9,363

16 INVESTMENTS IN SUBSIDIARIES

	2004
	RMB'000
Investment at costs, unlisted shares	79,568

Details of subsidiaries of the Company as at 31 December 2004 are presented in Note 32.

17 INVENTORIES

	Group	
	2004	2003
	RMB'000	RMB'000
Raw materials	21,884	21,064
Work in progress	707	3,418
Finished goods	305,963	287,186
	328,554	311,668
Less: provision for write-down to net realisable value	(10,228)	(15,429)
	318,326	296,239

As at 31 December 2004, inventories subject to provisioning stated at net realisable value amounted to approximately RMB46,300,000 (2003: RMB34,619,000).

During the year, the Group reversed RMB5,201,000 of a previous inventory write-down, as certain inventories that were written down were sold to customers at or above net realisable value. The provision so reversed has been included in other operating income/(expenses) in the consolidated profit and loss account.



Notes to the Financial Statements

18 ACCOUNTS RECEIVABLE

	Group	
	2004	2003
	RMB'000	RMB'000
Gross accounts receivable	227,594	137,109
Less: provision for impairment of receivables	(10,020)	(17,050)
	217,574	120,059

Included in accounts receivable is an amount due from a related company of RMB1,738,000 as at 31 December 2004 (2003: RMB2,894,000) (Note 31(b)).

During the year, the Group reduced provision for impairment of receivables mainly as a result of recovery of certain doubtful debts provided for in previous years. The provision so reversed amounting to RMB7,030,000 has been included in other operating income/(expenses) in the consolidated profit and loss account.

Customers are normally granted credit terms of 60 days. Ageing analysis of accounts receivable at the respective balance sheet dates are as follows:

	Group	
	2004	2003
	RMB'000	RMB'000
0-30 days	154,318	83,767
31-60 days	34,946	24,832
61-90 days	13,847	8,568
91-180 days	12,942	7,621
181-365 days	3,705	7,101
Over 365 days	7,836	5,220
	227,594	137,109

19 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company
	2004	2003	2004
	RMB'000	RMB'000	RMB'000
Advances to suppliers	24,905	10,765	–
Rental and other deposits	21,589	7,682	–
Prepaid rental	14,924	8,307	–
Others	20,006	10,715	2,550
	81,424	37,469	2,550

20 CASH AND BANK DEPOSITS

As at 31 December 2004, the Group and the Company had the following cash and bank deposits held with banks in the PRC (including Hong Kong Special Administrative Region):

	Group		Company
	2004	2003	2004
	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	322,568	224,488	153,137
Fixed deposits held at banks with maturity after three months	372,508	–	372,508
	695,076	224,488	525,645

The effective interest rates on the fixed deposits was 2.01%. These deposits have an average maturity of 258 days.



Notes to the Financial Statements

20 CASH AND BANK DEPOSITS (Continued)

An analysis of cash and bank deposits by denominated currency is as follows:

	Group		Company
	2004	2003	2004
	RMB'000	RMB'000	RMB'000
Denominated in Renminbi ("RMB")	162,207	147,536	–
Denominated in Hong Kong Dollars ("HK\$")	328,333	–	326,817
Denominated in United States Dollars ("US\$")	204,536	76,952	198,828
	695,076	224,488	525,645

At present, Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currencies and remittance of Renminbi out of the PRC is subject to the rules and regulations of exchange control promulgated by the PRC government. Also, the exchange rate is fixed by the government of the PRC.

21 TRADE PAYABLES

The normal credit periods for trade payables generally range from 30 to 60 days. Ageing analysis of trade payables at the respective balance sheet dates are as follows:

	Group	
	2004	2003
	RMB'000	RMB'000
0-30 days	189,984	163,764
31-60 days	66,855	1,455
61-90 days	2,695	5,692
91-180 days	873	611
181-365 days	341	49
Over 365 days	249	10
	260,997	171,581

22 OTHER PAYABLES AND ACCRUALS

	Group		Company
	2004	2003	2004
	RMB'000	RMB'000	RMB'000
Accrued expenses	14,244	16,533	1,662
Advances from customers	23,534	20,284	–
Wages payable	35,382	21,572	–
Welfare payable	29,578	22,339	–
Due to a related party (Note 31(b))	1,840	520	–
Other payables	33,524	10,360	7,970
	138,102	91,608	9,632

23 SHORT-TERM BORROWINGS

	Group	
	2004	2003
	RMB'000	RMB'000
Bank loan		
– secured	20,000	–
– cross guaranteed by a group company	20,000	–
– unsecured	–	85,000
	40,000	85,000

As at 31 December 2004, bank borrowing amounting to RMB20,000,000 were pledged by certain bank deposits of the Company.

The carrying amounts of the borrowings at the respective balance sheet dates approximated their fair values based on the prevailing borrowing rates available for loans with similar terms and maturities.

The weighted average effective interest rate of the borrowings was 4.6% for the year ended 31 December 2004 (2003: 5.31%).



Notes to the Financial Statements

24 SHARE CAPITAL

	Number of shares	Approximate amount HK\$'000
Authorised at HK\$0.10 each		
Upon incorporation	3,800,000	380
Increase on 5 June 2004	9,996,200,000	999,620
As at 31 December 2004	10,000,000,000	1,000,000
Issued and fully paid up		
Issued nil paid upon incorporation, and subsequently credited as fully paid up pursuant to the Reorganisation	100	–
Issued and credited as fully paid up as consideration for acquisition of the entire share capital of RealSports	749,999,900	75,000
New issue through placing and public offer	273,038,000	27,304
As at 31 December 2004	1,023,038,000	102,304
Equivalent to RMB'000		108,563

The following changes in the Company's authorised and issued share capital took place during the period from 26 February 2004 (date of incorporation) to 31 December 2004:

- (a) As at the date of incorporation, the Company's authorised share capital was HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each, of which 1 share of HK\$0.10 each was issued nil paid. On 4 March 2004, 99 new shares of HK\$0.10 each were issued nil paid.
- (b) Pursuant to a shareholder's resolution passed on 5 June 2004, the authorised share capital of the Company was increased to HK\$1,000,000,000 by the creation of additional 9,996,200,000 shares at HK\$0.10 each;
- (c) Pursuant to a shareholder's resolution passed on 5 June 2004, as part of the Reorganisation and as consideration for the acquisition of the entire share capital of RealSports, the Company issued 749,999,900 shares of HK\$0.10 each, credited as fully paid at par to the then shareholders of RealSports. The 100 nil paid shares as mentioned in (a) above were also credited as fully paid;

24 SHARE CAPITAL (Continued)

- (d) In June 2004, the Company issued 236,062,000 shares of HK\$0.10 each at a price of HK\$2.15 per share through placing and public offer of the Company's shares in Hong Kong. In July 2004, the Company issued an additional 36,976,000 shares of HK\$0.10 each at a price of HK\$2.15 per share pursuant to an over-allotment option exercised by the underwriters of the share issue.

The share capital as at 31 December 2003 as shown in the consolidated balance sheet represented the share capital of the Company as if the current group structure had been in existence since 1 January 2003.

25 RESERVES

Group

	Share premium RMB'000	Capital reserves (a) RMB'000	Statutory reserve fund (b) RMB'000	Statutory staff welfare fund (b) RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2003 (Note (a)(i))	–	61,732	37,479	14,885	101,476	215,572
Effect of reorganisation (Note (a)(ii))	–	23,902	–	–	–	23,902
Profit for the year	–	–	–	–	93,960	93,960
Profit appropriations to statutory reserves	–	–	4,897	2,449	(7,346)	–
2002 dividends declared	–	–	–	–	(23,970)	(23,970)
As at 31 December 2003	–	85,634	42,376	17,334	164,120	309,464
At 1 January 2004	–	85,634	42,376	17,334	164,120	309,464
Share premium on placing and public offer	564,323	–	–	–	–	564,323
Profit for the year	–	–	–	–	133,439	133,439
Appropriations to statutory reserves	–	–	5,027	92	(5,119)	–
2003 dividends declared	–	–	–	–	(65,772)	(65,772)
Special distribution declared (Note (a)(iii))	–	(40,000)	–	–	–	(40,000)
As at 31 December 2004	564,323	45,634	47,403	17,426	226,668	901,454



Notes to the Financial Statements

25 RESERVES (Continued)

Company

	Share premium RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 26 February 2004 (date of incorporation)	–	–	–
Effect of reorganisation	–	–	–
Share issued at premium on placing and public offer	564,323	–	564,323
Loss for the year	–	(8,543)	(8,543)
As at 31 December 2004	564,323	(8,543)	555,780

(a) Capital reserves

- (i) Capital reserves of RMB61,732,000 of the Group as at 1 January 2003 represented registered capital of Li Ning Sports (Shanghai) Co., Ltd. ("Shanghai Li Ning"), the former holding company of all subsidiaries incorporated in the PRC ("the PRC subsidiaries"), as well as contribution by the then shareholders of Shanghai Li Ning prior to 1 January 2001.
- (ii) Effect of group reorganisation represented (aa) share premium of RMB153,122,000 arising from the issuance of shares by RealSports, offset by RMB49,660,000 (US\$6,000,000) paid by RealSports to the former shareholders of Shanghai Li Ning (the holding companies of all subsidiaries in the PRC) as consideration for acquiring the entire interest in Shanghai Li Ning pursuant to a group reorganisation in 2003, offset by (bb) the difference between the nominal value of the shares of RealSports and the nominal value of the Company's shares issued in consideration for the acquisition of shares of RealSports during the Reorganisation in 2004 amounting to RMB79,560,000.
- (iii) At a board meeting held on 29 March 2004, the directors of RealSports declared a dividend amounting to RMB65,772,000 in respect of the financial year ended 31 December 2003.

At another board meeting held on 10 May 2004, the directors of RealSports declared a special distribution of RMB40,000,000 to the then shareholders of RealSports, which was deducted from the share premium of RealSports.

25 RESERVES (Continued)

(b) Statutory reserves

Under the relevant PRC laws and regulations, the PRC subsidiaries are required to appropriate certain percentage of their respective net profit to two statutory funds – the statutory reserve fund and the statutory staff welfare fund. Details of the two funds are as follows:

(i) Statutory reserve funds

Pursuant to applicable PRC laws and regulations, the PRC subsidiaries are required to allocate at least 10% of the companies' net profit to the statutory reserve funds until such fund reaches 50% of the companies' registered capital. The statutory reserve funds can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such funds be maintained at a minimum of 25% of the companies' registered capital.

(ii) Statutory staff welfare funds

Pursuant to applicable PRC laws and regulations, the PRC subsidiaries are required to transfer 5% to 10% of the companies' net profit to the staff welfare funds. The staff welfare funds can only be used to provide staff welfare facilities and other collective benefits to the companies' employees. This fund is non-distributable other than upon liquidation of the PRC subsidiaries.

(c) Distributable reserves

Under the Company Law (revised) of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to shareholders provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2004, the Company's reserves available for distribution to shareholders amounted to RMB555,780,000.



Notes to the Financial Statements

26 EMPLOYEE SHARE PURCHASE SCHEME AND SHARE OPTION SCHEMES

(a) Employee Share Purchase Scheme

As part of the Reorganisation, Mr. Li Ning, a substantial shareholder and chairman of the Company, transferred 35,250,000 of the Company's shares beneficially owned by him, to Alpha Talent Management Limited ("Alpha Talent").

The objectives of such Employee Share Purchase Scheme ("ESP Scheme") is to provide for the grant of rights to purchase the Company's shares beneficially owned by Mr. Li Ning through Alpha Talent to certain key individuals who have contributed to the economic achievement of the Group.

The ESP Scheme was adopted by Alpha Talent on 5 June 2004 and is valid and effective for a period of 10 years from that date. A committee established by the board of directors of Alpha Talent will determine, among other things, the employees of the Group who are to receive those options and the exercise price and terms of the options.

26 EMPLOYEE SHARE PURCHASE SCHEME AND SHARE OPTION SCHEMES

(Continued)

(a) Employee Share Purchase Scheme (Continued)

Details of the options granted under ESP scheme are as follows:

	Number of share options granted on 8 June 2004	Lapsed during the year	Number of share options as at 31 December 2004	Exercise price HK\$	% of options	Vesting date	Exercise Period
Executive directors							
Zhang Zhi Yong	9,750,000	–	9,750,000	0.43	40	28 December 2004	28 December 2004 to 8 June 2010
					30	28 December 2005	28 December 2005 to 8 June 2010
					30	28 December 2006	28 December 2006 to 8 June 2010
Tan Wee Seng	2,700,000	–	2,700,000	0.86	50	28 December 2004	28 December 2004 to 8 June 2010
					50	28 December 2005	28 December 2005 to 8 June 2010
Chen Yi Hong	750,000	–	750,000	0.86	50	28 December 2004	28 December 2004 to 8 June 2010
					50	28 December 2005	28 December 2005 to 8 June 2010
Other employees of the Group							
In aggregate	12,030,000	(600,000)	11,430,000	0.86	50	28 December 2004	28 December 2004 to 8 June 2010
					50	28 December 2005	28 December 2005 to 8 June 2010
	25,230,000	(600,000)	24,630,000				

During the year, no options have been exercised under the ESP Scheme.



Notes to the Financial Statements

26 EMPLOYEE SHARE PURCHASE SCHEME AND SHARE OPTION SCHEMES

(Continued)

(b) Pre-IPO Share Option Scheme

The Company has adopted a pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”). The purpose of the scheme is to give the participants an opportunity to have a personal stake in the Company and recognise the contribution of, and provide an incentive to, the full-time employees of the Company and its subsidiaries including executive and non-executive Directors who, in the sole discretion of the Company’s board of directors, has contributed or will contribute to the Company. The Pre-IPO Share Option Scheme was adopted on 5 June 2004. HK\$1 is payable by the grantee who accepts the grant of an option. Details of the Pre-IPO Share Option Scheme are as follows:

	Number of share options granted on 5 June 2004	Lapsed during the year	Number of share options as at 31 December 2004	Exercise price HK\$	% of options	Vesting date	Exercise Period
Executive directors							
Zhang Zhi Yong	1,597,000	–	1,597,000	1.8275	33.3	28 June 2005	28 June 2005 to 5 June 2010
					33.3	28 June 2006	28 June 2006 to 5 June 2010
					33.4	28 June 2007	28 June 2007 to 5 June 2010
Tan Wee Seng	1,287,000	–	1,287,000	1.8275	33.3	28 June 2005	28 June 2005 to 5 June 2010
					33.3	28 June 2006	28 June 2006 to 5 June 2010
					33.4	28 June 2007	28 June 2007 to 5 June 2010
Other employees of the Group							
In aggregate	13,335,000	(578,000)	12,757,000	1.8275	33.3	28 June 2005	28 June 2005 to 5 June 2010
					33.3	28 June 2006	28 June 2006 to 5 June 2010
					33.4	28 June 2007	28 June 2007 to 5 June 2010
	16,219,000	(578,000)	15,641,000				

During the year, no options have been exercised under the pre-IPO share option scheme.

26 EMPLOYEE SHARE PURCHASE SCHEME AND SHARE OPTION SCHEMES

(Continued)

(c) Share Option Scheme

Pursuant to a shareholder's written resolution passed on 5 June 2004, the Company adopted a share option scheme (the "Share Option Scheme"). The Share Option Scheme will remain in force for a period of 10 years commencing on 5 June 2004.

The purpose of the Share Option Scheme is to provide incentives to eligible participants to contribute to the Company and to enable the Company to recruit high-calibre employees and attract human resources that are valuable to the Group. Eligible participants are any individuals being employees, officers, agents, consultants or representatives of any member of the Group who, the board of directors may determine in its absolute discretion, have made valuable contribution to the business of the Group based on their performance and/or years of service, or are regarded as valuable human resources of the Group based on their work experience, knowledge in the industry and other relevant factors.

HK\$1 is payable by the participant who accepts the grant of an option. The subscription price for the shares under the option to be granted will be determined by the Company's board of directors and will be at least the highest of: (a) the closing price of the shares of the Company as at stated in The Hong Kong Stock Exchange Limited's daily quotations sheets on the date of the grant of the option; (b) the average closing price of the shares of the Company as stated in The Hong Kong Stock Exchange Limited's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (c) the nominal value of the shares of the Company.

The maximum number of shares may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. The total number of shares of the Company issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Company's board of directors, which must not be more than 10 years from the date of the grant.



Notes to the Financial Statements

26 EMPLOYEE SHARE PURCHASE SCHEME AND SHARE OPTION SCHEMES

(Continued)

(c) Share Option Scheme (Continued)

Any shares of the Company allotted and issued on the exercise of options will rank pari passu with the other shares of the Company in issue on the date of allotment.

As at 31 December 2004, no option has been granted by the Company under the Share Option Scheme.

27 MINORITY INTERESTS

	Group	
	2004	2003
	RMB'000	RMB'000
As at 1 January	15,869	17,295
Share of net profit/(loss) of subsidiaries	1,339	(1,426)
As at 31 December	17,208	15,869

28 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit before taxation to cash inflow generated from operations

	2004 RMB'000	2003 RMB'000
Profit before taxation	192,264	114,563
Adjustments for:		
Depreciation	18,147	14,049
Amortisation	2,274	1,124
Impairment of property, plant and equipment (Write-back of impairment charge)/impairment charge on accounts receivable	– (7,030)	5,151 14,894
(Reversal of write-down)/write-down of inventories to net realisable value	(5,201)	11,873
Loss on disposals of property, plant and equipment	4,908	3,185
Interest income	(3,715)	(1,123)
Interest expenses	4,369	5,710
Foreign currency exchange gain, net	(1,475)	(41)
Operating profit before working capital changes	204,541	169,385
Increase in inventories	(16,886)	(79,287)
Increase in accounts receivable	(90,485)	(51,922)
(Increase)/decrease in other receivables and prepayments	(41,596)	7,208
Increase in trade payables	89,416	43,655
Increase in other payables and accruals	46,494	23,153
Cash inflow generated from operations	191,484	112,192

(b) Cash and cash equivalents

	2004 RMB'000	2003 RMB'000
Cash at bank and in hand	322,568	224,488



Notes to the Financial Statements

29 OPERATING LEASE COMMITMENTS

The Group has commitments to make the following aggregate minimum payments under non-cancelable operating leases in respect of its office premises and shops:

	Group	
	2004	2003
	RMB'000	RMB'000
No later than 1 year	66,934	34,727
Later than 1 year and not later than 5 years	109,829	62,758
	176,763	97,485

30 CONTINGENT LIABILITIES

	Group	Company
	2004	2003
	RMB'000	RMB'000
Guarantee given to a bank in respect of loans of a subsidiary	–	–
		150,000

31 SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties are those parties which have the ability, directly or indirectly, to control the other parties or exercise significant influence over the other parties in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

In addition to the related party transactions undertaken in connection with the Reorganisation as described in Note 1 and directors' emoluments as disclosed in Note 11 above, during the year, the Group entered into various transactions with related parties set out below:

(a) Summary of significant related party transactions:

	2004 RMB'000	2003 RMB'000
Sales of goods to:		
– 北京動感九六體育用品有限責任公司 (Beijing Dong Gan Jiu Liu Sporting Goods Company Limited), a company controlled by family members of a director, Mr. Chen Yi Hong	15,509	10,656
– 北京動感競技經貿有限公司 (Beijing Dong Gan Jing Ji Commercial Co.), a company controlled by family members of a director, Mr. Chen Yi Hong	911	–
– 北京都市兄弟經貿有限公司 (Beijing Metropolitan Brothers Trading Co., Ltd.), a company controlled by family members of a director, Mr. Chen Yi Hong	–	1,599
	16,420	12,255
Sponsorship fee paid to:		
– 北京一動體育發展有限公司 (Beijing Edo Sports Development Company Limited), a company controlled by family members of a director, Mr. Li Ning	2,640	2,350

In the opinion of the Directors, these transactions were entered into at terms as agreed with the related parties in the ordinary of course of business.



Notes to the Financial Statements

31 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) The significant balances with related parties are as follows:

	2004 RMB'000	2003 RMB'000
Balances with related parties included in:		
Other payables		
– 上海寧晟企業管理有限公司 Shanghai Ning Sheng Corporate Management Co., Ltd., a company controlled by a director Mr. Li Ning	–	320
– Li Ning Sport Goods (HK) Co., Ltd., a company controlled by a shareholder	–	200
– 上海雷德體育發展有限公司 Shanghai Lei De Sports Development Co., Ltd., a minority shareholder of a subsidiary controlled by a director, Mr. Chen Yi Hong, and his family members	1,840	–
	1,840	520
Amounts due from related company included in accounts receivable		
– Beijing Dong Gan Jiu Liu Sporting Goods Co., Ltd.	1,738	2,894

The above balances are interest free, unsecured and have no fixed terms of repayment.

32 GROUP STRUCTURE

As 31 December 2004, the Company held interests in the following subsidiaries:

Name	Place of operation & incorporation and date of incorporation	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
<i>Directly held:-</i>				
RealSports Pte Ltd.	The British Virgin Islands, 8 October 2002	USD1,000	100%	Investment holding
Li Ning Sports Technology Development (Hong Kong) Co., Ltd. (李寧體育科技發展(香港)有限公司)	Hong Kong, 28 May 2004	HK\$1	100%	Research and development
<i>Indirectly held:-</i>				
Li Ning Sports (Hong Kong) Co., Ltd.	Hong Kong, 19 March 2003	HK\$100	100%	Provision of administrative services
李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Co., Ltd.)	The PRC, 25 August 1997	USD8,000,000	100%	Sale of sporting goods
北京李寧體育用品有限公司 (Beijing Li Ning Sport Goods, Ltd.)	The PRC, 4 November 1997	RMB50,000,000	100%	Sale of sporting goods
北京動向體育發展有限公司 (Beijing Dong Xiang Sports Development Co., Ltd.)	The PRC, 18 April 2002	RMB800,000	80%	Sale of sporting goods



Notes to the Financial Statements

32 GROUP STRUCTURE (Continued)

Name	Place of operation & incorporation and date of incorporation	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
<i>Indirectly held:– (Continued)</i>				
上海狐步物流有限公司 (Shanghai Hubu Logistics Co., Ltd.)	The PRC, 15 July 2004	RMB3,000,000	100%	Provision of logistics, transportation and storage service
上海狐步信息有限公司 (Shanghai Hubu Information Co., Ltd.)	The PRC, 20 April 2000	RMB2,000,000	100%	Provision of technology information service
上海少昊體育用品有限公司 (Shanghai Shao Hao Sports Goods Co., Ltd.)	The PRC, 18 December 2001	RMB3,000,000	100%	Product design, research and development
上海悅奧體育用品有限公司 (Shanghai Yue Ao Sports Goods Co., Ltd.)	The PRC, 5 March 2003	RMB3,000,000	100%	Advertising and marketing
佛山李寧體育學校服務有限公司 (Foshan Li Ning Gymnastic School Services Co., Ltd.)	The PRC, 31 October 1996	RMB1,000,000	100%	Property management
廣東李寧體育發展有限公司 (Guangdong Li Ning Sports Development Co., Ltd.), formerly known as 廣東健力寶運動服裝有限公司 (Guangdong Sports Jianlibao Apparel Co., Ltd.)	The PRC, 13 December 2001	RMB8,240,000	80%	Product manufacturing

32 GROUP STRUCTURE (Continued)

Name	Place of operation & incorporation and date of incorporation	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
<i>Indirectly held:- (Continued)</i>				
上海一動體育發展有限公司 (Shanghai Edosports Development Co., Ltd.)	The PRC, 9 July 2001	RMB10,000,000	100%	Sale of sporting goods
鄭州一動體育用品銷售有限公司 (Zhengzhou Edosports Goods Sales Co., Ltd.)	The PRC, 25 June 1998	RMB2,750,000	100%	Sale of sporting goods
廣州一動體育用品銷售有限公司 (Guangzhou Edosports Goods Sales Co., Ltd.)	The PRC, 6 August 1998	RMB1,200,000	100%	Sale of sporting goods
長沙一動體育用品銷售有限公司 (Changsha Edosports Goods Sales Co., Ltd.)	The PRC, 26 August 1998	RMB1,000,000	100%	Sale of sporting goods
南寧一動體育用品銷售有限公司 (Nanning Edosports Goods Sales Co., Ltd.)	The PRC, 29 July 1998	RMB500,000	100%	Sale of sporting goods
瀋陽一動體育用品銷售有限公司 (Shenyang Edosports Goods Sales Co., Ltd.)	The PRC, 10 June 1999	RMB1,000,000	100%	Sale of sporting goods



Notes to the Financial Statements

32 GROUP STRUCTURE (Continued)

Name	Place of operation & incorporation and date of incorporation	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
<i>Indirectly held:– (Continued)</i>				
濟南一動體育用品銷售有限公司 (Jinan Edosports Goods Sales Co., Ltd.)	The PRC, 15 April 2003	RMB1,000,000	100%	Sale of sporting goods
武漢一動體育用品銷售有限公司 (Wuhan Edosports Goods Sales Co., Ltd.)	The PRC, 2 June 1999	RMB1,000,000	100%	Sale of sporting goods
杭州一動體育用品銷售有限公司 (Hangzhou Edosports Goods Sales Co., Ltd.)	The PRC, 5 August 1999	RMB1,000,000	100%	Sale of sporting goods
北京李寧體育用品銷售有限公司 (Beijing Li Ning Sports Goods Sales Co., Ltd.)	The PRC, 4 November 1997	RMB5,000,000	100%	Sale of sporting goods
石家莊一動體育用品銷售有限公司 (Shijiazhuang Edosports Goods Sales Co., Ltd.)	The PRC, 12 November 1999	RMB1,000,000	100%	Sale of sporting goods
上海一動體育用品銷售有限公司 (Shanghai Edosports Goods Sales Co., Ltd.)	The PRC, 8 August 2000	RMB5,000,000	100%	Sale of sporting goods

32 GROUP STRUCTURE (Continued)

Name	Place of operation & incorporation and date of incorporation	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
<i>Indirectly held:- (Continued)</i>				
天津一動體育用品銷售有限公司 (Tianjin Edosports Goods Sales Co., Ltd.)	The PRC, 14 December 1999	RMB3,500,000	100%	Sale of sporting goods
南京一動體育用品銷售有限公司 (Nanjing Edosports Goods Sales Co., Ltd.)	The PRC, 15 April 2003	RMB1,000,000	100%	Sale of sporting goods

All of the Group's subsidiaries incorporated in the PRC are limited liability companies to be operated for 10 to 30 years up to 2030.

33 FINANCIAL RISKS MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates.

(i) Foreign exchange risk

The Group mainly operated in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to foreign exchange risk during 2003 and 2004.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its short-term borrowings, details of which have been disclosed in Note 23. As at 31 December 2003 and 2004, the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.



Notes to the Financial Statements

33 FINANCIAL RISKS MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of accounts receivable included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the Directors are of the opinion that adequate provision for uncollectible accounts receivable has been made in the consolidated financial statements.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, time deposits, accounts receivable and other receivables; and financial liabilities including trade payables, short-term borrowings and other payables, approximate their fair values due to their short maturities.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, if any, are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

34 NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES

	Group		Company
	2004	2003	2004
	RMB'000	RMB'000	RMB'000
Net current assets	924,406	315,378	584,775
Total assets less current liabilities	1,027,225	404,901	664,343

35 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 29 March 2005.