

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in RMB'000 unless otherwise stated)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated interim financial information is prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB").

This condensed financial information should be read in conjunction with the 2004 annual accounts.

The accounting policies and methods of computation used in the preparation of this unaudited condensed financial information are consistent with those used in the annual accounts for the year ended 31 December 2004, except that the Group has changed certain of its accounting policies pursuant to a series of International Financial Reporting Standards ("IFRS") issued or revised by IASB which became effective for financial years beginning on or after 1 January 2005.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in Note 2 and Note 3 below.

2. CHANGES IN ACCOUNTING POLICIES

In 2005, the Group adopted the following issued/revised IFRS that are relevant to the operations of the Group:

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after Balance Sheet Date
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 33 Earnings per Share



- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 2 Share-based Payment
- IFRS 3 Business Combination
- IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

The adoption of IFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1 January 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the profit and loss accounts of the respective periods.

The main impact of IFRS 2 on the Group is the expensing of share options granted under the Employee Share Purchase Scheme and the Pre-IPO Share Option Scheme. Refer to Note 22 for details of such schemes. The effect of the change of policy has decreased the Group's profit for the period ended 30 June 2005 by RMB9,138,000 (2004: RMB1,269,000) as a result of increased staff costs, and a corresponding increase in equity's other reserve. In addition, such change of policy has decreased the basic and diluted earnings per share by RMB0.89 cent and RMB0.89 cent, respectively, for the six months ended 30 June 2005 (2004: decrease of basic earnings per share by RMB0.17 cent).

The adoption of the other standards as mentioned above, being IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 32, 33, 39, and IFRS 3 and 5 did not result in substantial changes to the Group's accounting policies, except that:

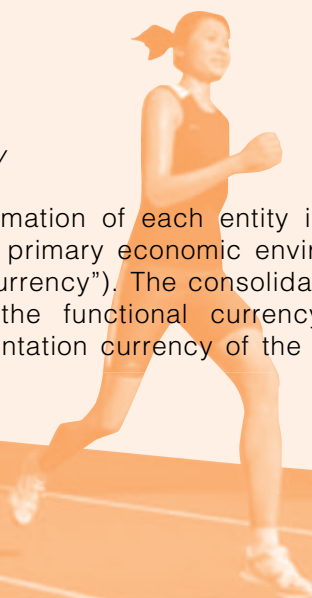
- IAS 1 has affected the presentation of minority interests and other disclosures.
- IAS 21 has no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- IAS 24 has affected the identification of related parties and some other related-party disclosures.

3. NEW ACCOUNTING POLICIES

(a) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial information of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Renminbi, which is the functional currency of all entities comprising the Group and the presentation currency of the Company.



(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss account.

(b) Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(ii) *Loans and receivables*

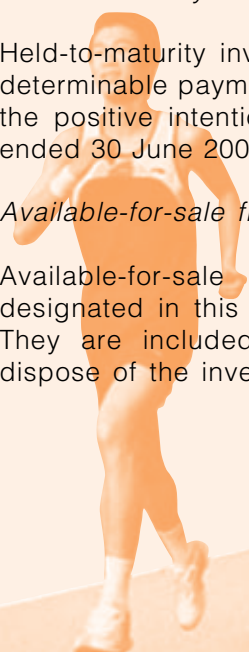
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are included in accounts receivable and other receivables in the balance sheet.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the six months ended 30 June 2005, the Group did not hold any investments in this category.

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.



Purchases and sales of investments are recognized on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

(c) Share-based payment

The Group operates several equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

4. TURNOVER AND SEGMENT INFORMATION

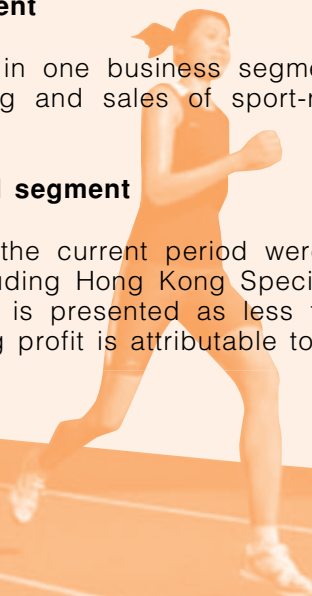
Turnover comprises the invoiced value for the sale of goods net of value added tax ("VAT"), rebates and discount.

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 current period were located in the People's Republic of China (the "PRC") (including Hong Kong Special Administration 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.



5. OTHER GAINS

Other gains comprised grants from the local government of the PRC amounting to RMB10,677,000 for the six months ended 30 June 2005 (2004: RMB8,269,000).

6. OPERATING PROFIT

Operating profit is stated after charging the following:

Unaudited		
Six months ended 30 June		
	2005	2004
	RMB'000	RMB'000
Amortization of land use rights (charged to administrative expenses)	104	104
Amortization of intangible assets (charged to administrative expenses)	1,322	1,174
Costs of inventories recognized as expenses included in cost of sales	545,207	407,279
Depreciation on property, plant and equipment	11,650	7,035
Loss on disposals of property, plant and equipment	80	17
Operating lease rentals in respect of land and buildings	50,208	32,125
Accounts receivable — impairment charges	2,563	2,973
Staff costs including directors' emoluments		
— Salaries and other benefits	84,955	62,185
— Contribution to retirement benefit scheme	6,284	4,201
— Employee share option schemes for value of services provided	9,138	1,269
	100,377	67,655
Write-down of inventories to net realizable value	8,492	4,747

7. FINANCE COSTS, NET

Unaudited		
Six months ended 30 June		
	2005	2004
	RMB'000	RMB'000
Interest expenses on bank borrowings wholly repayable within 5 years	1,102	2,469
Interest income on bank balances and deposits	(7,308)	(795)
Net foreign currency exchange (gain)/loss	(599)	92
Bank charges	450	191
	(6,355)	1,957

8. TAXATION

	Unaudited	
	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Current taxation		
— Hong Kong profits tax (Note (a))	933	—
— PRC current income tax (Note (b))	39,807	32,139
	40,740	32,139

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 six months ended 30 June 2005 (2004: 17.5%).
- (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.

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:

	Unaudited	
	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Profit before taxation	119,524	87,014
Tax calculated at a tax rate of 33%	39,443	28,715
Effects of different tax rate in Hong Kong	(826)	—
Preferential tax rates on the income of certain subsidiaries	(18,626)	(18,990)
Expenses not deductible for tax purposes	20,749	22,414
Taxation charge	40,740	32,139

Deferred tax assets are recognized for provisions for accounts receivable and inventories and other expenses to the extent that realization of the related tax benefit through the future taxable profits is probable. As at 30 June 2005, the Group had unrecognized deferred tax assets of approximately RMB15,133,000 (31 December 2004: RMB16,305,000), in respect of provisions for accounts receivable and inventories and other expenses.

9. DIVIDENDS

The Company was incorporated in the Cayman Islands on 26 February 2004. The dividend disclosed during the six months ended 30 June 2004 amounting to RMB40,000,000 represents a special distribution declared by RealSports Pte Ltd., the intermediate holding company, to its then equity holders.

At a board meeting held on 25 August 2005, the directors declared an interim dividend of RMB2.30 cents (equivalent to Hong Kong 2.21 cents) per ordinary share, totalling RMB23,533,000 for the six months ended 30 June 2005. This declared dividend is not reflected as a dividend payable in the financial information.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company for the six months ended 30 June 2005 of RMB78,313,000 (2004: RMB54,903,000) and the weighted average of 1,023,038,000 (2004: 753,891,000) shares issued during the period. The weighted average number of shares for six months ended 30 June 2004 was based on the assumption that the current group structure had been in existence since 1 January 2004.

The calculation of diluted earnings per share for the six months ended 30 June 2005 is based on the Group's profit attributable to equity holders of the Company for the six months ended 30 June 2005 of RMB78,313,000 and the weighted average of 1,029,759,000 shares. The weighted average number of shares used in the calculation comprises the weighted average of 1,023,038,000 shares issued during the period, as used in the basic earnings per share calculation, and the weighted average of 6,721,000 shares assumed to have been issued at no consideration on the deemed exercise of options granted under the Company's Pre-IPO Share Option Scheme during the period.

Diluted earnings per share has not been calculated for the six months ended 30 June 2004 as no dilutive potential shares were in existence during the period.



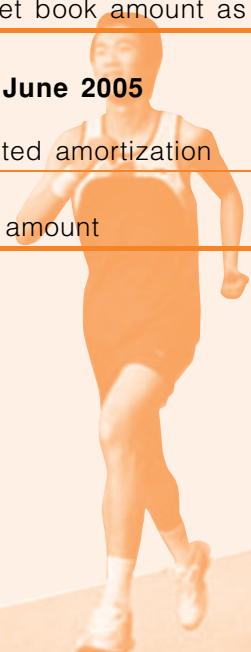
11. PROPERTY, PLANT AND EQUIPMENT

	Unaudited <i>RMB'000</i>
As at 1 January 2004	
Cost	133,159
Accumulated depreciation and impairment charge	(51,675)
Net book amount	81,484
Six months ended 30 June 2004	
Opening net book amount as at 1 January 2004	81,484
Additions	10,365
Disposals	(474)
Depreciation charge	(7,035)
Closing net book amount as at 30 June 2004	84,340
Six months ended 31 December 2004	
Opening net book amount as at 1 July 2004	84,340
Additions	20,780
Disposals	(4,609)
Depreciation charge	(11,112)
Closing net book amount as at 31 December 2004	89,399
As at 31 December 2004	
Cost	145,310
Accumulated depreciation and impairment charge	(55,911)
Net book amount	89,399
Six months ended 30 June 2005	
Opening net book amount as at 1 January 2005	89,399
Additions	12,702
Disposals	(2,489)
Depreciation charge	(11,650)
Closing net book amount as at 30 June 2005	87,962
As at 30 June 2005	
Cost	152,244
Accumulated depreciation and impairment charge	(64,282)
Net book amount	87,962



12. LAND USE RIGHTS

	Unaudited <i>RMB'000</i>
As at 1 January 2004	
Cost	5,390
Accumulated amortization	(1,126)
Net book amount	4,264
Six months ended 30 June 2004	
Opening net book amount as at 1 January 2004	4,264
Amortization charge	(104)
Closing net book amount as at 30 June 2004	4,160
Six months ended 31 December 2004	
Opening net book amount as at 1 July 2004	4,160
Amortization charge	(103)
Closing net book amount as at 31 December 2004	4,057
As at 31 December 2004	
Cost	5,390
Accumulated amortization	(1,333)
Net book amount	4,057
Six months ended 30 June 2005	
Opening net book amount as at 1 January 2005	4,057
Amortization charge	(104)
Closing net book amount as at 30 June 2005	3,953
As at 30 June 2005	
Cost	5,390
Accumulated amortization	(1,437)
Net book amount	3,953



13. INTANGIBLE ASSETS

	Unaudited		
	Trademark	Computer software	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2004			
Cost	1,526	4,566	6,092
Accumulated amortization	(146)	(2,171)	(2,317)
Net book amount	1,380	2,395	3,775
Six months ended 30 June 2004			
Opening net book amount as at 1 January 2004	1,380	2,395	3,775
Additions	—	753	753
Amortization charge	(41)	(1,133)	(1,174)
Closing net book amount as at 30 June 2004	1,339	2,015	3,354
Six months ended 31 December 2004			
Opening net book amount as at 1 July 2004	1,339	2,015	3,354
Additions	—	6,902	6,902
Amortization charge	(40)	(853)	(893)
Closing net book amount as at 31 December 2004	1,299	8,064	9,363
As at 31 December 2004			
Cost	1,526	12,221	13,747
Accumulated amortization	(227)	(4,157)	(4,384)
Net book amount	1,299	8,064	9,363
Six months ended 30 June 2005			
Opening net book amount as at 1 January 2005	1,299	8,064	9,363
Additions	161	890	1,051
Disposals	—	(31)	(31)
Amortization charge	(48)	(1,274)	(1,322)
Closing net book amount as at 30 June 2005	1,412	7,649	9,061
As at 30 June 2005			
Cost	1,687	13,072	14,759
Accumulated amortization	(275)	(5,423)	(5,698)
Net book amount	1,412	7,649	9,061

14. INVENTORIES

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Raw materials	4,674	21,884
Work in progress	2,096	707
Finished goods	285,096	295,735
	291,866	318,326

As at 30 June 2005, inventories subject to provisioning stated at net realizable value amounted to approximately RMB58,996,000 (31 December 2004: RMB46,300,000).

15. ACCOUNTS AND NOTES RECEIVABLE

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Gross accounts and notes receivable	273,635	227,594
Less: provision for impairment of receivables	(12,583)	(10,020)
	261,052	217,574

As at 30 June 2005, accounts receivable includes an amount due from a related company of RMB1,462,000 (31 December 2004: RMB1,738,000) (*Note 26(b)*).

As at 30 June 2005, notes receivable with an amount of RMB9,000,000 are pledged as security for short-term bank borrowings (*Note 19*).

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

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
0-30 days	159,537	154,318
31-60 days	40,071	34,946
61-90 days	45,923	13,847
91-180 days	15,521	12,942
181-365 days	4,955	3,705
Over 365 days	7,628	7,836
	273,635	227,594

16. OTHER RECEIVABLES AND PREPAYMENTS

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Advances to suppliers	8,242	24,905
Rental and other deposits	21,734	21,589
Prepaid rental	17,838	14,924
Others	28,090	20,006
	75,904	81,424

17. TRADE PAYABLES

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

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
0-30 days	120,317	189,984
31-60 days	5,050	66,855
61-90 days	2,720	2,695
91-180 days	5,120	873
181-365 days	118	341
Over 365 days	330	249
	133,655	260,997

18. OTHER PAYABLES AND ACCRUALS

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Accrued expenses	30,391	14,244
Advances from customers	13,858	23,534
Wages payable	23,272	35,382
Welfare payable	27,948	29,578
VAT and other taxes payable	10,709	10,906
Due to a related company (Note 26(b))	1,840	1,840
Other payables	26,150	22,618
	134,168	138,102

19. SHORT-TERM BORROWINGS

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Bank loan denominated in RMB		
— secured	9,000	20,000
— cross guaranteed by a group company	—	20,000
	9,000	40,000

As at 30 June 2005, bank borrowings amounting to RMB9,000,000 were secured by notes receivable of the same amount (*Note 15*).

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.

All short-term borrowings are interest bearing. The weighted average effective annual interest rate of the borrowings was 3.46% for the six months ended 30 June 2005 (2004: 4.57%).

20. SHARE CAPITAL

	Number of shares	Approximate amount HK\$'000
Authorized at HK\$0.10 each		
As at 31 December 2004 and 30 June 2005	10,000,000,000	1,000,000
Issued and fully paid up		
As at 31 December 2004 And 30 June 2005	1,023,038,000	102,304
Equivalent to RMB'000		108,563



21. RESERVES

Unaudited							
	Share Premium RMB'000	Capital reserves RMB'000	Statutory reserve fund (a) RMB'000	Statutory staff welfare fund (a) RMB'000	Retained profits RMB'000	Other reserve RMB'000	Total RMB'000
As at 1 January 2004	—	85,634	42,376	17,334	164,120	—	309,464
Share premium on placing and public offer	475,819	—	—	—	—	—	475,819
Profit for the period	—	—	—	—	54,903	—	54,903
2003 dividends declared	—	—	—	—	(65,772)	—	(65,772)
Employee share option schemes for value of services provided	—	—	—	—	—	1,269	1,269
Special distribution declared	—	(40,000)	—	—	—	—	(40,000)
As at 30 June 2004	475,819	45,634	42,376	17,334	153,251	1,269	735,683
As at 1 January 2005, as previously reported	564,323	45,634	47,403	17,426	226,668	—	901,454
Employee share option schemes for value of services provided	—	—	—	—	(11,025)	11,025	—
As at 1 January 2005, as restated	564,323	45,634	47,403	17,426	215,643	11,025	901,454
Profit for the period	—	—	—	—	78,313	—	78,313
2004 dividends declared	—	—	—	—	(46,932)	—	(46,932)
Employee share option schemes for value of services provided	—	—	—	—	—	9,138	9,138
As at 30 June 2005	564,323	45,634	47,403	17,426	247,024	20,163	941,973

(a) Statutory reserves

Under the relevant PRC laws and regulations, Company's subsidiaries in the PRC (the "PRC Companies") 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 fund

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

(ii) *Statutory staff welfare fund*

Pursuant to applicable PRC laws and regulations, the PRC Companies are required to transfer 5% to 10% of the companies' net profit to the fund. This fund can only use 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 Companies.

(b) Distributable reserves

Under the Company Law (revised) of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to its equity holders 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.

22. EMPLOYEE SHARE PURCHASE SCHEME AND SHARE OPTION SCHEMES

(a) Employee Share Purchase Scheme

Alpha Talent Management Limited ("Alpha Talent") was set up in 2004 by Mr. Li Ning, a substantial shareholder and chairman of the Company, to hold 35,250,000 of the Company's shares beneficially owned by Mr. Li Ning.

The objectives of the Employee Share Purchase Scheme (the "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 shall be valid and effective for a period of 10 years from that date. A committee established by the board of directors of Alpha Talent determines the employees of the Group who shall be selected to receive options, the exercise price, the terms and conditions of the options. Lapsed or cancelled options will be re-granted in accordance with the terms of the ESP Scheme until all shares held by Alpha Talent have been purchased pursuant to the ESP Scheme.

Current granted options vest gradually after employees complete certain periods of services in the Group's companies ranging from 6 to 30 months.



Movement in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005 Weighted average exercise price (per share) HK\$	2005 Outstanding options	2004 Weighted average exercise price (per share) HK\$	2004 Outstanding options
As at 1 January	0.69	24,630,000	—	—
Granted during the period	—	—	0.69	25,230,000
As at 30 June	0.69	24,630,000	0.69	25,230,000
Exercisable as at 30 June 2005	0.71	11,340,000		
Lapsed during the period			0.86	(600,000)
As at 31 December			0.69	24,630,000
Exercisable as at 31 December 2004			0.71	11,340,000

Exercise periods and weighted average exercise prices of outstanding options are as follows:

Exercise period	Weighted average exercise price HK\$	30 June 2005 and 31 December 2004 Number of shares
28 December 2004 – 8 June 2010	0.71	11,340,000
28 December 2005 – 8 June 2010	0.74	10,365,000
28 December 2006 – 8 June 2010	0.43	2,925,000
		24,630,000



(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 directors and full-time employees of the Company and the Group an opportunity to have a personal stake in the Company and recognise their contribution to the Group. 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.

Total number of share options subject to the Pre-IPO Share Option Scheme is 16,219,000 shares and they have been granted on 5 June 2004. No further share options will be granted under the Pre-IPO Share Option Scheme. Options granted under the Pre-IPO Share Option Scheme vest gradually after employees or directors complete a period of service in the Group for 1 to 3 years starting from the date of grant.

Movement in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005 Weighted average exercise price (per share) HK\$	2005 Outstanding options	2004 Weighted average exercise price (per share) HK\$	2004 Outstanding options
As at 1 January	1.8275	15,641,000	—	—
Granted during the period	—	—	1.8275	16,219,000
Lapsed during the period	1.8275	(408,000)	—	—
As at 30 June	1.8275	15,233,000	1.8275	16,219,000
Exercisable as at 30 June 2005	1.8275	5,073,000		
Lapsed during the period			1.8275	(578,000)
As at 31 December			1.8275	15,641,000
Exercisable as at 31 December 2004			—	—



Exercise periods and weighted average exercise prices of outstanding options are as follows:

Exercise period	Weighted average exercise price HK\$	30 June 2005 Number of shares	31 December 2004 Number of shares
28 June 2005 – 5 June 2010	1.8275	5,073,000	5,208,000
28 June 2006 – 5 June 2010	1.8275	5,073,000	5,208,000
28 June 2007 – 5 June 2010	1.8275	5,087,000	5,225,000
		15,233,000	15,641,000

(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 from 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, based on the board of directors' 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 Stock Exchange of Hong Kong 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 Stock Exchange of Hong Kong 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. Lapsed or cancelled options may be re-granted in accordance with the terms of the Share Option Scheme.

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.

Any share 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 30 June 2005, no option was granted by the Company under the Share Option Scheme.

(d) Fair value of share options

Fair value of share options granted under the ESP Scheme on 8 June 2004 is RMB20,486,000. The Group has taken advantage of the transitional provisions of IFRS 2 to apply the standard to grants of share options after 7 November 2002 and had not yet vested at 1 January 2005. Share options vested on 28 December 2004 totalling 11,640,000 were not included in the calculation of the ESP Scheme's fair value. Fair value of share options granted under the Pre-IPO Share Option Scheme on 5 June 2004 is RMB12,388,000.

The fair values were determined using the Black-Scholes valuation model which was performed by an independent valuer, American Appraisal China Limited. Significant inputs into the model were the closing share price of HK\$2.35 at the first listing day of the Company's shares on 28 June 2004, exercise prices shown above, standard deviation in the value of the underlying stock during the life of the options of approximately 41%, expected option life as shown above, and risk-free interest rate of 2-year and 3-year Hong Kong government bond at grant date ranging from 2.07% to 2.94% per annum, and dividend yield rate of 2%. The volatility of underlying stock during the life of the options is estimated based on historical stock prices of comparable companies listed in Hong Kong. The dividend yield rate was estimated by the Company based on the future dividend paid-out ratio during the life of the options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

For the six months ended 30 June 2004, the year ended 31 December 2004 and the six months ended 30 June 2005, amount of employee services acquired as consideration of share options granted under the ESP Scheme and the Pre-IPO Share Option Scheme are RMB1,269,000, RMB11,025,000 and RMB9,138,000, respectively.



23. CASH AND BANK DEPOSITS

As at 30 June 2005, the Group had the following cash and bank deposit held with banks in the PRC (including Hong Kong Special Administrative Region).

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Cash at banks and in hand	149,136	322,568
Fixed deposits held at banks with maturity after three months	337,432	372,508
Pledged bank deposits	99,318	66,212
	585,886	761,288

The effective interest rates on the fixed deposits was 2.2%. These deposits have an average maturity of 98 days.

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

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Denominated in Renminbi ("RMB")	132,755	162,207
Denominated in Hong Kong Dollars ("HK\$")	325,667	328,333
Denominated in United States Dollars ("US\$")	127,464	270,748
	585,886	761,288

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.



24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Institutional money market fund	25,085	—
Listed debt securities	16,334	—
	41,419	—

The purpose of the short-term investments is to preserve the value of the Group's liquidity resource. Related financial assets are denominated in United States Dollars and have been designated as measured at fair value with gains and losses recognised in profit and loss account upon the initial recognition and at each balance sheet date.

25. COMMITMENTS**(a) Operating lease commitments — where a group company is the lessee**

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

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
No later than 1 year	81,294	66,934
Later than 1 year and not later than 5 years	92,940	109,829
Later than 5 year	4,850	—
	179,084	176,763

(b) Establishment of new joint venture

On 30 June 2005, the Group entered into an agreement with Aigle International S.A. ("AIGLE") to establish a 50% joint-venture in Hong Kong. The purpose of the joint-venture is to set up and hold the entire equity interest in a subsidiary in the PRC to manufacture, market, distribute and sell AIGLE-branded garment, footwear and related accessories in the PRC for 50 years under an exclusive right granted by AIGLE. The Group has committed to contribute RMB25,000,000 pursuant to the agreement.

26. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) The Group has following significant related party transactions:

		Unaudited	
		Six months ended 30 June	
		2005	2004
		RMB'000	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 the family members of a Company director, Chen Yi Hong		9,663	6,457
— 北京動感競技經貿有限公司 (Beijing Dong Gan Jing Ji Trading Company Limited), a company controlled by the family members of a Company director, Chen Yi Hong		345	593
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 上海寧晟企業管理有限公司 (Shanghai Ning Sheng Corporate Management Co., Ltd.), a company controlled by the family members of Li Ning, the chairman of the Company		2,170	900

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

(b) Significant balances with related parties are as follows:

		Unaudited	Audited
		30 June	31 December
		2005	2004
		RMB'000	RMB'000
Other payables			
— 上海雷德體育發展有限公司 (Shanghai Lei De Sporting Goods Co., Ltd.), being a minority shareholder of a subsidiary, controlled by a Company director, Chen Yi Hong, and his family members		1,840	1,840
Accounts receivable			
— 北京動感九六體育用品有限責任公司 (Beijing Dong Gan Jiu Liu Sporting Goods Co., Ltd.)		1,462	1,738

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

(c) Key management compensation

Details of compensation paid to key management of the Group (all being directors of the Company) are as follows:

Unaudited		
Six months ended 30 June		
	2005	2004
	RMB'000	RMB'000
Salaries and other benefits	5,213	3,671
Contribution to retirement benefit scheme	191	129
Employee share option schemes for value of services provided	3,795	478
	9,199	4,278

(d) Directors' interests in share option schemes

As at 30 June 2005, outstanding share options granted to executive directors of the Company were as follows:

Exercisable period	Exercise price per share	30 June 2005 and 31 December 2004
	<i>HK\$</i>	<i>Number of options</i>
ESP Scheme		
28 December 2004 – 8 June 2010	0.43/0.86	5,625,000
28 December 2005 – 8 June 2010	0.43/0.86	4,650,000
28 December 2006 – 8 June 2010	0.43	2,925,000
Pre-IPO Share Option Scheme		
28 June 2005 – 5 June 2010	1.8275	960,372
28 June 2006 – 5 June 2010	1.8275	960,372
28 June 2007 – 5 June 2010	1.8275	963,256
		16,084,000



27. FINANCIAL RISK 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 operates in the PRC with most of the transactions settled in RMB.

The proceeds derived from the initial public offering are all denominated in HK\$. Certain sum has already been invested into various bank deposit accounts and financial assets at fair value through profit or loss denominated in HK\$ or US\$. In addition, the Company is required to pay dividends in HK\$ when dividends are declared.

Any foreign currency exchange rate fluctuations in connection with its deposits and investments may have a financial impact to the Group.

(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 19. As at 30 June 2005 and 31 December 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.

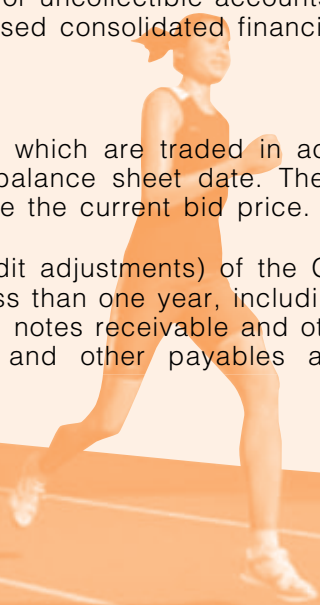
(iii) *Credit risk*

The Group has no significant concentrations of credit risk. The carrying amount of accounts receivable included in the unaudited condensed consolidated balance sheet 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 unaudited condensed consolidated financial information.

(b) Fair value estimation

The fair value of short-term investments, which are traded in active markets, is based on quoted market prices at the balance sheet date. The quoted market prices used for short-term investments are the current bid price.

The face values (less any estimated credit adjustments) of the Group's financial assets and liabilities with a maturity of less than one year, including cash at bank and in hand, time deposits, accounts and notes receivable and other receivables, trade payables, short-term borrowings and other payables 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.

28. NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Net current assets	967,239	924,406
Total assets less current liabilities	1,068,215	1,027,225

29. SUBSEQUENT EVENTS

- (a) On 11 August 2005, the Company's shareholders resolved to transfer the entire equity interest in 北京動向體育發展有限公司 (Beijing Dong Xiang Sports Development Co., Ltd.), an 80% owned subsidiary of the Group, to 上海泰坦體育用品有限公司 (Shanghai Tai Tan Sporting Goods Co., Ltd.), a company controlled by Mr. Chen Yi Hong, an executive director of the Company, for consideration of RMB8,614,000.
- (b) Subsequent to 30 June 2005, the Company issued 346,000 new shares of HK\$0.10 each at a price of HK\$1.8275 per share upon exercise of share options by its employees under the Pre-IPO Share Option Scheme.
- (c) On 4 July 2005, the Company granted 15,921,000 share options to certain employees (including directors) under the Share Option Scheme. Holders of these share options are entitled to purchase shares of the Company at an exercise price of HK\$3.685 each. The options vest gradually over two years from 4 July 2006 to 4 July 2008.

30. APPROVAL OF THE FINANCIAL INFORMATION

The unaudited condensed consolidated interim financial information of the Company for the six months ended 30 June 2005 were approved by the board of directors of the Company on 25 August 2005.

