



Li Ning Company Limited

(李寧有限公司)

(Incorporated in the Cayman Islands with limited liability)

LI NING. FLYING HIGH IN CHINA SPORTS.

ANNUAL REPORT 2004 





Corporate Profile

Li Ning Company Limited is one of the leading sports brand enterprises in the PRC. We have our own branding, research and development, design, manufacturing, distribution and retail capabilities. Our products include sports footwear, apparel and accessories for sport and leisure use primarily sold under the LI-NING brand, which is owned by us, and the KAPPA brand, which is exclusively licenced to us for use in the PRC and Macau. Li Ning Company Limited has been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 28 June 2004.

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Corporate Information

Board of Directors

Executive Directors

Mr. LI Ning (李寧)
(Chairman)

Mr. ZHANG Zhi Yong (張志勇)
(Chief Executive Officer)

Mr. TAN Wee Seng (陳偉成)
(Chief Financial Officer)

Mr. CHEN Yi Hong (陳義紅)

Non-Executive Directors

Mr. LIM Meng Ann (林明安)

Mr. Stuart SCHONBERGER

Mr. FONG Ching, Eddy (方正)

Independent Non-Executive Directors

Mr. KOO Fook Sun, Louis (顧福身)

Ms. WANG Ya Fei (王亞非)

Mr. CHAN Chung Bun, Bunny (陳振彬)

Executive Committee

Mr. ZHANG Zhi Yong (張志勇)
(Committee Chairman)

Mr. LI Ning (李寧)

Mr. TAN Wee Seng (陳偉成)

Mr. CHEN Yi Hong (陳義紅)

Audit Committee

Mr. KOO Fook Sun, Louis (顧福身)
(Committee Chairman)

Mr. Stuart SCHONBERGER

Ms. WANG Ya Fei (王亞非)

Remuneration Committee

Ms. WANG Ya Fei (王亞非)
(Committee Chairman)

Mr. LIM Meng Ann (林明安)

Mr. KOO Fook Sun, Louis (顧福身)

Joint Company Secretaries

Mr. TAN Wee Seng (陳偉成) ACMA

Mr. NG Wai Hung (吳偉雄)

Authorised Representatives

Mr. LI Ning (李寧)

Mr. TAN Wee Seng (陳偉成)

Qualified Accountant

Mr. TAN Wee Seng (陳偉成) ACMA

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisors

As to Hong Kong law:
Baker & McKenzie

As to PRC law:
Grandall Legal Group Shanghai Office
Beijing Haisi Law Firm
King & Wood Law Firm

Registered Office

Century Yard
Cricket Square
Hutchins Drive
P. O. Box 2681GT
George Town
Grand Cayman
British West Indies

Principal Place of Business in Hong Kong

Suites 2804-5, Shell Tower
Times Square, Causeway Bay
Hong Kong
Telephone: +852 3102 0926
Fax: +852 3102 0927

Principal Share Registrar and Transfer Office

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P. O. Box 705
George Town
Grand Cayman
British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor
Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

KEY FINANCIAL DATES

Announcement of interim results
Announcement of annual results
Book closing dates for final dividend
Record date for the final dividend
The first annual general meeting
Payment date for final dividend

Principal Bankers

In the PRC:

China Construction Bank
Industrial & Commercial Bank of China
China Merchants Bank
Bank of Beijing

In Hong Kong:

DBS Bank Ltd., Hong Kong Branch

Share Information

Stock code: 2331
(Listed on the Main Board of
The Stock Exchange of
Hong Kong Limited)
Board lot: 2,000 shares

Website

www.lining.com
www.irasia.com/listco/hk/lining

10 September 2004
29 March 2005
9 May 2005 – 12 May 2005
12 May 2005
12 May 2005
on or about 20 May 2005

Corporate Milestones



October 2001

- Set up the first overseas store in Spain



March 1998

- Set up the first design and R&D centre in Foshan, Guangdong

1992

- Sponsored the Chinese national team in Barcelona Olympic Games



1989

- Established in Guangdong and registered the LI-NING trademark

August 1990

- Sponsored the Chinese national team in the Asian Games





November 2004

- Established the Hong Kong design and R&D centre



January 2005

- Became a constituent stock of Hang Seng Composite Index Series and Hang Seng Freefloat Index Series
- Formed strategic alliance with NBA

June 2004

- Listed on the Main Board of the Hong Kong Stock Exchange



1997

- Established a nationwide retail network in the PRC





Four-year Financial Highlights

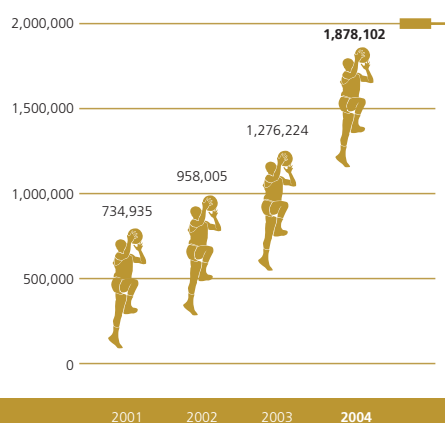
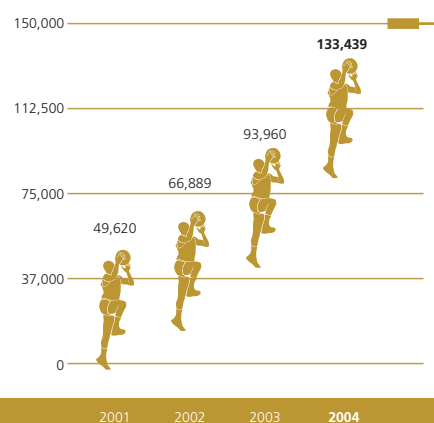
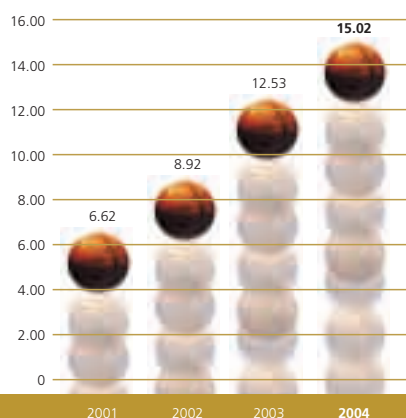
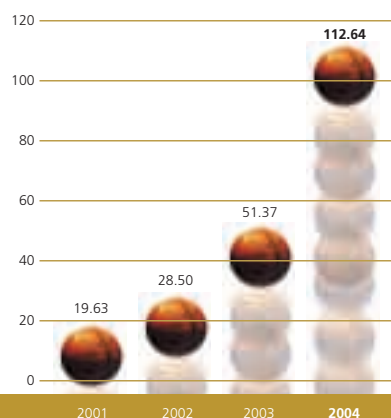
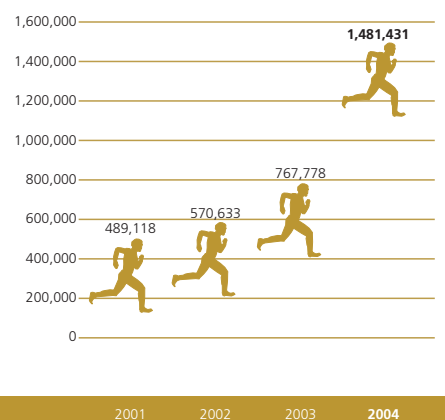
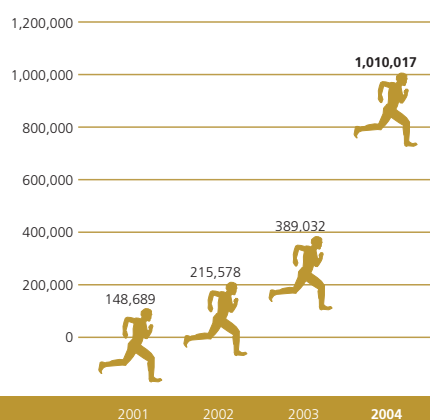
(Expressed in RMB'000)

For the year ended 31 December

	2001	2002	2003	2004
Turnover	734,935	958,005	1,276,224	1,878,102
Operating profit	65,201	103,347	119,109	191,443
Profit before taxation	59,090	95,955	114,563	192,264
Profit for the year	49,620	66,889	93,960	133,439
Non-current assets	91,607	86,489	89,523	102,819
Current assets	397,511	484,144	678,255	1,378,612
Current liabilities	324,232	337,760	362,877	454,206
Net current assets	73,279	146,384	315,378	924,406
Total assets	489,118	570,633	767,778	1,481,431
Total assets less current liabilities	164,886	232,873	404,901	1,027,225
Shareholders' equity	148,689	215,578	389,032	1,010,017
Gross profit margin (%)	39.1	44.9	47.5	46.5
Earnings per share – basic (cents)	6.62	8.92	12.53	15.02
– diluted (cents)	N/A	N/A	N/A	14.96
Net dividend per share (cents)	2.29	3.20	8.77	9.77
Return on shareholders' equity (%) (Note 1)	39.7	36.7	31.1	19.1
Net tangible assets per share (cents)	19.63	28.50	51.37	112.64
Debt/equity ratio (Note 2)	2.18	1.57	0.93	0.45

Notes:

1. Return on shareholders' equity is based on the profit for the year divided by average shareholders' equity and then times 100%.
2. Debt/equity ratio is based on total liabilities divided by shareholders' equity as at 31 December.

Turnover (RMB'000)**Profit for the year (RMB'000)****Earnings per share – basic (RMB cents)****Net tangible assets per share (RMB cents)****Total assets (RMB'000)****Shareholders' equity (RMB'000)**





**LI-NING, A Leading Sports
Brand in the PRC**



Chairman's Statement

LI-NING. Flying high in China sports.



Dear Shareholders,

I am extremely pleased to report to you the first set of annual results of Li Ning Company Limited (the "Company") and its subsidiaries (collectively the "Group") as a publicly-listed company. Year 2004 was a tremendously successful year for us. The contributions made by all our staff marked several distinguished accomplishments in our corporate development history.

The Group made remarkable progress in its business development, greatly enhancing its brand awareness and reputation, enriching its product offering, developing cutting edge production technology and expanding its sales network. In addition, the Company's debut listing on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 28 June 2004 received overwhelming positive response from the international capital markets. Net proceeds of HK\$559.1 million were raised to strengthen the Group's financial position and to fund its future development. Since its listing, the Company has endeavoured to meet the highest levels of professional standards, including transparency to shareholders of the Company ("Shareholders") and best practices of corporate governance. I believe the positive share performance reflects investor confidence and trust in both the Group's business development strategy and its future outlook. The Company's reputation has further enhanced when it joined the Hang Seng Composite Index Series and the Hang Seng Free Float Index Series in January 2005.

For the year ended 31 December 2004, the Company delivered encouraging financial results. Consolidated turnover increased by 47.2% to RMB1,878.1 million, and net profit grew by 42.0% to



RMB133.4 million, compared to the previous year and exceeding the profit forecast set out in the Company's listing prospectus dated 15 June 2004 ("Listing Prospectus"). The Company further expanded its nationwide sales network to 2,887 outlets in the PRC during the year with the net addition of 742 outlets in 2004. We are enormously proud of these impressive accomplishments.

In view of the Group's strong business performance and sound financial position, the board of directors of the Company ("Board of Directors" or "Directors") has proposed a final dividend payment of RMB4.57 cents (equivalent to HK4.30 cents) per share to Shareholders.

Our mission is to be a trendsetter in China's sports industry and a leading operator and owner of sports brands that dominate the domestic market and compete with the world's renowned brands. The Group has equipped itself with several core competitive strengths to fulfill this corporate mission. It will continue to leverage on its leading, dynamic Chinese sports brand with extensive marketing promotion and sponsorship in China's sports industry to proactively participate in the sponsorship of domestic and international sports events. These initiatives have strengthened the reputation and awareness of the LI-NING brand. Furthermore, the Group's experienced team of professional managers has successfully extended its distribution and retail network deep into the most attractive consumer markets in China. Consequently, the Group has established an unparalleled distributorship and retail network to offer a one-stop comprehensive range of quality sporting products for consumers and capture a growing customer base, which is expected to generate attractive rewards for our Shareholders.



Chairman's Statement



During the year under review, the record-breaking performance of the Chinese Delegation to the 2004 Athens Olympic Games stimulated a massive sports fever in China, and further accelerated the development of the country's sports industry. The Company has sponsored four of China's gold medal winning Olympic teams, namely the Gymnastics, Table Tennis, Diving and Shooting Teams, as well as the uniforms for the entire Chinese Delegation during award ceremonies. In addition, the Company sponsored the France's National Gymnastic Team and the Spain's National Basketball Teams. As a result, the LI-NING brand achieved tremendous visibility in the premier sporting event in the world and brought the Company's brand to new heights.

To further improve the Group's brand image on the world stage, it entered into a three-year strategic marketing promotion partnership agreement with the National Basketball Association (NBA) in January 2005. This momentous move marks a breakthrough for both the Company and the Chinese sporting industry in terms of international cooperation as well as brand building.

In recent years, China's economic growth has been impressive. Increased consumer spending has cultivated a favourable operating environment for the Group. The upcoming 2008 Beijing Olympics has further increased the country's awareness and interest in sports, prompting greater enthusiasm and demand for sports products, and in turn, offering tremendous growth opportunities for the Group. Furthermore, the Beijing Olympics is expected to have a positive effect on the sports industry in the long-term, well beyond 2008.

Going forward, the Group will seize upon new market opportunities to meet its revenue and profit targets. The Group's professional management team will work aggressively to solidify its retail and distribution network position, by leveraging its leading brand image, unique market position, and extensive product offerings. The Group will continue to tap new markets and maintain a rapid pace of development. Meanwhile, the Group strives to foster the development of new and advanced technologies by strengthening its cooperation with international professional associations and drawing on the strengths of its design and R&D centre in Hong Kong. Bolstered by a corporate culture that actively promotes innovation, the Group is committed to developing new products with cutting-edge features, enhancing the quality of its sports products and successfully catering to the needs of this growing and dynamic market.



The Board of Directors and the Audit Committee are committed to working closely with the entire crew of the Company to develop business strategies and set objectives for the Group. This includes the creation of a management framework that enables the management to better control and balance business risks. The Company is striving to achieve excellence in corporate governance and fairness in decision making to the highest level of transparency. We are committed to maintaining an open dialogue with Shareholders and investors alike.

The Group is proud of its Board of Directors who exemplify the highest professional standards. Spearheaded by the members of this visionary Board, I am confident that the Company will continue to grow and prosper. I would like to take this opportunity to express my heartfelt gratitude to all members of the Board for their invaluable advice during the year. I would also like to thank our Shareholders for their support, and our customers for their loyalty. Without doubt, pivotal to our success is the endeavour and hard work of our staff, and to them, I am extremely grateful. LI-NING will in the future make every effort to attract and retain the best talent to enable the Company to grow and prosper.

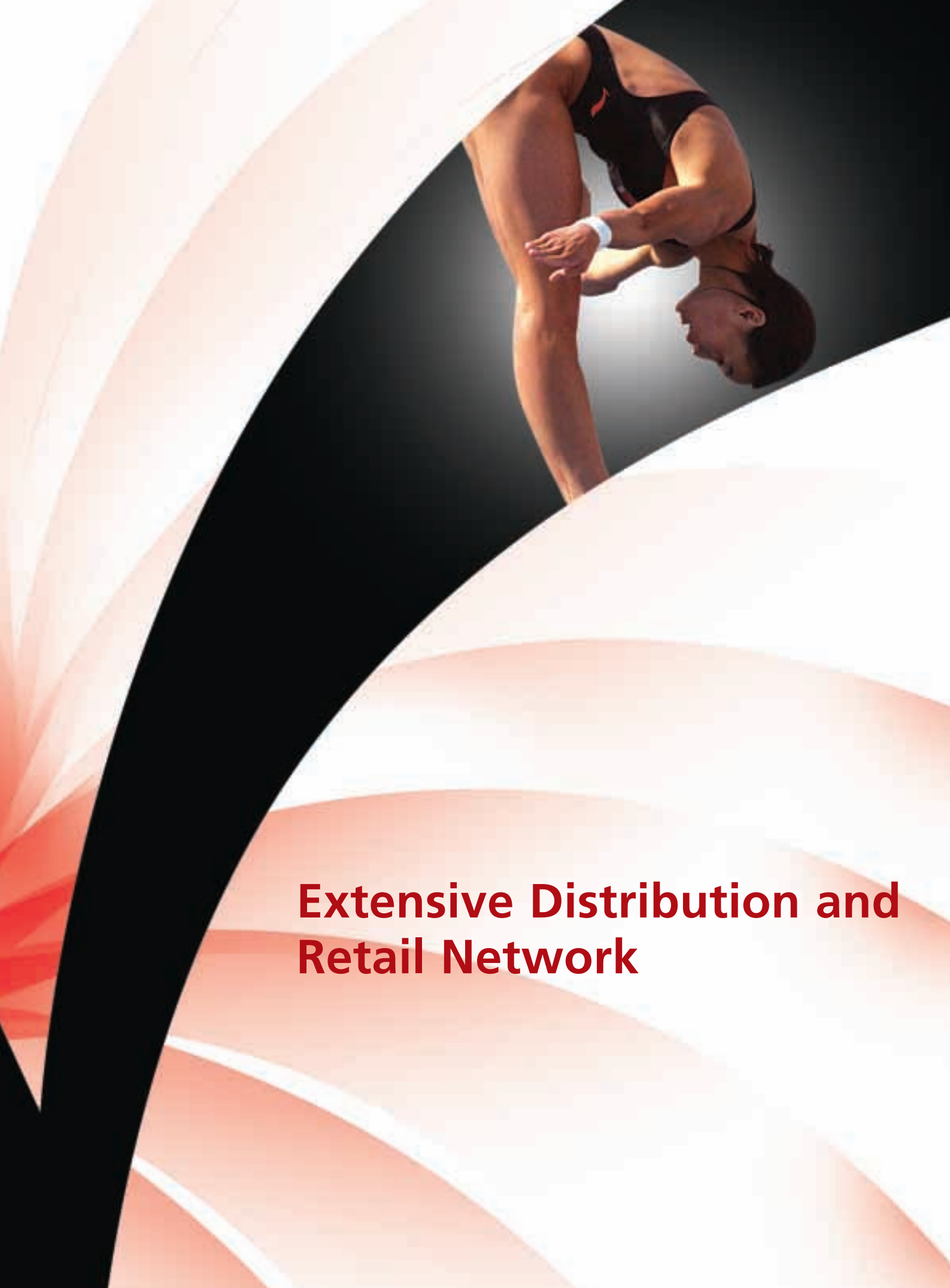
Pioneering in China's sports industry and determined to develop an internationally recognised sports brand, we will continue to strive to achieve our corporate motto of "LI-NING. Flying high in China sports.". We are also dedicated to creating value for our customers while also consistently delivering attractive returns to our Shareholders.

Li Ning

Chairman

Hong Kong, 29 March 2005





Extensive Distribution and Retail Network



Management Discussion and Analysis

Sustainable, Fast-Growing Business Opportunities in China



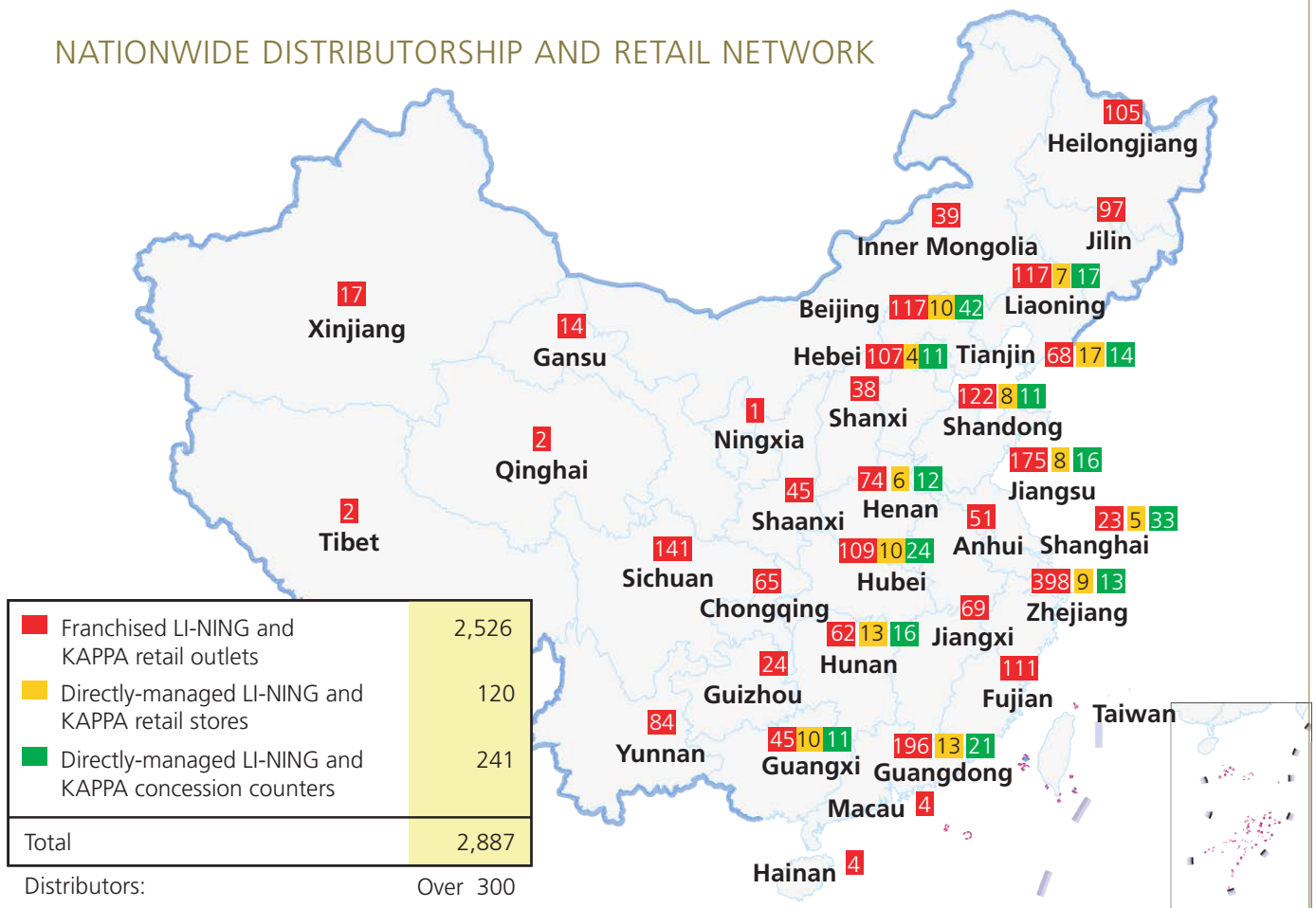
BUSINESS OVERVIEW

The Group is one of the leading sports brand enterprises in the People's Republic of China ("PRC"). We have our own branding, product research and design, supply chain management, marketing, distribution and retail capabilities.

- Our products include sports footwear, apparel and accessories for sports and leisure use.
- Our products are primarily sold under the LI-NING brand, which is owned by us, and the KAPPA brand, which is exclusively licensed to us for use in the PRC and Macau.
- We have established an extensive distributorship and retail network with dedicated point of sales covering the PRC market. We sell products to our distributors who operate franchised LI-NING and KAPPA retail outlets under our supervision. We also operate our own LI-NING and KAPPA retail stores and concession counters.
- Internationally, we focus our sales of LI-NING branded products in Spain and Russia through our overseas distributors.
- We implement the supply chain management of our products by outsourcing production of the majority of our products to independent contract manufacturers in the PRC. We manufacture only a small portion of our apparel products.



NATIONWIDE DISTRIBUTORSHIP AND RETAIL NETWORK





Management Discussion and Analysis



FINANCIAL REVIEW

Financial highlights

The overall results of the Group for the year ended 31 December 2004 were encouraging, with key performance indicators set out as follows:

	Year ended 31 December 2004 RMB'000	2003 RMB'000	Year-on-year change (%)
Profit and loss items (audited)			
Turnover	1,878,102	1,276,224	47.2
Gross profit	873,524	605,919	44.2
Operating profit	191,443	119,109	60.7
Profit after taxation	134,778	92,534	45.7
Net profit	133,439	93,960	42.0
Basic earnings per share (RMB cents) (Note 1)	15.02	12.53	19.9
Selected financial ratios (audited)			
Gross profit margin (%)	46.5	47.5	
Operating profit margin (%)	10.2	9.3	
Net profit margin (%)	7.1	7.4	
Effective tax rate (%)	29.9	19.2	
Return on shareholders' equity (%)	19.1	31.1	
Debt/equity ratio	0.45	0.93	
Average inventory turnover (days) (Note 2)	112	143	
Average accounts receivable turnover (days) (Note 3)	33	29	
Average trade payables turnover (days) (Note 4)	77	75	

Notes:

1. The calculation of basic earnings per share of the Company is based on the net profit of RMB133,439,000 for the year ended 31 December 2004 (2003: RMB93,960,000) and the weighted average number of 888,392,000 shares (2003: 750,000,000 shares) in issue in the year.
2. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balance divided by the cost of sales and multiplied by 365 days.
3. The calculation of average accounts receivable turnover (days) is based on the average of opening and closing balance for accounts receivable divided by the turnover and multiplied by 365 days.
4. The calculation of average trade payables turnover (days) is based on the average of opening and closing balance for trade payables divided by the total purchases and multiplied by 365 days.



Turnover

For the year ended 31 December 2004, turnover reached RMB1,878,102,000, representing a remarkable increase of 47.2% against 2003. Turnover growth was driven by the expansion of our sales channels and range of products, as well as our increased advertising and promotional efforts. Moreover, the Severe Acute Respiratory Syndrome ("SARS"), which broke out in China during Spring 2003, had no material impact on the Group's long term sales growth pattern.

Breakdown of turnover by product category

	Year ended 31 December				Year-on-year change (%)
	2004		2003		
	% of total		% of total		
	RMB'000	turnover	RMB'000	turnover	
Footwear	562,889	30.0	443,811	34.8	26.8
Apparel	1,083,130	57.7	658,649	51.6	64.4
Accessories	232,083	12.3	173,764	13.6	33.6
Total	1,878,102	100.0	1,276,224	100.0	47.2

For the year ended 31 December 2004, the Group recorded an overall increase in sales for all product categories compared to 2003. This growth was driven predominantly by the continual growth of the LI-NING brand, including the Group's successful introduction of a wide range of new products. Sales of apparel grew rapidly with a 64.4% increase compared to last year, boosted by the availability of a wide variety of newly designed apparel goods. Sales of accessories also achieved growth of 33.6%, and sales of footwear recorded an increase of 26.8% compared to 2003, respectively.



Management Discussion and Analysis

Breakdown of turnover by brand

	Year ended 31 December		Year-on-year	
	2004	2003	change	
	RMB'000	RMB'000	% of total turnover	(%)
LI-NING	1,772,559	1,236,166	94.4	43.4
KAPPA	105,543	40,058	5.6	163.5
Total	1,878,102	1,276,224	100.0	47.2

For the year ended 31 December 2004, sales of LI-NING brand products grew by 43.4% compared to 2003, boosted by the rapid growth of its sales channels and a wider range of new products. Sales of KAPPA brand products recorded an increase of 163.5% in turnover.

Percentage of turnover by sales channel

	Year ended 31 December	
	2004	2003
	% of total turnover	% of total turnover
PRC market		
Distributor sales	75.0	78.0
Concession sales	12.0	10.3
Retail store sales	10.6	8.8
International markets	2.4	2.9
Total	100.0	100.0

Percentage of turnover by geographical region

	<i>Notes</i>	Year ended 31 December	
		2004	2003
		% of total turnover	% of total turnover
LI-NING brand			
PRC market			
Beijing and Shanghai		9.9	7.8
Central region	1	12.4	12.9
Eastern region	2	21.9	20.6
Southern region	3	11.0	11.9
Southwestern region	4	8.2	9.6
Northern region	5	13.8	15.2
Northeastern region	6	12.5	13.2
Northwestern region	7	2.3	2.8
International markets		2.4	2.9
KAPPA brand			
PRC market		5.6	3.1
Total		100.0	100.0

Notes:

1. Central region includes Hubei, Hunan and Jiangxi.
2. Eastern region includes Zhejiang, Jiangsu and Anhui.
3. Southern region includes Guangdong, Guangxi, Fujian and Hainan.
4. Southwestern region includes Sichuan, Chongqing, Guizhou, Yunnan and Tibet.
5. Northern region includes Shandong, Hebei, Henan, Tianjin, Shanxi and Inner Mongolia.
6. Northeastern region includes Liaoning, Jilin and Heilongjiang.
7. Northwestern region includes Shaanxi, Xinjiang, Gansu, Qinghai and Ningxia.



Management Discussion and Analysis

Cost of sales and gross profit

For the year ended 31 December 2004, the Group's cost of sales was approximately RMB1,004,578,000 (2003: RMB670,305,000). The overall gross profit margin for 2004 was 46.5%, a decrease of 1.0% as compared with 2003 which was caused by the increase in investment in product research and development. In general, gross profit margin was maintained at a relatively stable level. The Group's gross profit margin for footwear, apparel and accessories for 2004 stood at approximately 43.7%, 47.5% and 48.7% respectively.

Distribution and administrative expenses

For the year ended 31 December 2004, the Group's distribution expenses amounted to approximately RMB545,985,000 (2003: RMB335,717,000). Our distribution expenses mainly include advertising and promotional expenditures, salaries and benefits for sales staff, retail store rental and renovation expenses, sponsorship and other marketing-related expenses. Distribution expenses as a percentage of the total turnover increased to 29.1% from 26.3% in 2003, due mainly to the increase in the number of sales staff, new openings of directly managed retail outlets, additional overhead costs for newly-opened retail outlets, as well as increased spending on marketing and promotional expenses for brand building.

For the year ended 31 December 2004, the Group's administrative expenses were approximately RMB168,658,000 (2003: RMB121,049,000). Administrative expenses mainly include staff costs, office rental expenses, depreciation charges relating to office premises and other general expenses. Administrative expenses decreased to 9.0% of the total turnover from 9.5% in 2003. The enhanced economies of scale enabled the Group to manage administrative expenses more effectively. As management efficiency increased, administrative expenses increased only by 39.3%, which was far below the 47.2% growth in sales revenues.

Other operating income/(expenses)

For the year ended 31 December 2004, the Group's other operating income was approximately RMB15,163,000 (2003: expenses of RMB38,190,000). The breakdown of other expenses is set out below:

	Year ended 31 December				Year-on-year change (%)
	2004		2003		
	RMB'000	% of total (%)	RMB'000	% of total (%)	
(Write-back of provision)/ provision for doubtful debts	(7,030)	46.4	14,894	39.0	(147.2)
(Write-back of provision)/ provision for obsolete and slow-moving inventories	(5,201)	34.3	11,873	31.1	(143.8)
Others	(2,932)	19.3	11,423	29.9	(125.7)
Total	(15,163)	100.0	38,190	100.0	(139.7)

Other operating income/(expenses) primarily included the write back of provision for doubtful debts and the write back of provision for obsolete and slow-moving inventories, impairment charges, loss on disposal of property, plant and machinery and other operating expenses.

Finance costs and taxation

For the year ended 31 December 2004, finance costs decreased to a net income of RMB821,000 from an expense of RMB4,546,000 recorded in 2003. Such decrease was mainly due to (i) our reduced level and better usage efficiency in bank borrowings; (ii) interest income from funds raised from the initial public offering; and (iii) gain on foreign exchange.

For the year ended 31 December 2004, taxation charge was approximately RMB57,486,000 (2003: RMB22,029,000). Our effective tax rate was approximately 29.9% for the year ended 31 December 2004 compared to 19.2% in 2003.

Net profit

For the year ended 31 December 2004, the Group recorded a net profit of RMB133,439,000, an increase of 42.0% compared to 2003. Although operating profit margin increased from 9.3% to 10.2%, the net profit margin was slightly lower than that in 2003 owing to the increase in the effective tax rate. During the year, net profit margin was approximately 7.1%, compared to 7.4% in 2003. The growth in net profit was mainly attributable to: (i) the Group's business growth driven by the expansion of sales channels and product variety, increased effectiveness of our advertising and promotional efforts and the fading adverse impact of SARS, which broke out in China during Spring 2003; (ii) better economies of scale resulting in lowering of operating expenses; and (iii) effective cost and expense control.

Provision for inventories

Inventories of the Group are stated at the lower of cost and net realizable value. Provision on the difference will be made by the Company, if the net realizable value of inventories is below the cost.

As at 31 December 2004, the accumulated provision for inventories amounted to approximately RMB10,228,000, as compared to the accumulated provision for inventories amounting to approximately RMB15,429,000 as at 31 December 2003.



Management Discussion and Analysis

Provision for doubtful debts

The policy for the provision for doubtful debts adopted by the Group remained unchanged from the year 2003.

The accumulated provision for doubtful debts was approximately RMB10,020,000 as at 31 December 2004, as compared to the accumulated provision for doubtful debts amounting to approximately RMB17,050,000 as at 31 December 2003.

BUSINESS REVIEW

The Group's businesses were established in 1989. In June 2004, the Company, following years of rapid expansion, was successfully listed on the Main Board of the Hong Kong Stock Exchange and became a constituent stock of the Hang Seng Composite Index Series and the Hang Seng Free Float Index Series in January 2005, which was an important milestone in recognition of the Group's leading market position, its business and financial strengths.

During the year ended 31 December 2004, we have continued to focus on our growth strategies by (i) reinforcing our sales channels and distribution infrastructure; (ii) upgrading our product design and development capabilities; (iii) strengthening customers' brand awareness and loyalty to our products; and (iv) enhancing our supply chain management for faster response and better efficiency.

Distribution and retail network

We have established an extensive distributorship and retail network with dedicated point of sales throughout the entire PRC market. The Group adopted a diversified retail mode comprising franchised retail outlets and self-operated retail stores and concession counters. During the year, the Group continued to pursue the strategy of expanding its domestic sales channels. As at 31 December 2004, the Group's domestic distribution and retail network consisted of:

- over 300 distributors operating 2,526 franchised retail outlets for the LI-NING and KAPPA brands all over the PRC; and
- a total of 120 directly-managed retail outlets and 241 concession counters in Beijing, Shanghai and in 11 provinces in the PRC.

Number of franchised and directly-managed outlets:

(Number)	As at 31 December		
	2004	2003	Change (%)
LI-NING brand			
Franchised retail outlets	2,272	1,722	31.9
Directly-managed retail stores	117	87	34.5
Directly-managed concession counters	233	176	32.4
Total	2,622	1,985	32.1
KAPPA brand			
Franchised retail outlets	254	144	76.4
Directly-managed retail stores	3	3	0.0
Directly-managed concession counters	8	13	(38.5)
Total	265	160	65.6
Overall			
Franchised retail outlets	2,526	1,866	35.4
Directly-managed retail stores	120	90	33.3
Directly-managed concession counters	241	189	27.5
Total	2,887	2,145	34.6

During the year, there was a net increase of 742 new outlets, representing a 34.6% growth over 2003, bringing the total to 2,887 outlets. Most significantly, new flagship stores were opened at prime locations in large cities with larger store space and modern store format and decoration, in order to enhance our brand image and identity. In particular, the 200 sq.m. flagship store in Middle Huaihai Road in Shanghai and the 620 sq.m. flagship store in Wangfujing in Beijing were opened in May and June 2004 respectively.



Management Discussion and Analysis

Supply chain management

The Group has implemented a unified supply chain management system for all franchised and self-operated retail outlets, centralising all systems for procurement, inventory and logistics. During the year, the Group achieved better efficiency and faster response to market changes through effective supply chain management, as specifically described below:

- the Group expedited its pace of product development and order cycle by organising major sales events and special order fairs for our distributors in the PRC three times a year;
- the Group shortened its average inventory turnover to 112 days from 143 days in 2003 by improving inventory control and clearance measures;
- the average accounts receivable turnover increased by 4 days to 33 days from 29 days in 2003, which maintained at a healthy level; and
- the average trade payables turnover increased by 2 days to 77 days from 75 days in 2003 so as to fully utilise the credit period granted by suppliers.

Sponsorship, marketing and promotional activities

During the year, the Group, through our LI-NING brand, sponsored the Chinese Olympic delegation to the 2004 Athens Summer Olympic Games, a number of major Chinese national sports teams such as Table Tennis Team, Diving Team, Gymnastic Team and Shooting Team, as well as foreign sports teams such as the Spanish Men's and Women's Basketball Team.

The Group successfully increased the public awareness of its new footwear series such as soccer, basketball, tennis, running and fitness through an effective advertising strategy.

Our new advertising series with the theme "LI-NING. Flying High in China Sports." launched in April 2004 received encouraging response in the PRC. The belief "Everything is Possible" promoted by the Group gained increasing popularity in the PRC. According to a recent internet research conducted by a newspaper in the PRC, LI-NING brand has been selected by the internet users as one of their three favourite brands in the sports wear category.

Product development

During the year, the Group continued to expand its range of sporting products to meet the needs of different sports-related consumer groups.

The Group launched and promoted new specialised footwear series for individual sports categories such as soccer, basketball, tennis, running and fitness. For example, the professional "Tie" series soccer shoes designed for the Chinese soccer star, Li Tie, and the new basketball footwear series have received positive response from the market.

To strengthen our investment in product research and development, in November 2004, the Group set up a new design and R&D centre in Hong Kong, which will focus on establishing the overall design features of LI-NING brand products, initiating concepts and strategies on brand design, improving our technology and concentrating on image design of high-end products. Currently, the centre is in co-operation with institutions and colleges in Hong Kong and overseas including the Department of Sports Science & Physical Education of the Chinese University of Hong Kong.

FINANCIAL CONDITION

Net asset value

As at 31 December 2004, the Group's total net asset value was RMB1,027,225,000 (31 December 2003: RMB404,901,000). Net asset value per share was RMB115.63 cents, as compared to RMB53.99 cents per share in 2003. The increase in net asset value per share was mainly due to the increase in retained profits and the proceeds from the new issue of shares in June 2004.

Liquidity and capital resources

For the year ended 31 December 2004, the Group's net cash flow from operations was RMB134,417,000, which grew by 44.3% compared to that of 2003. The Group ended the year with RMB282,568,000 of net cash (cash and cash equivalents less bank borrowings), representing an increase of RMB143,080,000 over the net cash as at 31 December 2003. Such increase included net proceeds of RMB517,600,000 from the new issue of shares in June 2004 and the exercise of the over-allotment option on 8 July 2004 with net proceeds of RMB75,718,000, less dividend payment of RMB105,772,000, total net capital expenditures of RMB38,625,000 on the purchase of office and production facilities and refurbishment of fixed assets, plus interest received RMB1,356,000, less bank borrowing interest paid of RMB4,369,000 and fixed deposits of RMB437,245,000.

As at 31 December 2004, the Group's cash and cash equivalents were RMB322,568,000 (31 December 2003: RMB224,488,000). Total outstanding borrowings amounted to RMB40,000,000 (31 December 2003: RMB85,000,000). Shareholders' equity amounted to RMB1,010,017,000 (31 December 2003: RMB389,032,000) and the Group was in a net cash position. The debt to equity ratio, expressed as a percentage of total outstanding borrowings over shareholders' equity, was 4.0% (31 December 2003: 21.8%).



Management Discussion and Analysis

As at 31 December 2004, all of the outstanding borrowings were secured by certain bank deposits of the Company and guarantee of a subsidiary of the Group.

As at 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.

Pledge of assets

As at 31 December 2004, the Group had pledged fixed deposits amounting to RMB66,212,000 to secure the bank borrowings in favour of its subsidiaries. As at 31 December 2004, the Group's bank borrowings arising from such fixed pledged deposits amounted to RMB20,000,000.

Contingent liabilities

As at 31 December 2004, the Group had no material contingent liabilities.

Foreign exchange risk

Substantially all of the Group's revenues and operating costs were denominated in RMB. Proceeds from the new issue of shares in June 2004 were received in Hong Kong dollars. As such, the Group did not encounter any significant difficulties arising from, and its operating cashflow or liquidity was not subject to, any exchange rate fluctuations. The Group did not enter into any foreign exchange hedging arrangements during the year ended 31 December 2004.

Use of net proceeds from the new issue

The shares of the Company were successfully listed on the Main Board of the Hong Kong Stock Exchange on 28 June 2004, with a total number of offer shares of 273,038,000 shares (including shares issued as a result of the exercise of the over-allotment option), and the net proceeds from the new issue aggregated to HK\$559,101,000. As at 31 December 2004, the net proceeds from the new issue have been utilized as follows:

- approximately HK\$32,818,000 for the expansion and improvement of the coverage of distributorship and retail network;
- approximately HK\$19,652,000 for brand promotional and marketing activities;
- approximately HK\$4,870,000 for establishing our basic product research capabilities, developing new product series and setting up our design and R&D centre in Hong Kong; and
- approximately HK\$3,930,000 for improving management information systems and logistics operations.

As disclosed in the Listing Prospectus, the Group will continue to utilize the net proceeds from the new issue to finance our future development plans.

SUBSEQUENT EVENTS

On 15 January 2005, Beijing Li Ning Sporting Goods Co., Ltd, a subsidiary of the Company, entered into a marketing and advertising agreement with NBA Properties, Inc., the marketing and licensing arm of the National Basketball Association ("NBA", a recognized global leader in basketball and sports marketing). Under the agreement, the Group will utilize NBA's extensive marketing and media resources in the PRC market to promote the LI-NING brand, marking another milestone for international co-operation and brand development of the PRC sporting goods industry.

HUMAN RESOURCES

As at 31 December 2004, the Group had approximately 4,402 employees (31 December 2003: 3,131 employees).

In addition to offering basic remuneration packages and discretionary bonuses to employees, share options may also be granted to eligible employees based on the Group's and individual employee's performance. Prior to the Company's listing on the Hong Kong Stock Exchange, the Group granted options to 190 eligible employees to subscribe for 16,219,000 shares in the Company under a pre-IPO share option scheme.

SOCIAL RESPONSIBILITY

Our Company seriously considers our responsibility towards society, actively participates in various social services, to fulfill the responsibility of a good corporate citizen. During the year, we joined and supported charitable community activities in various forms. For instance, we sponsored the Promotional Walk for Beijing-Hong Kong Environmental Protection, which was organised by agencies including the Chinese Environmental Protection Fund, by providing a series of sports products. It was a charitable activity with an aim to promote environmental protection. Our staff members expressed their care and condolence in January 2005 in response to the tsunami of South Asia, by spontaneously organising a donation to help the victimised orphans.

STAFF TRAINING

Our Company always pays attention to the training of our staff members, and acknowledges the upbringing of our talents as a long-term strategy. In 2004, the Li Ning Learning and Development Centre was established to create a new platform for the upbringing of talents in our Company. Within the year we have held 5 orientation camps for new staff members, dozens of training projects of specific capabilities, to advance the skills of our staff at different levels and scopes.



Management Discussion and Analysis

OUTLOOK AND GROWTH STRATEGIES

According to PRC domestic statistics, aggregate retail sales of consumer products recorded a compound annual growth rate of 10.5% from 1995 to 2003, higher than GDP's compound annual growth rate of 9.1%. Per capita GDP and disposable income of urban households exceeded USD1,000 per year in 2003. According to statistics, there is a strong growth in domestic retail consumption, and remarkable change has taken place on the consumption pattern. Consumption on sports, health and entertainment has increased significantly and this pattern will bring attractive growth potentials to the business of the Group.

Moreover, the 2008 Beijing Olympic Games will significantly enhance public awareness of, and interest in, sports and fitness among the general public in the PRC, and thus stimulate the demand for sporting goods. The Group believes that, as a premier national sports brand in the PRC with solid business infrastructure, the Company is set to benefit from these market potentials.

Leveraging on advantages of its current distribution network coverage, the Group will continue to enhance its core competitive edges in product development, brand building and sales and marketing for a fully integrated sporting goods company. Our target is to further enhance such competitive edges by 2008. It is expected that by elevated product development capability, innovative ideas and improved application of proven technology, our products will be further upgraded. We will continue to enhance our unique market positioning with market targeted strategy, by focusing on core consumer group and types of sports with appropriate pricing and leveraging on the varying economic development of the geographical regions in China.

The Group will continue to strengthen its underlying capabilities, such as to reinforce supply chain management to quicken response to market demand and shorten inventory turnover, strengthen retail distribution channels, provide support to our distributors in product display and sales and marketing so as to increase the efficiency and profitability of outlets.

The Group's management strives to create quality sporting goods for consumers, to foster a spirit of satisfaction and dedication for employees and generate greater returns for shareholders and investors by leveraging the Group's competitive edges.

Corporate Governance Report

The Board of Directors and the management of the Company recognise their mission of creating values and maximising returns to the Shareholders, while at the same time fulfilling their social responsibilities. To this end, we are committed to promoting and upholding good corporate governance. Since the Company's listing on the Hong Kong Stock Exchange in June 2004, the Board of Directors and management have been devoted to achieving a high standard of corporate governance and maintaining a high level of transparency. We will continue to pursue this to ensure that the interests of the Group align with those of the Shareholders'.

THE BOARD OF DIRECTORS

Accountable to the Shareholders, the Board of Directors is responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies.

The Board of Directors comprises 10 Directors, including four executive Directors ("Executive Directors"), three non-executive Directors ("Non-Executive Directors") and three independent non-executive Directors ("Independent Non-Executive Directors"). The composition of the Board of Directors is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group. The Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group for the year under review.

The roles of the Chairman and the Chief Executive Officer are segregated. There is a clear distinction between the Chairman's responsibility for the management of the Board of Directors and the Chief Executive Officer's responsibility for the management of the day-to-day operations of the Group's business.

The Board of Directors meets at least four times a year and the Directors' attendance records for the meetings held during the year under review was 100%.

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of his or her independence as required under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"). As such, the Company considers all Independent Non-Executive Directors to be independent.

The Board of Directors has set up a number of committees to oversee the particular management and administrative functions of the Group, including:

- the Executive Committee;
- the Audit Committee; and



Corporate Governance Report

- the Remuneration Committee.

Each Committee reports regularly to the Board of Directors, addressing major issues and findings with valuable recommendations for the decision making of the Board of Directors. The particulars of these Committees are set out hereunder.

EXECUTIVE COMMITTEE

The Board of Directors has established an Executive Committee to enhance its efficiency. The Executive Committee comprises four Executive Directors, namely, Mr. Zhang Zhi Yong (chairman of the Committee), Mr. Li Ning, Mr. Tan Wee Seng and Mr. Chen Yi Hong and is delegated by the Board of Directors mainly for the following functions:

- formulating the Group's overall operational and financial plans for the approval by the Board of Directors;
- examining and approving strategic business directions at the subsidiary level;
- examining and approving financial arrangements of the companies of the Group within a limit approved by the Board of Directors; and
- deciding on the appointment and removal of the senior management staff of subsidiary companies.

The Board of Directors reviews the terms of reference of the Executive Committee annually to ensure the proper and appropriate delegation of authority to the Executive Committee.

AUDIT COMMITTEE

The Audit Committee is responsible for the review and supervision of the Group's financial reporting process and internal control system. Its members are all appointed from among the Company's Non-Executive Directors, with a majority being Independent Non-Executive Directors with professional qualifications and related financial management expertise. Headed by Mr. Koo Fook Sun, Louis as chairman of the Audit Committee, the other committee members include Ms. Wang Ya Fei and Mr. Stuart Schonberger. The main duties of the Audit Committee include:

- reviewing the completeness and accuracy of half yearly and annual financial statements;
- reviewing the internal control system and the internal audit programme and ensuring the smooth coordination between internal and external auditors;

- considering the appointment of the external auditors and the associated audit fees;
- reviewing the external auditors' qualifications, independence and performance;
- discussing with the external auditors before the audit commences, the nature and scope of the audit; and
- reviewing the external auditors' management letter and the management's response.

The Audit Committee met twice during the year under review to discharge its duties as mentioned above and the meetings were attended by all members of the Audit Committee, with attendance rate being 100%.

REMUNERATION COMMITTEE

The primary role of the Remuneration Committee is to regularly review human resource management policies, make recommendations on the compensation and benefit plans of directors and senior executives, as well as setting performance goals for senior executives of the Group. During the year under review, the Remuneration Committee consisted of five members, including Mr. Li Ning, Mr. Lim Meng Ann, Mr. Stuart Schonberger, Mr. Chan Chung Bun, Bunny and Ms. Wang Ya Fei. The Remuneration Committee met once in 2004 to discharge its functions and all members attended the meeting.

In the meeting of the Directors held on 29 March 2005, the composition of the Remuneration Committee has been adjusted and the members of the Remuneration Committee now comprise Ms. Wang Ya Fei as chairman of the Committee, Mr. Lim Meng Ann and Mr. Koo Fook Sun, Louis. This is in compliance with the new Appendix 14 – Code on Corporate Governance Practices of the Listing Rules effective mostly on 1 January 2005.

DIRECTORS' SECURITIES TRANSACTIONS

The Board of Directors has adopted the Model Code for Securities Transactions by Directors of Listed Issuers issued by the Hong Kong Stock Exchange as its own code governing securities transactions of the Directors. Since the Company's listing on the Hong Kong Stock Exchange on 28 June 2004, all the Directors complied with their obligations under the said Code regarding their securities transactions.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules (in force before 1 January 2005) since the Company's listing on the Hong Kong Stock Exchange on 28 June 2004.



Corporate Governance Report

INTERNAL CONTROL

We endeavour to establish sound and efficient internal control to safeguard the Company's assets and Shareholders' investment. The Chief Executive Officer and the Chief Financial Officer, in joint effort with the Audit Committee, the Internal Audit Department and the external auditors, regularly review the Group's operations at financial and operational levels, ensuring that compliance controls and risk management measures and procedures are properly implemented. The Internal Audit Department, which plays a crucial role in monitoring day-to-day internal control, has direct access to the Audit Committee and reports directly to the Chief Financial Officer. The Internal Audit Department, external auditors and the management have joined hands to improve the internal control systems and procedures. During the year under review, the Internal Audit Department reviewed the key operations of the Group, identified areas of concern and held constructive communications with the Audit Committee.

COMMUNICATION WITH SHAREHOLDERS

The Board of Directors recognises the importance of maintaining clear, timely and effective communication with Shareholders and investors. We are dedicated to providing quality and timely disclosure of information to enhance transparency. Information on the Group's business activities and financial performance is disseminated through the distribution of press releases, press conferences, announcements, and interim and annual reports.

With a view to achieve timely and fair disclosure, we have established an Investor Relations Department, which works closely with external professional consultants to handle enquiries from Shareholders and investors throughout the year. In addition, the Company participates in investor forums held in Mainland China, Hong Kong and abroad. It also organises briefings and meetings with analysts and fund managers to enhance their understanding of the Group.

As a further step to offer easily accessible corporate information to investors and media, the Group also maintains an up-to-date corporate website www.lining.com and www.irasia.com/listco/hk/lining that provide information on the Group's establishment, financial performance and latest business developments.

The Company appraises its annual general meeting as an important channel for having face-to-face dialogue with Shareholders. The first annual general meeting of the Company will be held on 12 May 2005. There, the Directors and key executives of the Group will answer and explain to Shareholders issues relating to the Group's business strategies and financial results.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. LI Ning (李寧), aged 42, is the Group's Chairman and founder of the LI-NING brand and an Executive Director. He is primarily responsible for the Group's overall corporate strategies, planning and business development.

Mr. Li is one of the most outstanding athletes in the 20th century. In the 6th World Cup Competition in 1982, Mr. Li won six gold medals for men's artistic gymnastics and was named "體操王子" (the "Prince of Gymnastics") in the PRC. In the 23rd Los Angeles Olympic Games in 1984, he won three gold medals, two silver medals and one bronze medal, making him the athlete winning the most medals of that Olympic Games. In 1987, Mr. Li became the only Asian member of Athlete's Commission of the International Olympic Committee. From 1993 to 2000, he has served as a member of the Men's Artistic Gymnastics Technical Committee of the Federation Internationale De Gymnastique. In 1999, he was voted one of the "World's Most Excellent Athletes in the 20th Century" by the World Sports Correspondent Association.

After retiring in 1989, Mr. Li initiated the idea of the LI-NING brand with the goal of creating the first national sporting goods brand in the PRC. He has dedicated the past 15 years to expanding and promoting the Group's business, as well as developing China's sporting goods industry. Mr. Li has a bachelor's degree in law from Peking University (北京大學) and has completed the executive M.B.A. programme of Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002.

Mr. ZHANG Zhi Yong (張志勇), aged 36, is the Chief Executive Officer and an Executive Director, and an executive director and the general manager of Li Ning Sports (Shanghai) Company Limited ("Shanghai Li Ning"). He joined the Group in December 1992. He was a finance manager of Beijing Li Ning Sporting Goods Co., Ltd. ("Beijing Li Ning"), the financial controller of Beijing Li Ning since April 1999 and has been the general manager of Beijing Li Ning since March 2001. Mr. Zhang is primarily responsible for the overall development, sales and marketing of the LI-NING brand products. He has over 10 years of experience in financial and marketing management. Mr. Zhang has a bachelor's degree from Beijing College of Economics (北京經濟學院) and has completed the executive M.B.A. programme of Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002.

Mr. TAN Wee Seng (陳偉成), aged 49, is the Chief Financial Officer, an Executive Director, qualified accountant and one of the joint company secretaries of the Company. He joined the Group in January 2003. Mr. Tan is primarily responsible for the Group's overall financial management, capital planning and allocation, company secretarial and investors relation. He has over 27 years of experience in the fields of financial, operations and business management. Prior to joining the Group, he held various management positions in a number of multinational corporations. From 1999 to 2002, Mr. Tan has been the senior vice president of China, Mongolia and North Korea regions and Head of Information and Trading Systems of Reuters China. Prior to that, he was the managing director of a Reuters Hong Kong subsidiary, AFE Computer Services Limited (a major domestic equity and financial information services company branded under the Stock Market Channel), as director of its Australia subsidiary, Infocast Pty Limited and as the Reuters East Asia regional finance manager respectively. He is a member of the Chartered Institute of Management Accountants.



Directors and Senior Management

Mr. CHEN Yi Hong (陳義紅), aged 47, is an Executive Director. He joined the Group in January 1991. Mr. Chen is primarily responsible for the Group's international brand licencing business and the overall management of the Group's sales and distribution functions. Prior to joining the Group, he was a manager of the shoes division of Guangdong Li Ning Sports Development Co., Ltd. ("Guangdong Li Ning"), the vice-general manager, general manager and chief executive officer of Beijing Li Ning and the vice-chairman of the National Volleyball Association (中國排球協會) in 2002. Mr. Chen has over 20 years of experience in the sporting goods industry.

Non-Executive Directors

Mr. LIM Meng Ann (林明安), aged 41, is a Non-Executive Director. He joined the Group in July 2003. Mr. Lim is senior vice president of, and is responsible for the investment activities in Greater China for GIC Special Investments Pte. Ltd., the private equity arm of Government of Singapore Investment Corporation Pte. Ltd., which he joined in 1997. Prior to that, he was an investment officer of International Finance Corporation, the private sector investment arm of the World Bank group, from 1993 to 1997. Mr. Lim has a B.Eng degree (first class honours) from University College London in 1987 and a M.B.A. degree from University of Strathclyde in 1993. He is also a Chartered Financial Analyst.

Mr. Stuart SCHONBERGER, aged 46, is a Non-Executive Director. He joined the Group in January 2003. Mr. Schonberger is a managing director of CDH China Holdings Management Company Limited, the management company for CDH China Fund, L.P., which is a private equity fund focused on investments in the PRC. Prior to joining CDH China Holdings Management Company Limited, he worked in the private equity group of China International Capital Corporation from 1998 to 2002. Prior to that, Mr. Schonberger worked for the First National Bank of Chicago in New York City. Mr. Schonberger received his M.B.A. degree from New York University's Graduate School of Business and B.A. degree from Wesleyan University. He is currently a director of GEM Services Inc. and eBIS Company Limited.

Mr. FONG Ching, Eddy (方正), aged 58, is a Non-Executive Director. He joined the Group in June 2004. Mr. Fong is a certified public accountant and was formerly a senior partner of PricewaterhouseCoopers, an international accounting firm. Apart from pursuing a professional career, Mr. Fong is active in public and community services in Hong Kong. He was appointed as a Justice of Peace in 1996 and awarded Silver Bauhinia Star in 2000 by the Government of Hong Kong. At present, he is a non-executive director of the Mandatory Provident Fund Schemes Authority and the Securities and Futures Commission, a council member of the Open University of Hong Kong and a member of the General Committee of the Federation of Hong Kong Industries. He is also an independent non-executive director of China Resources Power Holdings Company Limited and SUNeVision Holdings Limited, both are listed companies on the Hong Kong Stock Exchange. He graduated from the University of Kent in the United Kingdom and was also conferred as Honorary Doctor of Civil Law in 1997.

Independent Non-Executive Directors

Mr. KOO Fook Sun, Louis (顧福身), aged 48, is an Independent Non-Executive Director. He joined the Group in June 2004. Mr. Koo is the managing director of Hercules Capital Limited, a corporate finance advisory firm. He was the managing director and head of the corporate finance department of a major international bank, a director and chief executive officer of a company listed on the Main Board of the Hong Kong Stock Exchange. He currently also serves as an independent non-executive director of Weichai Power Company Limited and Midland Realty (Holdings) Limited (both are listed on the Main Board of the Hong Kong Stock Exchange). Mr. Koo graduated with a bachelor's degree in business administration from the University of California at Berkeley and is a certified public accountant.

Ms. WANG Ya Fei (王亞非), aged 49, is an Independent Non-Executive Director. She joined the Group in January 2003. Ms. Wang has 13 years of experience in management and corporate finance matters. Ms. Wang has been the director and deputy general manager of Beijing Investment Consultants Inc. since 1996. She has also been an associate professor in Guanghua School of Management of Peking University (北京大學光華管理學院) since 1995. She has a bachelor's degree in international politics from Shanghai Fudan University (上海復旦大學) and was an exchange scholar in Maryland University, College Park, the United States. She also has a M.B.A. degree from the University of Lancaster, the United Kingdom.

Mr. CHAN Chung Bun, Bunny (陳振彬), aged 47, is an Independent Non-Executive Director. He joined the Group in June 2004. Mr. Chan has more than 25 years of experience in the garment industry and is currently the chairman of Prospective Holdings Ltd. Mr. Chan is active in community affairs. He was appointed as a Justice of Peace in 2002 and is presently the chairman of Kwun Tong District Council. He is also the former chairman of Pok Oi Hospital.

COMPANY SECRETARIES

Mr. TAN Wee Seng (陳偉成), is one of our joint company secretaries. Mr. Tan's particulars are set forth in the paragraph headed "Directors" above.

Mr. Ng Wai Hung (吳偉雄), aged 41, is one of our joint company secretaries, together with Mr. Tan Wee Seng. Mr. Ng is a practising solicitor in Hong Kong and a partner in the law firm of Lu, Lai & Li. He has extensive experience in the area of securities law, corporate and commercial law and China trade. Mr. Ng is an independent non-executive director of four companies listed on the Hong Kong Stock Exchange. He has a bachelor's degree in laws from the University of Hong Kong and a master's degree in laws from University of London, the United Kingdom.



Directors and Senior Management

SENIOR MANAGEMENT

LI-NING brand

Mr. WU Xian Yong (伍賢勇), aged 33, is the marketing deputy general manager of Beijing Li Ning. He joined the Group in February 2004. Mr. Wu is primarily responsible for branding, marketing and product strategies of the LI-NING brand. Mr. Wu has 8 years of experience in marketing and brand management. Prior to joining the Group, he held various positions at various PRC subsidiaries of a multinational consumer goods company. He has a bachelor's degree from Xian Jiao Tong University (西安交通大學) and a bachelor's degree in international commerce from Renmin University of China (中國人民大學).

Mr. ZHANG Xiao Yan (張小岩), aged 42, is the deputy general manager of apparel products of Beijing Li Ning. Joining the Group in January 2004, Mr. Zhang is mainly responsible for the development and management (including planning, R&D and design) of the LI-NING brand apparel products. Mr. Zhang has 12 years of experience in products management. Prior to joining the Group, he held marketing positions at the PRC subsidiaries of various multinational consumer goods companies. He has a bachelor's degree and a master's degree from Beijing Diplomatic College (北京外交學院).

Mr. GUO Jian Xin (郭建新), aged 35, is the operation deputy general manager of Beijing Li Ning. He joined the Group in October 1997. Mr. Guo is primarily responsible for the procurement, manufacturing, quality control and logistics management of the LI-NING brand products. Mr. Guo has over 6 years of experience in logistics and procurement management. He studied mathematics in and graduated from South China Normal University (華南師範大學).

Ms. WANG Li (王鵬), aged 38, is the principal of information technology of Beijing Li Ning. She joined the Group in March 2000. Ms. Wang is primarily responsible for management information system of the LI-NING brand. Ms. WANG has over 10 years of experience in sales and operations management. She completed an executive M.B.A. programme from Guanghua School of Management of Peking University (北京大學光華管理學院) in 2003 and has a bachelor's degree from the University of Science and Technology Beijing (北京科技大學).

Mr. XU Wei Jun (徐偉軍), aged 36, is an assistant general manager of Beijing Li Ning. Mr. Xu is primarily responsible for analysing and devising strategic development plans of the LI-NING brand. He joined the Group in August 2001. Prior to joining the Group, he worked at the PRC subsidiaries of various multinational consumer goods companies. He has a bachelor's degree from Zhongshan University (中山大學).

Mr. YE Xue Feng (葉學鋒), aged 42, is the sales deputy general manager of Beijing Li Ning. Joining the Group in July 2004, Mr. Ye is mainly responsible for the formulation and implementation of the nationwide sales plan of the LI-NING brand, the overall management of the sales subsidiaries and the sports fashion department, the construction of the Group's sales channels, the formulation and execution of customer development strategy, etc. Before joining the Group, Mr. Ye worked for the PRC subsidiaries of various multinational companies, possessing more than 10 years of experience in sales management. He graduated from Fujian College of Traditional Chinese Medicine (福建中醫學院) with a bachelor's degree in medical science, and completed an executive M.B.A program from Ross Business School – British Leicester University in August 2001.

Mr. WU Wei Guo (吳偉國), aged 45, is the deputy general manager of footwear products of Beijing Li Ning. Joining the Group in January 2005, Mr. Wu is mainly responsible for the development and management (including planning, R&D and design) of the LI-NING brand footwear products. Prior to joining the Group, Mr. Wu worked at the PRC subsidiaries of various multinational companies with marketing and product management experiences. He has a bachelor's degree in business administration from University of Wisconsin of the United States.

Licenced international brand

Mr. QIN Da Zhong (秦大中), aged 36, is the general manager of Beijing Dong Xiang Sports Development Co., Ltd. ("Beijing Dong Xiang"). He joined the Group in 1997. Mr. Qin is primarily responsible for the overall development of the KAPPA brand business as well as the implementation of licenced international brand strategies. Mr. Qin has over 6 years of experience in the operation of sportswear companies. From 1997 to 2002, he held various positions at Beijing Li Ning where he was responsible for corporate planning, international business and financial control. Prior to joining the Group, he worked for the National Audit Office of the PRC (中國國家審計署). He has a bachelor's degree in economics from Zhongshan University (中山大學) and has completed the executive M.B.A. programme of Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002.

Ms. ZHONG Hua (鍾華), aged 35, is the director of manufacturing of Beijing Dong Xiang. She joined the Group in 2000. Ms. Zhong is primarily responsible for the procurement, manufacturing and operations management of the KAPPA brand products. Prior to her current position, she worked for Beijing Li Ning where she was responsible for international sales. Ms. Zhong has over 4 years of experience in the sporting goods industry. She has a bachelor's degree from Beijing University of Technology (北京工業大學).

Manufacturing and others

Mr. LIANG Yong Gen (梁永根), aged 39, is the deputy general manager of Guangdong Li Ning. He joined the Group in February 1992. Mr. Liang is primarily responsible for the management of our apparel manufacturing operations in Sanshui, the PRC. Mr. Liang has over 14 years of experience in accounting and 5 years of experience in operations management. He is a graduate of JiNan University (暨南大學).

Mr. XIE Tie Hua (謝鐵華), aged 44, is the director of operations of Foshan Li Ning Gymnastics School Service Co., Ltd. He joined the Group in May 1992. Mr. Xie is primarily responsible for managing the Group's gymnastics training school. Prior to joining the Group, Mr. Xie was from 1979 to 1985, a member of the Chinese National Gymnastics Team, and from 1989 to 1990, the coach of Japan's Osaka Gymnastics Club. Mr. Xie is a graduate of Jilin Gymnastics University (吉林體操大學).

Strategic planning and management

Mr. ZHANG Jian Hua (章建華), aged 33, is the investment and project manager of Shanghai Li Ning. He joined the Group in July 1998. Mr. Zhang is primarily responsible for the Group's capital planning, project management, investors relations and legal affairs. Mr. Zhang has over 10 years of experience in finance, audit, corporate finance and investment. He has a bachelor's degree from Shanghai University of Finance & Economics (上海財經大學) and is a member of the Chinese Institute of Certified Public Accountants.





Strong Financial Position



Report of Directors

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are branding development, design, manufacturing and sales of sports-related footwear, apparel and accessories sold under our own LI-NING brand and the KAPPA brand, which is exclusively licenced to us for use in the PRC and Macau.

There are no significant changes in the nature of these principal activities during the financial year.

THE ISSUE AND LISTING OF SHARES

The Company listed its shares on the Main Board of the Hong Kong Stock Exchange on 28 June 2004 and offered and issued 273,038,000 shares (including the shares issued upon the exercise of the over-allotment option) by way of public offer in Hong Kong and international placing at an issue price of HK\$2.15 per share.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2004 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 60 to 108 of this annual report.

The Directors recommended the payment of a final dividend of RMB4.57 cents (equivalent to HK4.30 cents) (2003: Nil) per share in respect of the year ended 31 December 2004. No interim dividend was paid for the year ended 31 December 2004. The translation of RMB into Hong Kong dollars is made, for illustration purpose only, at the rate of HK\$1.00=RMB1.0638. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be the official fixing exchange rate of RMB against Hong Kong dollars as quoted by the People's Bank of China on 12 May 2005, being the date on which the dividend is proposed to be approved by the shareholders of the Company at its annual general meeting.

The dividend will be payable on or about 20 May 2005 to the shareholders whose names appear on the register of members of the Company on 12 May 2005. The register of members of the Company will be closed from Monday, 9 May 2005 to Thursday, 12 May 2005 (both days inclusive). In order to qualify for the above mentioned proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 6 May 2005.

RESERVES

As at 31 December 2004, distributable reserves of the Company amounted to RMB555,780,000 (2003: Nil). The movements in reserves during the year are set out in note 25 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Year ended 31 December	
	2004	2003
	% of total turnover	% of total turnover
Five largest customers	13.1	13.6
The largest customer	3.9	4.3
	% of total purchases	% of total purchases
Five largest suppliers	30.2	34.1
The largest supplier	9.1	8.3

All of the above five largest customers and suppliers of the Group are independent third parties. To the best knowledge of the Directors, none of the Directors, nor any shareholder or their respective associates, who own more than 5% of the issued share capital of the Company has any interests in any of the Group's five largest customers or five largest suppliers.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2004 are set out in note 23 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB75,000 (2003: RMB10,240,000).



Report of Directors

PROPERTY, PLANT AND EQUIPMENT

Details of the Group's property, plant and equipment are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 24 to the financial statements.

Details of the movements of share options of the Company during the year are set out in note 26 to the financial statements.

FOUR-YEAR FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 6 and 7 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights over shares of the Company under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2004 are set out in note 32 to the financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors

Mr. Li Ning	(appointed on 4 March 2004)
Mr. Zhang Zhi Yong	(appointed on 5 June 2004)
Mr. Tan Wee Seng	(appointed on 5 June 2004)
Mr. Chen Yi Hong	(appointed on 5 June 2004)

Non-Executive Directors

Mr. Lim Meng Ann	(appointed on 5 June 2004)
Mr. Stuart Schonberger	(appointed on 5 June 2004)
Mr. Fong Ching, Eddy	(appointed on 5 June 2004)

Independent Non-Executive Directors

Mr. Koo Fook Sun, Louis (appointed on 5 June 2004)

Ms. Wang Ya Fei (appointed on 5 June 2004)

Mr. Chan Chung Bun, Bunny (appointed on 5 June 2004)

In accordance with article 87 of the Company's articles of association, Mr. Chen Yi Hong, Mr. Stuart Schonberger and Mr. Chan Chung Bun, Bunny will retire by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

The biographical details of the Directors as at the date of this report are set out on pages 35 to 37 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Non-Executive and Independent Non-Executive Directors has entered into a service contract with the Company for a term of 3 years commencing on 28 June 2004 and thereafter shall continue from year to year until terminated by giving one month's notice in writing thereof by either party to the other.

No Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Connected Transactions" set out in this report and note 31 to the financial statements on "Significant Related Party Transactions", no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

SENIOR MANAGEMENT

The biographical details of the senior management as at the date of this report are set out on pages 38 to 39 of this annual report.



Report of Directors

EMOLUMENT POLICY

The Remuneration Committee reviews and recommends to the Board the framework of executive remuneration and its costs, and the remuneration package for each Executive Director. In framing the Group's remuneration policy, the Remuneration Committee receives advice from external consultants and taking into accounts of the Group's operating results, individual performance and comparable market conditions.

The determination of the remuneration of Non-Executive Directors is a matter for the Board of Directors as a whole. The Company reimburses reasonable expenses incurred by these Directors in the course of their duties as Directors.

Directors do not participate in decisions on their own remuneration packages.

PENSION SCHEMES

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. 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. The Group also participates in the Mandatory Provident Fund Plan mandated by the government of Hong Kong which is a defined contribution retirement benefit plan. Contributions to these plans are expensed as incurred.

According to the aforesaid plans, the Group cannot forfeit contributions of the provident fund. The Group's contributions to retirement benefit scheme charged to the consolidated profit and loss account for the year ended 31 December 2004 is RMB16,255,000.

SHARE OPTION SCHEMES

Employee Share Purchase Scheme

As part of the reorganisation of the Group prior to the listing of the Company's shares on the Hong Kong Stock Exchange, Mr. Li Ning, a substantial shareholder and Chairman of the Company has, through Alpha Talent Management Limited ("Alpha Talent"), established the Employee Share Purchase Scheme (the "ESP Scheme"). Under the ESP Scheme, Mr. Li transferred 35,250,000 of the Company's shares beneficially owned by him to Alpha Talent. The objectives of 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 shall determine, among other things, the employees of the Group who shall be selected to receive options, the exercise price, the terms and conditions of the options.

As at 31 December 2004, options to purchase for 25,230,000 shares of the Company held by Alpha Talent have been granted under the ESP Scheme to 3 Executive Directors of the Company and 28 employees of the Group. During the year, no options have been exercised to purchase the shares of the Company. Details of the outstanding options as at 31 December 2004 were as follows:

	Number of share options granted on 8 June 2004	Number of share options 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
	<u>25,230,000</u>	<u>(600,000)</u>	<u>24,630,000</u>				



Report of Directors

Pre-IPO Share Option Scheme

The Company has adopted a pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) with the purpose 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 Group including the 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. The exercise price per share is HK\$1.8275, being 15% discount to the price for each share upon the initial public offering of the Company’s shares on the Hong Kong Stock Exchange. HK\$1 is payable by the grantee who accepts the grant of an option. The option period of all options granted does not exceed 10 years. No further options will be offered or granted pursuant to the Pre-IPO Share Option Scheme upon the listing of the shares of the Company on the Hong Kong Stock Exchange on 28 June 2004. No options have been vested as at 31 December 2004. Details of movements of share options under the Pre-IPO Share Option Scheme are as follows:

	Number of share options granted on 5 June 2004	Number of share options 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
	<u>16,219,000</u>	<u>(578,000)</u>	<u>15,641,000</u>				

The Directors have not valued the options granted during the year as a number of factors critical for the valuation cannot be determined accurately.

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 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, the Board of Directors of the Company 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 stated in the Hong Kong Stock Exchange'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'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 of the Company which 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. In addition, subject as provided under the Listing Rules, the total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme, together with all options to be granted under any other share option schemes of any member of the Group, must not represent more than 10% of the nominal amount of all the issued shares as at 28 June 2004, being the date of the listing of the shares of the Company on the Hong Kong Stock Exchange. Therefore, as at the date of this annual report, the Company may grant options in respect of up to 98,606,200 shares of the Company (or such numbers of shares as shall result from a sub-division or a consolidation of such 98,606,200 shares from time to time) to participants under the Share Option Scheme. 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 grant.



Report of Directors

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 options have been granted by the Company under the Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, the interests and short positions of the Directors in the shares (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules of the Hong Kong Stock Exchange, were as follows:

Mr. Li Ning

Interest in the Shares	Number of Shares held	Type of interest	Approximate % in total issued share capital
<i>Long position</i>			
– Shares	405,424,000	Corporate	39.63
<i>Short position</i>			
– Shares	25,230,000	Corporate	2.47

Note: Mr. Li Ning is taken to be interested in an aggregate of 405,424,000 Shares held by Victory Mind Assets Limited, Champion Link Capital Limited and Alpha Talent Management Limited respectively as follows:

- (a) 220,174,000 Shares are held by Victory Mind Assets Limited which is owned as to 62.106% by Mr. Li Ning. Mr. Li Ning is taken to be interested in 220,174,000 Shares that Victory Mind Assets Limited is interested. Mr. Li Ning is a director of Victory Mind Assets Limited.
- (b) 150,000,000 Shares are held by Champion Link Capital Limited. The entire interest in Champion Link Capital Limited is held by Dragon City Management Limited in its capacity as trustee of the Three-River Unit Trust, of which the units in issue are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko Trust. Both of the Palm Trust and the Gingko Trust are irrevocable discretionary trusts, the objects of which include the respective family members of Mr. Li Ning and his brother, Mr. Li Chun. Mr. Li Ning is the settlor of the Palm Trust and is taken to be interested in 150,000,000 Shares that Champion Link Capital Limited is interested. Mr. Li Ning is a director of Champion Link Capital Limited and Dragon City Management Limited.
- (c) 35,250,000 Shares are held by Alpha Talent Management Limited, which is established and solely owned by Mr. Li Ning for the purpose of holding the relevant Shares under the ESP Scheme. Mr. Li Ning is taken to be interested in 35,250,000 Shares that Alpha Talent Management Limited is interested. Mr. Li Ning is a director of Alpha Talent Management Limited.

Mr. Li Ning is taken to have a short position in 25,230,000 Shares, among the total of 35,250,000 Shares, held by Alpha Talent Management Limited in the Company. As at 31 December 2004, Alpha Talent had granted options to purchase 25,230,000 Shares pursuant to the ESP Scheme and no options had been exercised to subscribe for such shares under the ESP Scheme. Mr. Li Ning is the sole shareholder of Alpha Talent Management Limited, a controlled corporation of Mr. Li Ning, he is thus taken to have a short position in the 25,230,000 Shares.

Mr. Zhang Zhi Yong

Interest in the Shares	Number of Shares/ options held	Type of interest	Approximate % in total issued share capital
<i>Long position</i>			
– Shares and options	15,047,000	Personal	1.47

Note: Mr. Zhang Zhi Yong is taken to be interested in a total of 15,047,000 Shares. In addition to the 3,700,000 Shares held upon completion of the share offer of the Company in June 2004, Mr. Zhang Zhi Yong is also taken to be interested as a grantee of options to purchase 9,750,000 Shares under the ESP Scheme and options to subscribe for 1,597,000 Shares under the Pre-IPO Share Option Scheme.

Mr. Tan Wee Seng

Interest in the Shares	Number of options held	Type of interest	Approximate % in total issued share capital
<i>Long position</i>			
– Options	3,987,000	Personal	0.39

Note: Mr. Tan Wee Seng is interested in a total of 3,987,000 Shares of the Company. He is taken to be interested as a grantee of options to purchase 2,700,000 Shares under the ESP Scheme and options to subscribe for 1,287,000 Shares under the Pre-IPO Share Option Scheme.



Report of Directors

Mr. Chen Yi Hong

Interest in the Shares	Number of Shares/ options held	Type of interest	Approximate % in total issued share capital
Long position			
– Shares and options (Note 1)	19,486,000	Personal interest, Family interest	1.90

Interest in associated

**corporation – 北京動向
體育發展有限公司**

**Beijing Dong Xiang Sports
Development Co., Ltd.
("Beijing Dong Xiang")**

	Number of shares held	Type of interest	Approximate % in total registered capital
Long position			
– Equity interest (Note 2)	–	Corporate interest	20

Notes:

1. Mr. Chen Yi Hong is interested in 15,926,000 Shares registered in his name and is additionally taken to be interested in the 2,810,000 Shares registered in the name of his wife, Ms. Liu Pei Ying. Mr. Chen Yi Hong is also taken to be interested as a grantee of options to purchase 750,000 Shares under the ESP Scheme.
2. Beijing Dong Xiang is a subsidiary of the Company. The registered capital of Beijing Dong Xiang is held as to 20% by Shanghai Lei De Sports Development Co., Ltd., which is owned as to 49.1% by Mr. Chen Yi Hong and is thus a controlled corporation of Mr. Chen Yi Hong. As Beijing Dong Xiang is a limited liability company established in the PRC with its issued capital represented by equity interest, Mr. Chen Yi Hong's interest in Beijing Dong Xiang is represented by a percentage of the equity interest and not by shares.

Save as disclosed above, so far as was known to any Director, as at 31 December 2004, none of the Directors or chief executives of the Company had any interest or short positions in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2004, the register of substantial shareholders maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital:

Name of shareholder	Number of Shares held	Capacity	Type of interest	Approximate % in total issued share capital
Li Chun (<i>Note 1</i>)	370,174,000 (Long position)	Interest of controlled corporation	Personal	36.18
Victory Mind Assets Limited (<i>Note 1(a)</i>)	220,174,000 (Long position)	Beneficial owner	Corporate	21.52
Champion Link Capital Limited (<i>Note 1(b)</i>)	150,000,000 (Long position)	Beneficial owner	Corporate	14.66
Dragon City Management Limited (<i>Note 1(b)</i>)	150,000,000 (Long position)	Trustee	Corporate	14.66
Cititrust (Cayman) Limited (<i>Note 1(b)</i>)	150,000,000 (Long position)	Trustee	Corporate	14.66
Tetrad Ventures Pte. Ltd. (<i>Note 2</i>)	149,737,500 (Long position)	Beneficial owner	Corporate	14.64



Report of Directors

Name of shareholder	Number of Shares held	Capacity	Type of interest	Approximate % in total issued share capital
Government of Singapore Investment Corporation (Ventures) Pte. Ltd. (Note 2)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	14.64
GIC Special Investments Pte. Ltd. (Note 2)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	14.64
Government of Singapore Investment Corporation Pte. Ltd. (Note 2)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	14.64
Minister of Finance (Incorporated) (Note 2)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	14.64
JPMorgan Chase & Co (Note 3)	48,686,000 (Long position)	Investment manager	Corporate	4.76
	15,912,000 (Long position)	Custodian Corporation/ Approved lending agent	Corporate	1.56
Fidelity International Limited	61,466,000 (Long position)	Investment manager	Corporate	6.01

Notes:

1. Mr. Li Chun is taken to be interested in an aggregate of 370,174,000 Shares held by Victory Mind Assets Limited and Champion Link Capital Limited, respectively, as follows:
 - (a) 220,174,000 Shares are held by Victory Mind Assets Limited which is owned as to 37.894% by Mr. Li Chun, and 62.106% by Mr. Li Ning, the brother of Mr. Li Chun. Victory Mind Assets Limited is a controlled corporation of Mr. Li Chun; and
 - (b) 150,000,000 Shares are held by Champion Link Capital Limited, which is wholly owned by Dragon City Management Limited in its capacity as trustee of the Three-River Unit Trust, which is a unit trust, the units of which are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko Trust. Both of the Palm Trust and the Gingko Trust are irrevocable discretionary trusts, the objects of which include the respective family members of Mr. Li Chun and his brother, Mr. Li Ning. Mr. Li Chun is the settlor of the Gingko Trust and is taken to be interested in the 150,000,000 Shares that Champion Link Capital Limited is interested.
2. 149,737,500 Shares are held by Tetrad Ventures Pte. Ltd., a wholly-owned subsidiary of Government of Singapore Investment Corporation (Ventures) Pte. Ltd., which in turn is a wholly-owned subsidiary of Minister of Finance (Incorporated). Tetrad Ventures Pte. Ltd. is also an investment vehicle managed by GIC Special Investments Pte. Ltd., the private equity investment arm of Government of Singapore Investment Corporation Pte. Ltd., which in turn is a wholly owned subsidiary of Minister of Finance (Incorporated).
3. 15,912,000 Shares are held in the lending pool by JPMorgan Chase & Co.
4. Mr. Li Ning is also a substantial shareholder of the Company. Please refer to the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" for the disclosure of interests of Mr. Li Ning.

Save as disclosed above, as at 31 December 2004, the Company has not been notified of any interests and short positions in the shares and underlying shares of the Company which is required to be recorded in the register kept under Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year, the Group had the following transactions which constituted continuing connected transactions under the Listing Rules:

1. *Sports organising and promotion framework agreement ("Sports Organising Agreement") between Beijing Li Ning and 北京一動體育發展有限公司 (Beijing Edo Sports Development Co., Ltd.) ("Beijing Edo Sports")*

Beijing Edo Sports is a limited company established in the PRC, which is owned as to 80% by Shanghai Ning Sheng Corporate Management Co., Ltd. ("Shanghai Ning Sheng"). By reason of the interests of Mr. Li Ning (an Executive Director and Chairman of the Company) and his family members in Shanghai Ning Sheng, Beijing Edo Sports is an associate of Mr. Li Ning and, hence, a connected person of the Company for the purposes of the Listing Rules.

Beijing Li Ning entered into the Sports Organising Agreement dated 1 January 2004 with Beijing Edo Sports for a term of three years commencing from 1 January 2004, under which Beijing Li Ning engaged Beijing Edo Sports to carry out joint promotion of sports events in return for organising fees payable to Beijing Edo Sports.



Report of Directors

Payments from Beijing Li Ning to Beijing Edo Sports for the year ended 31 December 2004 amounted to an aggregate of RMB2,640,000, which was below the relevant annual cap approved by the Hong Kong Stock Exchange as disclosed in the Listing Prospectus.

2. *Non-exclusive distributorship arrangement of KAPPA branded products by 北京動感九六體育用品有限公司 (Beijing Dong Gan Jiu Liu Sporting Goods Co., Ltd.) ("Dong Gan Jiu Liu")*

Dong Gan Jiu Liu is a limited company established in the PRC, which is owned as to 70% by Mr. Chen Yi Liang (a brother of Mr. Chen Yi Hong, an Executive Director and as to 30% by a company beneficially owned by the family members of Mr. Chen Yi Hong. Dong Gan Jiu Liu is an associate of Mr. Chen Yi Hong and, hence, a connected person of the Company for the purposes of the Listing Rules.

On 1 January 2004, Beijing Dong Xiang (as supplier), a subsidiary of the Company, and Dong Gan Jiu Liu (as non-exclusive distributor) entered into a non-exclusive distributorship framework agreement for the sale of KAPPA branded products for a term of three years commencing from 1 January 2004.

Transaction value for the distribution of licensed products between Beijing Dong Xiang and Dong Gan Jiu Liu for the year ended 31 December 2004 amounted to an aggregate of RMB15,509,000. The relevant annual cap approved by the Hong Kong Stock Exchange as disclosed in the Listing Prospectus was RMB14,000,000. An announcement was made by the Company on 2 December 2004 in relation to the revision of the annual cap for the year ended 31 December 2004 to RMB20,000,000.

3. *Non-exclusive distributorship arrangement of LI-NING branded products by 北京動感競技經貿有限公司 (Beijing Dong Gan Jing Ji Trading Co., Ltd.) ("Dong Gan Jing Ji")*

Dong Gan Jing Ji is a limited liability company established in the PRC, which is owned as to 60% by Mr. Chen Yi Liang and 40% by Mr. Chen Yi Yong. Both of Mr. Chen Yi Liang and Mr. Chen Yi Yong are brothers of Mr. Chen Yi Hong, an Executive Director. Dong Gan Jing Ji is an associate of Mr. Chen Yi Hong and, hence, a connected person of the Company for the purposes of the Listing Rules.

On 1 January 2004, Beijing Li Ning (as supplier) and Dong Gan Jing Ji (as non-exclusive distributor) have entered into a non-exclusive distributorship agreement for the sale of LI-NING branded products at a retail shop in Beijing for a term of three years commencing from 1 January 2004.

Transaction value for the distribution of products between Beijing Li Ning and Dong Gan Jing Ji for the year ended 31 December 2004 amounted to an aggregate of RMB911,000, which was below the relevant annual cap approved by the Hong Kong Stock Exchange as disclosed in the Listing Prospectus.

The Independent Non-Executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company has also confirmed to the Board of Directors in writing that the continuing connected transactions:

- (1) have received the approval of the Company's Board of Directors;
- (2) are in accordance with the pricing policies of the Group;
- (3) have been entered into in accordance with the relevant agreement governing the transactions; and
- (4) have not exceeded the respective cap.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year ended 31 December 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules (in force before 1 January 2005) since the Company's listing on the Hong Kong Stock Exchange on 28 June 2004.

Further information on corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 31 to 34 of this annual report.



Report of Directors

SUFFICIENCY OF PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained a sufficient public float since the Company's listing on the Hong Kong Stock Exchange on 28 June 2004.

ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") which are applicable for the year ended 31 December 2004. Our management is aware of a number of new and revised international financial reporting standards issued by the International Accounting Standards Board (the "new IFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new IFRSs in the financial statements for the year ended 31 December 2004. The management is in the process of making an assessment of the impact of these new IFRSs and has so far concluded that the adoption of IFRS 2 "Share-based Payment" would have an impact on the results of operations and financial position of the Group. Under the existing IFRSs, the provision of share options to employees and Directors did not result in a charge to the Group's profit and loss account. Under the new IFRSs, the Group will have to recognise share-based payment transactions in its financial statements, including charging to the profit and loss account the cost of the services received from its employees and Directors under the share option scheme measured by reference to the fair value of the share options granted. The management is in the process of assessing the impact of such new IFRSs on the Group's financial statements for the year ended 31 December 2005 including the related comparative figures. The Group has already commenced an assessment of the impact of other new IFRSs but is not yet in a position to state whether these new IFRSs would have a significant impact on its results of operations and financial position.

AUDITORS

PricewaterhouseCoopers will retire as auditors of the Company and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

LI Ning

Chairman

Hong Kong, 29 March 2005

Report of the Auditors

To the shareholders of

Li Ning Company Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the accompanying balance sheet of Li Ning Company Limited (the "Company") and the consolidated balance sheet of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") as at 31 December 2004, and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in shareholders' equity for the year then ended. The financial statements set out on pages 60 to 108 are the responsibility of the Company's management. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial positions of the Company standing alone and of the Group as at 31 December 2004, and the results of operations of the Group and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and comply with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 March 2005



Consolidated Profit and Loss Account

For the year ended 31 December 2004
(Expressed in RMB'000)

	Notes	2004 RMB'000	2003 RMB'000
Turnover	3	1,878,102	1,276,224
Cost of sales		(1,004,578)	(670,305)
Gross profit		873,524	605,919
Other revenue	4	17,399	8,146
Distribution expenses		(545,985)	(335,717)
Administrative expenses		(168,658)	(121,049)
Other operating income/(expenses)		15,163	(38,190)
Operating profit	5	191,443	119,109
Finance costs, net	6	821	(4,546)
Profit before taxation		192,264	114,563
Taxation	7	(57,486)	(22,029)
Profit after taxation		134,778	92,534
Minority interests	27	(1,339)	1,426
Profit for the year		133,439	93,960
Dividends	8, 25	86,753	65,772
Earnings per Share (RMB cents)	10		
– Basic		15.02	12.53
– Diluted		14.96	N/A

Consolidated Balance Sheet

As at 31 December 2004
(Expressed in RMB'000)

	Notes	2004 RMB'000	2003 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	89,399	81,484
Land use rights	14	4,057	4,264
Intangible assets	15	9,363	3,775
		102,819	89,523
Current assets			
Inventories	17	318,326	296,239
Accounts receivable	18	217,574	120,059
Other receivables and prepayments	19	81,424	37,469
Pledged bank deposits		66,212	—
Fixed deposits held at banks	20	372,508	—
Cash at bank and in hand	20	322,568	224,488
		1,378,612	678,255
Total assets		1,481,431	767,778
EQUITY AND LIABILITIES			
Share capital	24	108,563	79,568
Reserves	25	901,454	309,464
Shareholders' equity		1,010,017	389,032
Minority interests	27	17,208	15,869
LIABILITIES			
Current liabilities			
Trade payables	21	260,997	171,581
Other payables and accruals	22	138,102	91,608
Short-term borrowings	23	40,000	85,000
Taxation payable		15,107	14,688
Total liabilities		454,206	362,877
Total equity and liabilities		1,481,431	767,778

Approved by the Board of Directors on 29 March 2005.

ZHANG Zhi Yong
Executive Director & Chief Executive Officer

TAN Wee Seng
Executive Director & Chief Financial Officer



Balance Sheet

As at 31 December 2004
(Expressed in RMB'000)

	Notes	2004 <u>RMB'000</u>
ASSETS		
Non-current assets		
Investments in subsidiaries	16	<u>79,568</u>
Current assets		
Other receivables and prepayments	19	2,550
Pledged bank deposits		66,212
Fixed deposits held at banks	20	372,508
Cash at bank and in hand	20	<u>153,137</u>
		<u>594,407</u>
Total assets		<u>673,975</u>
EQUITY AND LIABILITIES		
Share capital	24	108,563
Reserves	25	<u>555,780</u>
Shareholders' equity		<u>664,343</u>
LIABILITIES		
Current liabilities		
Other payables and accruals	22	<u>9,632</u>
Total equity and liabilities		<u>673,975</u>

Approved by the Board of Directors on 29 March 2005.

ZHANG Zhi Yong
Executive Director & Chief Executive Officer

TAN Wee Seng
Executive Director & Chief Financial Officer

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2004
(Expressed in RMB'000)

		2004	2003
	<i>Notes</i>	RMB'000	RMB'000
Total shareholders' equity, at beginning of the year		389,032	215,578
Profit for the year	25	133,439	93,960
Dividends declared	25	(105,772)	(23,970)
Issuance of shares of a subsidiary		–	103,464
Net proceeds from placing and public offer of shares of the Company		593,318	–
Total shareholders' equity, at end of the year		1,010,017	389,032



Consolidated Cash Flow Statement

For the year ended 31 December 2004
(Expressed in RMB'000)

		2004	2003
	Notes	RMB'000	RMB'000
Cash flows from operating activities			
Cash inflow generated from operations	28(a)	191,484	112,192
Income tax paid		(57,067)	(19,018)
Net cash generated from operating activities		134,417	93,174
Cash flows from investing activities			
Purchase of property, plant and equipment		(31,145)	(22,282)
Purchase of intangible assets		(7,655)	(2,847)
Proceeds from disposals of property, plant and equipment		175	161
Interest received		1,356	1,123
Increase in fixed deposits at banks		(371,277)	–
Net cash used in investing activities		(408,546)	(23,845)
Cash flows from financing activities			
Proceeds from issuance of shares of			
– the Company		622,918	–
– a subsidiary		–	103,464
Share issuance cost paid		(29,600)	–
Proceeds from borrowings		90,000	85,000
Repayment of borrowings		(135,000)	(131,000)
Increase in pledged bank deposits		(66,212)	–
Dividends paid		(105,772)	(24,247)
Interest paid		(4,369)	(5,710)
Net cash generated from financing activities		371,965	27,507
Increase in cash and cash equivalents		97,836	96,836
Cash and cash equivalents at beginning of the year		224,488	127,652
Exchange gains on cash and cash equivalents		244	–
Cash and cash equivalents at end of the year	28(b)	322,568	224,488

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	2003
	RMB'000	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 RMB'000	Computer software RMB'000	Total 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	2004
	RMB'000	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	–
	<u>1,840</u>	<u>520</u>
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.