LI NING COMPANY LIMITED
（李寧有限公司）

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

HIGHLIGHTS OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2004

- Turnover rose by 47.2% to RMB1,878 million
- Operating profit grew by 60.7% to RMB191 million
- Net profit grew by 42.0% to RMB133 million
- Basic earnings per share increased by 19.9% to RMB15.02 cents
- Net profit margin is 7.1%
- Proposed final dividend of RMB4.57 cents (equivalent to HK4.30 cents) per share or a total amount of RMB46,753,000, representing 35% of the distributable profits for the year

ANNUAL RESULTS

The board of directors (the "Directors") of Li Ning Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004 together with comparative figures for 2003 as follows:

AUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNTS
For the year ended 31 December 2004
(Expressed in RMB'000)

	Notes	**2004**	2003
Turnover	*2*	**1,878,102**	1,276,224
Cost of sales		**(1,004,578)**	(670,305)
Gross profit		**873,524**	605,919
Other revenue		**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	*3*	**191,443**	119,109
Finance costs, net	*4*	**821**	(4,546)
Profit before taxation		**192,264**	114,563
Taxation	*5*	**(57,486)**	(22,029)
Profit after taxation		**134,778**	92,534
Minority interests		**(1,339)**	1,426
Profit for the year		**133,439**	93,960
Dividends	*6*	**86,753**	65,772
Earnings per share *(RMB cents)*	*7*		
– Basic		**15.02**	12.53
– Diluted		**14.96**	N/A

AUDITED CONSOLIDATED BALANCE SHEET
As at 31 December 2004
(Expressed in RMB'000)

	Notes	**2004**	2003
ASSETS			
Non-current assets			
Property, plant and equipment		**89,399**	81,484
Land use rights		**4,057**	4,264
Intangible assets		**9,363**	3,775
		102,819	89,523
Current assets			
Inventories		**318,326**	296,239
Accounts receivable	*8*	**217,574**	120,059
Other receivables and prepayments		**81,424**	37,469
Pledged bank deposits		**66,212**	–
Fixed bank deposits		**372,508**	–
Cash and cash equivalents		**322,568**	224,488
		1,378,612	678,255
Total assets		**1,481,431**	767,778
EQUITY AND LIABILITIES			
Share capital		**108,563**	79,568
Reserves	*12*	**901,454**	309,464
Shareholders' equity		**1,010,017**	389,032
Minority interests		**17,208**	15,869
LIABILITIES			
Current liabilities			
Trade payables	*9*	**260,997**	171,581
Other payables and accruals		**138,102**	91,608
Short-term borrowings		**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

Notes:

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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 included 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 accounts include the results of operations of the companies now comprising the Group 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 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 sports-related footwear, apparel and accessories.

Accounting estimates are an integral part of the financial statements prepared by the Group's management and are based upon the management's then-current judgements. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention. The accounting policies and methods of computation used in the preparation of these financial statements are consistent with those adopted for the preparation of Financial Information included in Appendix I headed "Accountants' Report" of the Company's listing prospectus dated 15 June 2004.

2. 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 branding, it operates in one business segment which is principally engaged in design, manufacturing and sales of sports-related footwear, apparel and accessories.

Secondary reporting format – geographical segment

All assets and operations of the Group for the year were located in the People's Republic of China ("PRC"). 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.

3. OPERATING PROFIT

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

	2004	2003
	RMB'000	*RMB'000*
Charging/(crediting)		
Amortisation of land use rights	**207**	207
Amortisation of intangible assets		
– 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	**178,580**	124,599
(Reversal of write-down)/write-down of inventories to net realisable value	**(5,201)**	11,873

4. FINANCE COSTS, NET

	2004	2003
	RMB'000	*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

5. TAXATION

	2004	2003
	RMB'000	*RMB'000*
Current taxation		
– Hong Kong profits tax *(note (a))*	**430**	–
– PRC current income tax *(note (b))*	**57,056**	22,029
	57,486	22,029

(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.

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

	2004	2003
	RMB'000	*RMB'000*
Profit before tax	**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.

6. DIVIDENDS

	2004	2003
	RMB'000	*RMB'000*
Dividend paid by RealSports to its then shareholders *(Note a)*	**40,000**	65,772
Final, proposed, of RMB4.57 cents (equivalent to HK4.30 cents; 2003: Nil) per ordinary share *(Note b)*	**46,753**	–
	86,753	65,772

(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 HK4.30 cents) per ordinary share for the year ended 31 December 2004. This proposed dividend is not reflected as a dividend payable in these accounts. The translation of RMB into Hong Kong dollars is made in this announcement, 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.

7. 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.

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

8. ACCOUNTS RECEIVABLE

	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).

During the year, the Group reduced provision for impairment of receivables 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:

	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

9. TRADE PAYABLES

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

	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

10. NET CURRENT ASSETS

As at 31 December 2004, the Group's net current assets amounted to approximately RMB924,406,000 (2003: approximately RMB315,378,000).

11. TOTAL ASSETS LESS CURRENT LIABILITIES

As at 31 December 2004, the Group's total assets less current liabilities amounted to approximately RMB1,027,225,000 (2003: approximately RMB404,901,000).

12. RESERVES

	Share premium	Capital reserves	Statutory reserve fund	Statutory staff welfare fund	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2003	–	61,732	37,479	14,885	101,476	215,572
Effect of Reorganisation	–	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
As 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	–	(40,000)	–	–	–	(40,000)
As at 31 December 2004	564,323	45,634	47,403	17,426	226,668	901,454

FINAL DIVIDEND

The Directors recommend the payment of a final dividend of RMB4.57 cents (equivalent to HK4.30 cents) per share for the year ended 31 December 2004 (2003: Nil), subject to approval by shareholders at the annual general meeting of the Company to be held on 12 May 2005. Please also refer to Note 6(b) above in relation to the translation of RMB into Hong Kong dollars for the purpose of payment of the final dividend in Hong Kong dollars for the year ended 31 December 2004. 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. No interim dividend has been paid by the Company for the year. Total final dividend amounts to RMB46,753,000 (2003: Nil), representing 35% of the distributable profits for the year.

BOOK CLOSURE

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 and these 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.

FINANCIAL REVIEW

The overall results of the Group for the year ended 31 December 2004 were encouraging. Turnover rose by 47.2% to RMB1,878,102,000; operating profit was RMB191,443,000, an increase of 60.7%; profit after tax was RMB134,778,000, an increase of 45.7%; net profit amounted to RMB133,439,000, which outperformed the profit forecast as set out in the Company's listing prospectus dated 15 June 2004 (the "Prospectus"). Return on shareholders' equity was 19.1%; net asset value per share was RMB115.63 cents; and debt to shareholders' equity ratio (i.e. total outstanding borrowings as a percentage of shareholders' equity) was 4.0%.

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				
	2004		2003		
	RMB'000	***% of total turnover***	*RMB'000*	*% of total turnover*	Year-on-year change (%)
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.

Breakdown of turnover by brand

	Year ended 31 December				
	2004		2003		
	RMB'000	***% of total turnover***	*RMB'000*	*% of total turnover*	Year-on-year change (%)
LI-NING	**1,772,559**	**94.4**	1,236,166	96.9	43.4
KAPPA	**105,543**	**5.6**	40,058	3.1	163.5
Total	**1,878,102**	**100.0**	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

	Notes	Year ended 31 December **2004** *% of total turnover*	2003 *% 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.

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 resulted from 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 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).

Other operating income/(expenses) primarily included write back of provision for doubtful debts and 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 RMB(821,000) from 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 as a result of 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.

Provision for doubtful debts

The policy for the provision for doubtful debts adopted by the Group remained unchanged as compared to that for the year ended 31 December 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 Stock Exchange of Hong Kong Limited (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 the form of retail stores and concession counters) in Beijing, Shanghai and in 11 provinces in the PRC.

During the year, there was a net increase of 742 new stores, representing a 34.6% growth over 2003, bringing the total to 2,887 stores. 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.

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 receivable turnover increased by 4 days to 33 days from 29 days in 2003, which maintained at a healthy level; and

- the average trade payable 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 an 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%).

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.

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 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 net proceeds from the new issue aggregated to HK$559,101,000. As at 31 December 2004, 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 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.

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, assist 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.

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

The Company is committed to the highest standards of corporate governance. Its Audit Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2004, with the management and the external auditors.

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

ANNUAL GENERAL MEETING

The first annual general meeting of the Company will be held on Thursday, 12 May 2005 at 11:00 a.m. A notice convening the annual general meeting will be published in the South China Morning Post and the Hong Kong Economic Times on or about 18 April 2005 and will be dispatched to the shareholders together with the Company's 2004 annual report.

As at the date of this announcement, the executive Directors of the Company are Mr. LI Ning, Mr. ZHANG Zhi Yong, Mr. TAN Wee Seng and Mr. CHEN Yi Hong. The non-executive Directors are Mr. LIM Meng Ann, Mr. Stuart SCHONBERGER and Mr. FONG Ching, Eddy. The independent non-executive Directors are Mr. KOO Fook Sun, Louis, Ms. WANG Ya Fei and Mr. CHAN Chung Bun, Bunny.

By Order of the Board
Li Ning Company Limited
LI Ning
Chairman

Hong Kong, 29 March 2005