LI NING COMPANY LIMITED
（李寧有限公司）

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE, 2004

HIGHLIGHTS OF INTERIM RESULTS 2004

- Group turnover rose by 51.8% to RMB789 million
- Net profit grew by 49.5% to RMB56 million
- Earnings Per Share: RMB7.45 cents
- Net profit margin: 7.1%, maintained at about the same level with the corresponding period last year

INTERIM RESULTS

The Board of Directors (the "Directors") of Li Ning Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June, 2004 together with comparative figures for the corresponding period are as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE, 2004

(Expressed in RMB'000)

		Unaudited Six months ended 30 June,	
	Notes	**2004**	2003
Turnover	*2*	**788,667**	519,442
Cost of sales		**(427,122)**	(281,583)
Gross profit		**361,545**	237,859
Other revenue		**8,269**	6,241
Distribution expenses		**(212,848)**	(128,796)
Administrative expenses		**(55,286)**	(52,493)
Other operating expenses		**(11,440)**	(7,082)
Operating profit	*3*	**90,240**	55,729
Finance costs, net	*4*	**(1,957)**	(2,551)
Profit before taxation		**88,283**	53,178
Taxation	*5*	**(32,139)**	(14,537)
Profit after taxation		**56,144**	38,641
Minority interests		**28**	(1,068)
Profit for the period		**56,172**	37,573
Dividends	*6*	**40,000**	–
Earnings per Share *(RMB cents)*	*7*		
– Basic		**7.45**	5.01
– Diluted		**7.45**	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE, 2004
(Expressed in RMB'000)

	Notes	**Unaudited 30 June, 2004**	Audited 31 December, 2003
ASSETS			
Non-current assets			
Property, plant and equipment	*8*	**84,340**	81,484
Land use rights	*9*	**4,160**	4,264
Intangible assets	*10*	**3,354**	3,775
		91,854	89,523
Current assets			
Inventories	*11*	**286,331**	296,239
Accounts receivable	*12*	**166,539**	120,059
Other receivables and prepayments	*13*	**75,689**	37,469
Cash and cash equivalents		**695,527**	224,488
		1,224,086	678,255
Total assets		**1,315,940**	767,778
EQUITY AND LIABILITIES			
Issued capital		**104,611**	8
Reserves		**735,683**	389,024
Owners' equity		**840,294**	389,032
Minority interests		**15,841**	15,869
LIABILITIES			
Current liabilities			
Trade payables	*14*	**158,231**	171,581
Other payables and accruals		**156,697**	91,608
Short-term borrowings		**90,000**	85,000
Taxation payable		**14,877**	14,688
Dividends payable		**40,000**	–
Total liabilities		**459,805**	362,877
Total equity and liabilities		**1,315,940**	767,778

Notes:

1 BASIS OF PREPARATION 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") to rationalise the structure of the Group in preparation for the listing of shares of the Company on The Stock Exchange of Hong Kong Limited on 28 June, 2004, 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. Details of the Reorganisation are set out in the section headed "Corporate Reorganisation" in Appendix VI of the Company's prospectus dated 15 June, 2004.

The unaudited condensed 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 unaudited condensed consolidated balance sheets have been prepared to present the financial position of the Group as at 30 June, 2004 and 31 December, 2003 as if the current group structure had been in existence since 1 January, 2003.

All significant intercompany transactions and balances between group companies are eliminated on consolidation.

These unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 – "Interim Financial Reporting" promulgated by the International Accounting Standards Board and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and methods of computation used in the preparation of these condensed unaudited consolidated financial statements are consistent with those adopted for the preparation of the Financial Information included in Appendix I headed "Accountants' Report" of the Company's 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 operated in one business segment which is the design, manufacturing and sales of sport-related footwear, apparel and accessories.

Secondary reporting format – geographical segment

All assets and operations of the Group for the current period were located in the People's Republic of China (the "PRC"), including Hong Kong Special Administration Region, which is considered as one geographical location in an economic environment with similar risk and returns. 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:

	Unaudited Six months ended 30 June,	
	2004	2003
	RMB'000	*RMB'000*
Charging/(crediting)		
Amortisation of land use rights	**104**	104
Amortisation of intangible assets	**1,174**	382
Costs of inventories recognised as expenses included in cost of sales	**407,279**	273,905
Depreciation on property, plant and equipment	**7,035**	3,713
Loss/(Gains) on disposals of property, plant and equipment	**17**	(675)
Operating lease rentals in respect of land and buildings	**32,125**	17,808
Accounts receivable – impairment charges for doubtful debt	**2,973**	5,794
Staff costs including directors' emoluments	**66,385**	46,085
Write-down/(write-back) of inventories to net realisable value	**4,747**	(2,157)

4 FINANCE COSTS, NET

	Unaudited Six months ended 30 June,	
	2004	2003
	RMB'000	*RMB'000*
Interest expense on bank borrowings		
Wholly repayable within 5 years	**2,469**	3,221
Interest income on bank balances and deposits	**(795)**	(724)
Net foreign currency exchange loss/(gain)	**92**	(15)
Bank charges	**191**	69
	1,957	2,551

5 TAXATION

	Unaudited Six months ended 30 June,	
	2004	2003
	RMB'000	*RMB'000*
PRC current income tax	**32,139**	14,537

Provision for PRC enterprise income tax is calculated based on the statutory tax rate of 33% of the assessable income of each of the companies now comprising the Group, 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:

	Unaudited Six months ended 30 June,	
	2004	2003
	RMB'000	*RMB'000*
Profit before tax	**88,283**	53,178
Tax calculated at a tax rate of 33%	**29,133**	17,549
Preferential tax rates on the income of certain subsidiaries	**(18,990)**	(9,941)
Expenses not deductible for tax purposes	**21,996**	6,929
Taxation charge	**32,139**	14,537

Deferred tax assets of approximately RMB29,779,000 as at 30 June, 2004 (2003: RMB28,549,000) in respect of provisions for accounts receivable and inventory and other expenses have not been recognised, as there is no reasonable certainty that the Group would obtain approvals from the relevant tax authorities.

6 DIVIDENDS

The Company was incorporated in the Cayman Islands on 26 February, 2004. During the period ended 30 June, 2004 no dividends have been paid or declared by the Company.

The dividend disclosed during the six months period ended 30 June, 2004 amounting to RMB40,000,000 represents a special distribution declared on 10 May, 2004 by RealSports, the intermediate holding company to its then shareholders.

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit attributable to shareholders for the six months period ended 30 June, 2004 of RMB56,172,000 (2003: RMB37,573,000) and the weighted average of 753,891,000 (2003: 750,000,000) shares issued during the period. 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 six months period ended 30 June, 2004 is based on the Group's net profit attributable to shareholders for the period of RMB56,172,000 and the weighted average of 754,393,000 shares. The weighted average number of shares used in the calculation comprises the 753,891,000 shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 502,000 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 period.

Diluted earnings per share has not been calculated for the six months period ended 30 June, 2003 as no dilutive potential shares were in existence during the period.

8 PROPERTY, PLANT AND EQUIPMENT

	Unaudited
	RMB'000
Six months ended 30 June, 2004	
Opening net book amount as at 1 January, 2004	81,484
Additions	10,365
Disposals	(474)
Depreciation charge	(7,035)
Closing net book amount as at 30 June, 2004	84,340
At 30 June, 2004	
Cost	142,392
Accumulated depreciation	(58,052)
Net book amount	84,340

9 LAND USE RIGHTS

	Unaudited *RMB'000*
Six months ended 30 June, 2004	
Opening net book amount as at 1 January, 2004	4,264
Amortisation charge	(104)
Closing net book amount as at 30 June, 2004	4,160
At 30 June, 2004	
Cost	5,390
Accumulated amortisation	(1,230)
Net book amount	4,160

10 INTANGIBLE ASSETS

	Unaudited Trademark *RMB'000*	Unaudited Computer software *RMB'000*	Unaudited Total *RMB'000*
Six months ended 30 June, 2004			
Opening net book amount as at 1 January, 2004	1,380	2,395	3,775
Additions	–	753	753
Amortisation charge	(41)	(1,133)	(1,174)
Closing net book amount as at 30 June, 2004	1,339	2,015	3,354
At 30 June, 2004			
Cost	1,526	5,319	6,845
Accumulated amortisation	(187)	(3,304)	(3,491)
Net book amount	1,339	2,015	3,354

11 INVENTORIES

	Unaudited 30 June, 2004 *RMB'000*	Audited 31 December, 2003 *RMB'000*
Raw materials	**4,821**	21,064
Work in progress	**5,871**	3,418
Finished goods	**295,815**	287,186
	306,507	311,668
Less: provision for impairment losses	**(20,176)**	(15,429)
	286,331	296,239

As at 30 June, 2004, inventories with net book value of approximately RMB61,276,000 (31 December, 2003: RMB34,619,000) were stated at realisable value.

12 ACCOUNTS RECEIVABLE

	Unaudited 30 June, 2004 *RMB'000*	Audited 31 December, 2003 *RMB'000*
Gross accounts receivable	**186,562**	137,109
Less: provision for impairment of receivables	**(20,023)**	(17,050)
	166,539	120,059

Include in accounts receivable is an amount due from a related company of RMB2,344,000 as at 30 June, 2004 (31 December, 2003: RMB2,894,000).

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

	Unaudited 30 June, 2004 *RMB'000*	Audited 31 December, 2003 *RMB'000*
0 – 30 days	**100,439**	83,767
31 – 60 days	**28,838**	24,832
61 – 90 days	**21,322**	8,568
91 – 180 days	**15,940**	7,621
181 – 365 days	**14,375**	7,101
Over 365 days	**5,648**	5,220
	186,562	137,109

13 OTHER RECEIVABLES AND PREPAYMENTS

	Unaudited 30 June, 2004 *RMB'000*	Audited 31 December, 2003 *RMB'000*
Advances to suppliers	**8,972**	10,765
Other receivables	**32,779**	11,916
Prepaid expenses	**33,938**	14,788
	75,689	37,469

14 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:

	Unaudited 30 June, 2004 *RMB'000*	Audited 31 December, 2003 *RMB'000*
0 – 30 days	**152,273**	163,764
31 – 60 days	**894**	1,455
61 – 90 days	**3,498**	5,692
91 – 180 days	**461**	611
181 – 365 days	**1,046**	49
Over 365 days	**59**	10
	158,231	171,581

15 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Foreign exchange risk

The Group mainly operated in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to foreign exchange risk during the six months ended 30 June, 2004. As at 30 June, 2004, cash and bank balances of approximately RMB132,861,000 were denominated in Renminbi (31 December, 2003: RMB147,536,000). The remaining cash and bank balances as at 30 June, 2004 comprised Hong Kong Dollars deposits of RMB521,631,000 equivalent and United States Dollars deposits of RMB41,035,000 equivalent (31 December, 2003: RMB76,952,000 deposits). The conversion of Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(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 rate is mainly attributable to its short-term borrowings. As at 30 June, 2004 and 31 December, 2003, the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of accounts receivables included in the unaudited condensed 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 receivables has been made in the unaudited condensed consolidated financial statements.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, accounts receivables 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.

16 HONG KONG GAAP RECONCILIATION

Except for some presentational differences, there is no material difference between International Financial Reporting Standards and accounting principles generally accepted in Hong Kong which might have significant effect on the unaudited condensed consolidated financial statements.

17 SUBSEQUENT EVENT

On 8 July, 2004, the Company exercised the over-allotment option pursuant to the initial public offer on the Main Board of The Stock Exchange of Hong Kong Limited and 36,976,000 additional shares of HK$0.10 each were issued at a price of HK$2.15 per share.

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with the Group's financial statements together with the accompanying notes, included elsewhere in this interim report.

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 design, research, supply chain management, marketing, distribution and retail capabilities.

- Our principal 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 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 Italy, 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 only manufacture a small portion of our apparel products.

FINANCIAL REVIEW

Financial highlights

Unaudited

	Six months ended 30 June,		**Year-on-year**
	2004	**2003**	**change (%)**
Profit and loss items	***RMB'000***	*RMB'000*	
Turnover	**788,667**	519,442	51.8
Gross profit	**361,545**	237,859	52.0
Operating profit	**90,240**	55,729	61.9
Net profit	**56,172**	37,573	49.5
Basic earnings per share *(RMB cent) (Note 1)*	**7.45**	5.01	48.7

Selected financial ratios

Gross profit margin (%)	**45.8**	45.8
Operating profit margin (%)	**11.4**	10.7
Net profit margin (%)	**7.1**	7.2
Effective tax rate (%)	**36.4**	27.3
Average inventory turnover (days) *(Note 2)*	**124**	161
Average accounts receivable turnover (days) *(Note 3)*	**33**	35
Average trade payable turnover (days) *(Note 4)*	**71**	73

Notes:

1. The calculation of basic earnings per share of the Company is based on a net profit of RMB56,172,000 for the six months ended 30 June, 2004 (six months ended 30 June, 2003: RMB37,573,000) and on the weighted average number of 753,891,000 shares (2003: 750,000,000 shares) in issue in 2004.

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 the number of days during the relevant period.

3. The calculation of accounts receivables turnover (days) is based on the average of opening and closing balance for accounts receivables divided by the turnover and multiplied by the number of days during the relevant period.

4. The calculation of trade payable turnover (days) is based on the average of opening and closing balance for trade payables divided by total purchases and multiplied by number of days during the relevant period.

Turnover

For the six months ended 30 June, 2004, turnover reached RMB788.7 million. This represents a remarkable increase of 51.8% against the same period last year, which was distressed by the Severe Acute Respiratory Syndrome ("SARS") outbreak in China during Spring 2003. Turnover growth was driven by expansion of our sales channels and range of products, as well as our increased advertising and promotional efforts.

Breakdown of turnover by product category

	Six months ended 30 June,				
	2004		2003		
	RMB'000	**% of total**	*RMB'000*	% of total	Year-on-year change (%)
Footwear	**238,147**	**30.2**	171,970	33.1	38.5
Apparel	**454,328**	**57.6**	283,674	54.6	60.2
Accessories	**96,192**	**12.2**	63,798	12.3	50.8
Total	**788,667**	**100.0**	519,442	100.0	51.8

During the six months ended 30 June, 2004, the Group recorded an overall increase in sales for all product categories compared to the corresponding period last year. This was mainly due to our managed effort to offer a wider range of products for both the LI-NING and KAPPA brands. Sales of apparel captured strong growth of 60.2% compared to the corresponding period last year, boosted by the availability of the wide variety of apparel goods. Sales of accessories also achieved a strong growth of 50.8%, and sales of footwear experienced a rise of 38.5%.

Breakdown of turnover by brand

	Six months ended 30 June,				
	2004		2003		
	RMB'000	**% of total**	*RMB'000*	% of total	Year-on-year change (%)
LI-NING	**754,567**	**95.7**	507,615	97.7	48.6
KAPPA	**34,100**	**4.3**	11,827	2.3	188.3
Total	**788,667**	**100.0**	519,442	100.0	51.8

During the six months ended 30 June, 2004, sales of LI-NING brand grew by 48.6% compared to the corresponding period last year. Sales of KAPPA brand grew by 188.3% due to the rapid growth of its sales channels and a gradual increase in turnover from stand-alone retail stores.

Percentage of turnover by sales channel

	Six months ended 30 June,	
	2004	2003
	% of total	% of total
PRC market		
Distributor sales	**75.2**	75.8
Concession sales	**11.6**	11.5
Retail store sales	**10.8**	9.0
International markets	**2.4**	3.7
Total	**100.0**	100.0

Percentage of turnover by geographical regions

		Six months ended 30 June,	
		2004	2003
	Notes	**% of total**	% of total
LI-NING brand			
PRC market			
Beijing and Shanghai		**9.9**	8.1
Central region	*1*	**12.3**	12.8
Eastern region	*2*	**22.2**	19.2
Southern region	*3*	**11.3**	12.5
Southwestern region	*4*	**8.1**	9.7
Northern region	*5*	**13.5**	14.2
Northeastern region	*6*	**13.1**	14.2
Northwestern region	*7*	**2.9**	3.3
International markets		**2.4**	3.7
KAPPA brand			
PRC market		**4.3**	2.3
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

In the six months ended 30 June, 2004, the Group's cost of sales was approximately RMB427.1 million, compared to RMB281.6 million in the corresponding period last year. The gross profit margin for the 2004 half-year period was 45.8%, staying close to the level achieved in the corresponding period last year, reflecting stable profitability and competitive pricing. The rapid growth in the sales volume showed little or no sign of erosion of gross profit margin.

Distribution and administrative expenses

In the six months ended 30 June, 2004, the Group's distribution expenses was approximately RMB212.8 million, compared to RMB128.8 million in the corresponding period last year. 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 accounted for 27.0% of our total turnover, compared to 24.8% in the corresponding period last year due to an increase in sales staff and new openings of directly-managed retail outlets, additional overhead costs for newly-opened retail outlets, and increased spending on marketing and promotional expenses for brand equity building.

In the six months ended 30 June, 2004, the Group's administrative expenses was approximately RMB55.3 million, compared to RMB52.5 million in the corresponding period last year. Our administrative expenses mainly include staff costs, office rental expenses, depreciation charges relating to office premises, and other general expenses. Administrative expenses decreased to 7.0% of our total turnover from 10.1% in the same period last year. Improvement in cost control of administrative expenses was mainly due to better economies of scale. Increase in administrative expenses of 5.0% was much less than the increase in sales revenue of 51.8%, thanks to improved management efficiency.

Other expenses

In the six months ended 30 June, 2004, the Group's other expenses were approximately RMB11.4 million, compared to RMB7.1 million in the corresponding period last year. The breakdown of other expenses is set out below.

	Six months ended 30 June,				
	2004		2003		
					Year-on-year change
	RMB'000	***%***	*RMB'000*	*%*	(%)
Provision for bad debts	**2,973**	**26.0**	5,786	81.7	(49)
Provision for obsolete and slow moving inventories	**4,747**	**41.5**	(2,157)	(30.5)	(320)
Others	**3,720**	**32.5**	3,453	48.8	7.7
Total	**11,440**	**100.0**	7,082	100.0	62

Our other operating expenses primarily include provision for bad debts and provision for obsolete and slow moving inventories, impairment charges, loss on disposal of property, plant and machinery and other operating expenses. Others comprise mainly expenses not incurred in the usual operation of the Group such as import sales tax expenses.

Finance costs and taxation

In the six months ended 30 June, 2004, finance costs decreased to RMB2.0 million, compared to RMB2.6 million in the corresponding period last year. Such decrease reflected our reduced level and better usage efficiency in bank borrowings.

In the six months ended 30 June, 2004, taxation charge was approximately RMB32.1 million, compared to RMB14.5 million in the corresponding period last year. Our effective tax rate was approximately 36.4% for the six months ended 30 June, 2004 compared to 27.3% in the same period in 2003.

Net profit

For the six months ended 30 June, 2004, the Group achieved net profit of RMB56.2 million, an increase of 49.5% compared to the corresponding period last year. Owing to the increase of our effective tax rate, net profit margin was approximately 7.1% compared to 7.2% in the corresponding period last year, notwithstanding that the operating profit margin rose from 10.7% to 11.4%. The growth in net profit was mainly attributable to: (i) strong growth in turnover boosted by expansion of our sales channels, the wider range of products as well as our increased advertising and promotional efforts, and recovery from the impact of SARS in the corresponding period last year, (ii) better economies of scale resulting in lowering of operating expenses; (iii) effective cost control that secured a stable net profit margin.

FINANCIAL CONDITIONS

Net asset value

As at 30 June, 2004, the Group's total net asset value was RMB856.1 million (31 December, 2003: RMB404.9 million). The net asset value per share was RMB113.6 cent per share (HK107.1 cent per share), versus RMB46.8 cent per share (HK44.1 cent per share) as at the same period last year. 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 on 28 June, 2004.

Liquidity and capital resources

For the six months ended 30 June, 2004, cash flow from operations was RMB32.9 million, which grew by 706.7% compared to the same corresponding period in 2003. The Group ended the period with RMB605.5 million of net cash (cash and cash equivalents less bank borrowings), an increase of RMB466.0 million over the net cash as at 31 December, 2003. Such increase included net proceeds of RMB509.6 million from the new issue of shares in June 2004, additional funding from the bank facilities of RMB5.0 million, after the dividend payment of RMB65.8 million, and capital expenditures of RMB10.6 million on the purchase of office and production facilities and refurbishment for fixed assets.

As at 30 June, 2004, the Group's cash and cash equivalents was RMB695.5 million (31 December, 2003: RMB224.5 million). Total outstanding borrowings amounted to RMB90.0 million (31 December, 2003: RMB85.0 million). Shareholders' equity amounted to RMB840.3 million (31 December, 2003: RMB389.0 million) and the Group was in a net cash position. The debt to equity ratio, expressed as a percentage of total outstanding borrowings over owner's equity, was 10.7% (31 December, 2003: 21.8%).

As at 30 June, 2004, all of our outstanding borrowings were unsecured, except for intra-group cross guarantees.

Contingent liabilities

As at 30 June, 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 six months ended 30 June, 2004.

BUSINESS REVIEW

The Group's businesses were established in 1989. In June 2004, the Company successfully completed its listing on the Main Board of The Stock Exchange of Hong Kong Limited, an important milestone that recognised the Group's leading market position, its business and financial strengths.

During the six months ended 30 June, 2004, we have continued to implement our growth strategies to reinforce our sales channels and distribution infrastructure, upgrade our product design and development capabilities, strengthen customers' brand awareness and loyalty to our products, and enhance our supply chain management for faster response and better efficiency.

Distribution and retail network

The Group continued to pursue the strategy of expanding its domestic sales channels. As at 30 June, 2004, the Group's domestic distribution and retail network consisted of:

– over 200 distributors operating 2,279 franchised retail outlets for the LI-NING and KAPPA brands all over the PRC; and

– a total of 334 retail outlets (in the form of retail stores and concession counters) in Beijing, Shanghai and in 11 provinces in the PRC.

Number of franchised and directly managed retail outlets:

	As at		
(Number)	**30 June, 2004**	31 December, 2003	Change (%)
LI-NING brand			
Franchised retail outlets	**2,099**	1,722	21.9
Directly-managed retail stores	**105**	87	20.7
Directly-managed concession counters	**217**	176	23.3
Total	**2,421**	1,985	22.0

KAPPA brand

Franchised retail outlets	**180**	144	25.0
Directly-managed retail stores	**4**	3	33.3
Directly-managed concession counters	**8**	13	(38.5)
Total	**192**	160	20.0

Overall

Franchised retail outlets	**2,279**	1,866	22.1
Directly-managed retail stores	**109**	90	21.1
Directly-managed concession counters	**225**	189	19.0
Total	**2,613**	2,145	21.8

During the period, we opened new flagship stores at prime locations in large cities with larger store space and modern store format and decoration, in order to boost our brand image and identity. In particular, our 620 sq.m. flagship store in Wangfujing in Beijing and our 200 sq.m. flagship store in Middle Huaihai Road in Shanghai were opened on 26 June and 1 May, 2004 respectively.

Sponsorship, marketing and promotional activities

During the period, the LI-NING brand sponsored the Chinese Olympic delegation for the 2004 Athens Summer Olympic Games. The LI-NING brand also sponsored various 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.

We employed advertising strategies to increase mass appeal of our sporting goods for our new footwear series such as soccer, basketball, tennis, running and fitness.

Our new advertising series "LI-NING: Flying High in China Sports" launched in April 2004 received an encouraging initial response in the PRC.

Product development

During the period, we continued to expand our range of sporting products to meet the needs of different sports-related consumer groups.

We 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 satisfactory response from the market.

Supply chain management

During the period, we achieved better efficiency and faster response to market changes for our supply chain management:

- we paced up our product development and order cycle by launching major sales events for our distributors in the PRC three times a year, instead of twice a year previously;

- we shortened our average inventory turnover to 124 days from 161 days as compared to corresponding period last year by improving inventory control and clearance measures;

- we lowered our average receivable turnover to 33 days from 35 days in the corresponding period last year due to our more stringent control on debtors; and

- our average payable turnover of 71 days stood at similar level with the corresponding period last year of 73 days.

The above improvements were results of the upgrade of management information systems and tighter internal control measures.

HUMAN RESOURCES

As at 30 June, 2004, the Group had approximately 3,909 employees (31 December, 2003: 3,131 employees).

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

OUTLOOK

The Group believes that the 2008 Beijing Olympic Games will significantly raise public interest for, and awareness of, sports and fitness among people in the PRC and thus stimulate demand for sporting goods. We believe that as premier national sports brand in the PRC, the Company is set to benefit from these market potentials. The Group will seek to strengthen its position as a leading sporting goods enterprise in the PRC, capturing new business opportunities to achieve sustainable growth in sales and profits.

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 strengths.

Purchase, Sale or Redemption of the Company's Shares

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the six-month period ended 30 June, 2004.

Audit Committee of the Company (the "Audit Committee")

The Audit Committee consists of three Non-executive Directors, two of whom are independent. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June, 2004 with the management.

In addition, the Group's external auditors, PricewaterhouseCoopers, have performed an independent review of the interim financial report for the six months ended 30 June, 2004 in accordance with the International Standard on Auditing applicable to review engagements issued by the International Federation of Accountants. On the basis of their review, which does not constitute an audit, PriceWaterhouseCoopers confirmed in writing that they are not aware of any material modifications that should be made to the interim financial report.

Code of Best Practice

In the opinion of the Directors, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period under review.

Disclosure of Information on the Stock Exchange's Website

Information that is required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) in due course.

By Order of the Board
Li Ning Company Limited
Li Ning
Executive Director & Chairman of the Board

As at the date of this announcement, the executive Directors 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.

Hong Kong, 10 September, 2004