LI NING COMPANY LIMITED

(李 寧 有 限 公 司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

HIGHLIGHTS OF 2005 INTERIM RESULTS

- Turnover rose by 40.0% to RMB1,104.3 million
- Profit attributable to equity holders grew by 42.6% to RMB78.3 million
- Basic earnings per share amounted to RMB7.65 cents (corresponding period last year: RMB7.28 cents)*
- Margin of profit attributable to equity holders was 7.1% (corresponding period last year: 7.0%)
- Declared an interim dividend of RMB2.30 cents (equivalent to HK2.21 cents) per ordinary share

* Excluding the effect of IFRS 2 adjustment, basic earnings per share amounted to RMB8.54 cents (corresponding period last year: RMB7.45 cents)

INTERIM RESULTS

The board of directors (the "Board" or "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 2005, together with the comparative figures for the corresponding period last year, as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the six months ended 30 June 2005
(Expressed in RMB'000 unless otherwise stated)

	Note	**Unaudited Six months ended 30 June 2005**	Unaudited Six months ended 30 June 2004 *(As restated – Note 2)*
Turnover	4	**1,104,307**	788,667
Cost of sales		**(573,677)**	(427,122)
Gross profit		**530,630**	361,545
Other gains		**10,677**	8,269
Distribution expenses		**(331,476)**	(213,291)
Administrative expenses		**(84,703)**	(56,112)
Other operating expenses		**(11,959)**	(11,440)
Operating profit	5	**113,169**	88,971
Finance costs, net	6	**6,355**	(1,957)
Profit before taxation		**119,524**	87,014
Taxation	7	**(40,740)**	(32,139)
Profit for the period		**78,784**	54,875
Attributable to:			
Equity holders of the Company		**78,313**	54,903
Minority interests		**471**	(28)
		78,784	54,875
Dividends	8	**23,533**	40,000
Earnings per share for equity holders of the Company (RMB cents)	9		
— Basic		**7.65**	7.28
— Diluted		**7.60**	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2005
(Expressed in RMB'000 unless otherwise stated)

	Note	Unaudited 30 June 2005	Audited 31 December 2004
			(As restated — Note 2)
ASSETS			
Non-current assets			
Property, plant and equipment		**87,962**	89,399
Land use rights		**3,953**	4,057
Intangible assets		**9,061**	9,363
		100,976	102,819
Current assets			
Inventories		**291,866**	318,326
Accounts and notes receivable	10	**261,052**	217,574
Other receivables and prepayments		**75,904**	81,424
Financial assets at fair value through profit or loss		**41,419**	—
Pledged bank deposits		**99,318**	66,212
Fixed deposits held at banks		**337,432**	372,508
Cash at banks and in hand		**149,136**	322,568
		1,256,127	1,378,612
Total assets		**1,357,103**	1,481,431
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**108,563**	108,563
Reserves		**941,973**	901,454
		1,050,536	1,010,017
Minority interests		**17,679**	17,208
Total equity		**1,068,215**	1,027,225
LIABILITIES			
Current liabilities			
Trade payables	11	**133,655**	260,997
Other payables and accruals		**134,168**	138,102
Short-term borrowings		**9,000**	40,000
Taxation payable		**12,065**	15,107

Total liabilities	**288,888**	454,206
Total equity and liabilities	**1,357,103**	1,481,431

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES

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

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after Balance Sheet Date
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 33 Earnings per Share
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 2 Share-based Payment
- IFRS 3 Business Combination
- IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

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

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

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

— IAS 1 has affected the presentation of minority interests and other disclosures.

— IAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

— IAS 24 has affected the identification of related parties and some other related-party disclosures.

3. NEW ACCOUNTING POLICIES

(a) Foreign currency translation

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

(b) Investments

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

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

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

(ii) *Loans and receivables*

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

(iii) *Held-to-maturity investments*

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

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

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

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

(c) Share-based payment

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

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

4. TURNOVER AND SEGMENT INFORMATION

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

Primary reporting format — business segment

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

Secondary reporting format — geographical segment

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

5. OPERATING PROFIT

Operating profit is stated after charging the following:

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

6. FINANCE COSTS, NET

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

7. TAXATION

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

Notes:

(a) Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit arising in Hong Kong for the six months ended 30 June 2005 (2004: 17.5%).

(b) Provision for PRC enterprise income tax is calculated based on the statutory tax rate of 33% of the assessable income of each of the group companies, except that certain subsidiaries of the Company are taxed at preferential tax rates of 15% based on the relevant PRC tax rules and regulations.

8. DIVIDENDS

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

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

9. EARNINGS PER SHARE

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

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

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

10. ACCOUNTS AND NOTES RECEIVABLE

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

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

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

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

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

11. TRADE PAYABLES

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

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

12. NET CURRENT ASSETS

As at 30 June 2005, the Group's net current assets amounted to approximately RMB967,239,000 (31 December 2004: approximately RMB924,406,000).

13. TOTAL ASSETS LESS CURRENT LIABILITIES

As at 30 June 2005, the Group's total assets less current liabilities amounted to approximately RMB1,068,215,000 (31 December 2004: approximately RMB1,027,225,000).

14. 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 transactions settled in Renminbi and did not have significant exposure to foreign exchange risk during the six months ended 30 June 2005.

(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. As at 30 June 2005 and 31 December 2004, the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) *Credit risk*

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

(b) Fair value estimation

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

The face values (less any estimated credit adjustments) of the Group's financial assets and liabilities with a maturity of less than one year, including cash at bank and in hand, time deposits, accounts and notes receivable and other receivables, trade payables, short-term borrowings and other payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

15. SUBSEQUENT EVENTS

(a) On 11 August 2005, the Company's shareholders resolved to transfer the entire equity interest in 北京動向體育發展有限公司 (Beijing Dong Xiang Sports Development Co., Ltd.), an 80% owned subsidiary of the Group, to 上海泰坦體育用品有限公司 (Shanghai Tai Tan Sporting Goods Co., Ltd.), a company controlled by Mr. Chen Yi Hong, an executive director of the Company, for consideration of RMB8,614,000.

(b) Subsequent to 30 June 2005, the Company issued 346,000 new shares of HK$0.10 each at a price of HK$1.8275 per share upon exercise of share options by its employees under the Pre-IPO Share Option Scheme.

(c) On 4 July 2005, the Company granted 15,921,000 share options to certain employees (including directors) under the Company's Share Option Scheme. Holders of these share options are entitled to purchase shares of the Company at an exercise price of HK$3.685 each. The options are vested gradually over two years from 4 July 2006 to 4 July 2008.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of RMB2.30 cents (equivalent to HK2.21 cents) per ordinary share for the six months ended 30 June 2005 (2004: Nil). The translation of RMB into Hong Kong dollars is made at the rate of HK$1.00 = RMB1.0418, being the official exchange rate of RMB against Hong Kong dollars as quoted by the People's Bank of China on 25 August 2005. The dividend will be payable on or about 30 September 2005 to the shareholders whose names appear on the register of members of the Company on 23 September 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 20 September 2005 to Friday, 23 September 2005 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim 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 Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 16 September 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"), with its own branding and capabilities of product research, development and design, supply chain management, marketing, distribution and retail networks. Our products, comprising sports footwear, apparel and accessories for sports and leisure use, are principally sold under our own proprietary LI-NING brand and the KAPPA brand, which was exclusively licensed to us in the PRC and Macau.

Financial Review

Highlights

The Group's unaudited consolidated results for the six months ended 30 June 2005 were very encouraging. Turnover grew by 40.0% to RMB1,104,307,000; operating profit rose by 27.2% to RMB113,169,000; profit after tax increased by 43.6% to RMB78,784,000 and profit attributable to equity holders of the Company grew by 42.6% to RMB78,313,000. Net asset value per share was RMB104.42 cents; and debt to equity holders' equity ratio (i.e. total outstanding borrowings as a percentage of equity holders' equity) was 0.9%.

Turnover

For the six months ended 30 June 2005, the Group's overall sales increased over the corresponding period last year by 40.0% to RMB1,104,307,000, driven by (i) the rapid expansion of our sales channels; (ii) success of our expanded product range, as well as (iii) defined and clear brand marketing strategy and promotion efforts.

Breakdown of turnover by product category

	Six months ended 30 June				
	2005		2004		
	RMB'000	***% of total turnover***	*RMB'000*	*% of total turnover*	***Period-on-period change (%)***
Footwear	**366,773**	**33.2**	238,147	30.2	**54.0**
Apparel	**648,936**	**58.8**	454,328	57.6	**42.8**
Accessories	**88,598**	**8.0**	96,192	12.2	**(7.9)**
Total	**1,104,307**	**100.0**	788,667	100.0	**40.0**

The launching of new styles in footwear and apparel products boosted the Group's sales. In particular, significant improvements in footwear designs combined with a realignment of the pricing of major products and reinforced product marketing efforts led to a strong growth of 54.0%. The sales growth of apparel products was 42.8%. Sales of accessories decreased by 7.9% over the corresponding period last year as a result of the Group's reduced emphasis on accessories.

Breakdown of turnover by brand

	Six months ended 30 June				
	2005		2004		
	RMB'000	***% of total turnover***	*RMB'000*	*% of total turnover*	***Period-on-period change (%)***
LI-NING	**1,026,527**	**93.0**	754,567	95.7	**36.0**
KAPPA	**77,780**	**7.0**	34,100	4.3	**128.1**
Total	**1,104,307**	**100.00**	788,667	100.0	**40.0**

As a result of the rapid expansion of sales channels and rollout of numerous new products, sales of the LI-NING brand during the six months ended 30 June 2005 rose by 36.0% over the corresponding period last year.

Percentage of turnover by sales channel

	Six months ended 30 June	
	2005	2004
	% of total turnover	*% of total turnover*
PRC market		
Distributor sales	**76.4**	75.2
Concession sales	**11.7**	11.6
Retail store sales	**10.6**	10.8
International markets	**1.3**	2.4
Total	**100.0**	100.0

Percentage of turnover by geographical location

		Six months ended 30 June	
		2005	2004
	Note	***% of total turnover***	*% of total turnover*
LI-NING brand			
PRC market			
Beijing and Shanghai		**8.5**	9.9
Central region	1	**11.8**	12.3
Eastern region	2	**23.3**	22.2
Southern region	3	**11.9**	11.3
Southwest region	4	**7.9**	8.1
Northern region	5	**14.6**	13.5
Northeastern region	6	**12.0**	13.1
Northwestern region	7	**1.7**	2.9
International markets		**1.3**	2.4
KAPPA brand			
PRC market		**7.0**	4.3
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

For the six months ended 30 June 2005, cost of sales amounted to approximately RMB573,677,000 (2004: RMB427,122,000). The overall gross profit margin on sales during the period rose to 48.1% as compared to 45.8% for the corresponding period last year due to a deliberate realignment of our pricing strategy and the success of our new product research and development efforts. Gross profit margins of footwear, apparel and accessories were approximately 47.4%, 48.9% and 44.5% respectively.

Distribution and administrative expenses

For the six months ended 30 June 2005, distribution expenses amounted to approximately RMB331,476,000 (2004: RMB213,291,000). Distribution expenses are primarily comprised of advertising and promotional expenses, salaries and benefits of sales staff, rental and renovation expenses of retail stores, sponsorship and other promotional expenses, which increased from 27.0% of the turnover for the corresponding period last year to 30.0% this year. This increase is primarily due to: (i) increases in the number of sales staff; (ii) additional overhead costs for new directly-managed retail stores and concession counters; and (iii) increased spending on marketing and advertising expenses for the brand building.

Our administrative expenses of approximately RMB84,703,000 (2004: RMB56,112,000) for the six months ended 30 June 2005 are primarily comprised of staff costs, office rentals, depreciation of office premises and other general expenses. The increase from 7.1% of the turnover for the corresponding period last year to 7.7% this year was primarily due to the adjustment effect of IFRS 2 "Share-based payment" as well as an increase in management staff as a result of the realignments of internal management and business organization structure in line with the Group's long-term strategy.

Other operating expenses

Other operating expenses amounted to approximately RMB11,959,000 (2004: RMB11,440,000) for the six months ended 30 June 2005.

Other operating expenses are primarily comprised of provision for doubtful debts, provision for obsolete and slow-moving inventories, loss on disposals of property, plant and equipment and other operating expenses.

Finance costs and taxation

For the six months ended 30 June 2005, our finance cost position was reversed from an expense of RMB1,957,000 for the corresponding period last year to an income of RMB6,355,000, which was primarily attributable to (i) decrease in interest expenses on bank borrowings as a result of the decrease in our bank borrowings to RMB9,000,000; and (ii) interest income derived from return of investments of the Group's cash and other financial assets.

For the six months ended 30 June 2005, tax expenses amounted to RMB40,740,000 (2004: RMB32,139,000). The effective tax rate was 34.1% (2004: 36.9%).

Profit attributable to equity holders

Our profit attributable to equity holders of the Company for the six months ended 30 June 2005 was approximately RMB78,313,000, an increase of 42.6% over RMB54,903,000 for the corresponding period last year. Net profit margin attributable to the equity holders of the Company for the period was 7.1%, which was slightly better in comparison to the corresponding period last year.

Our operating profit margin decreased from 11.3% to 10.2% primarily due to the adjustment of non-cash impact of IFRS 2. Excluding the adjustment for the adoption of IFRS 2 "Share-based payment" for the period and the corresponding period last year, the operating profit margin for both periods would have been 11.1% and 11.4% respectively. Period-on-period growth of profit attributable to equity holders without the

IFRS 2 effect would have been 55.7%. Our net profit margin attributable to the equity holders of the Company was also positively impacted by a lower effective tax rate of 34.1% compared to 36.9% for the corresponding period last year.

Basic earnings per share amounted to RMB7.65 cents (corresponding period last year: RMB7.28 cents). Excluding the effect of IFRS 2 adjustment, basic earnings per share amounted to RMB8.54 cents (corresponding period last year: RMB7.45 cents).

Provision for inventories

Inventories are stated at the lower of cost and net realizable value. In the event that net realizable value falls below cost, the difference is taken as a provision for inventories.

Our accumulated provision for inventories as at 30 June 2005 and 31 December 2004 amounted to approximately RMB18,720,000 and RMB10,228,000, respectively.

Provision for doubtful debts

Our policy in respect of provision for doubtful debts remained unchanged from the corresponding period last year.

Our accumulated provision for doubtful debts as at 30 June 2005 and 31 December 2004 amounted to approximately RMB12,583,000 and RMB10,020,000, respectively.

Business Review

The Group was established in 1989 and our business has been expanding rapidly since then. In June 2004, the Group successfully completed an initial public offering of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. Subsequent to our listing, the Company was honoured to be included as a constituent stock of the Hang Seng Composite Index Series and the Hang Seng Free Float Index Series in January 2005 and further as a constituent stock of the MSCI China Index in June 2005.

During the six months ended 30 June 2005, we continued to focus on our growth strategies to: (i) enhance brand awareness and customer loyalty to our products; (ii) upgrade our capabilities in product design and development; (iii) reinforce and expand our sales channels and distribution infrastructure; and (iv) improve our supply chain management for greater versatility and efficiency.

Sponsorships and marketing/promotional activities

During the six months ended 30 June 2005, the Group embarked on a number of marketing initiatives.

In 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 market leader in basketball and sports marketing with a global reputation. Under the agreement, the Group will utilize NBA's extensive marketing and media resources in the PRC market to promote the LI-NING brand. This partnership represents another milestone for the Company as a leader in China's sporting goods industry as it endeavors to broaden the scope of cooperation with international groups, as well as improve the marketing of the LI-NING brand.

In April 2005, the Group entered into a three-year deal with Netease, a leading Internet technology venture in the PRC, whereby the two parties agreed to work in close collaboration to launch the "Li-Ning Netease Sports Channel" (李寧網易體育頻道), an information exchange platform for the Internet population featuring professional and comprehensive coverage of sports news. Backed by a series of joint initiatives in promotional activities, marketing resources and corporate culture development, the channel will put together the power of sport in the Internet and accomplish the idea that "Anything is Possible". Meanwhile, NBA reports in greater depths were carried following the official strategic marketing alliance between "LI NING" and NBA to enable greater exposure to the NBA section. Coverage of the medal-winning national sports teams will also be enhanced, with emphasis on in-depth reports on the diving team, the table tennis team, the gymnastics team and the shooting team.

Further in April 2005, the Group entered into a partnership with Swarovski, the world renowned maker of crystal jewellery and decorations, pursuant to which Swarovski crystal inlays would be featured on LI-NING ladies' tennis wear, gymnastic suits and gymnastic footwear, adding a richer flavour of fashion content to the products.

The Group has increased public awareness of its new products (including basketball, running, soccer, tennis and gymnastic fitness products) with effective advertising strategies. In the PRC, "Anything is Possible", a statement representing the philosophy strongly advocated by the Group to underpin its advertising efforts, has become a popular catchphrase in daily life. According to a recent Internet poll conducted by a PRC newspaper, the LI-NING brand was selected by Internet users as one of the top three favourite brands in the sports wear category. Moreover, LI-NING was the only sporting goods brand named as one of "My Favourite PRC Brands 2005" in a campaign organized by CCTV.

Product development

During the period, through in-house research and development and extensive cooperation with international partners, the Group is developing an increasing range of products that will meet international standards both in terms of professional requirements and fashion trends.

In 2004, the Group started to launch different types of specialized footwear series (including soccer and basketball, tennis, running and fitness products), such as the professional "Tie" series soccer boots designed in honor of Chinese soccer star Li Tie. Our new basketball footwear series was also vastly popular in the market. In the recent Spring season, the Company launched in the PRC its RUN FREE ultra-light air-flow running shoes. Made with the ultra-light materials developed in-house, combined with imported leather material and the latest designs and craftsmanship, the new product has achieved an internationally advanced air-flow standard and received overwhelming response from the market.

The Group's design and research and development center in Hong Kong concentrates its effort on establishing the overall design features of the LI-NING brand products, formulating concepts and strategies in brand design, upgrading design technologies and concentrating on the design of high-end products with well-defined functions and identities. The center is also working with institutions and colleges in Hong Kong and overseas, including the Department of Sports Science & Physical Education of the Chinese University of Hong Kong, on various projects.

Distribution and retail network

We have established an extensive network of distributors and retailers with sales outlets throughout China, underpinned by a diversified combination of franchised retail outlets, directly-managed retail stores and concession counters. The Group continued to expand its domestic sales channels during the period. As at 30 June 2005, its domestic distribution and retail network comprised:

- Over 330 distributors operating 3,012 franchised retail outlets for the LI-NING and KAPPA brands across the country; and
- a total of 117 directly managed retail outlets and 253 concession counters in Beijing, Shanghai and 11 provinces in the PRC.

There was a net increase of 495 new stores for the period, bringing the total number of stores under the Group to 3,382. The Group's brand image and identity was greatly enhanced with the opening of spacious flagship stores featuring stylish display and decorations at prime locations in major Chinese cities. During the period, the newly opened flagship stores include the 1,600 square metre store at Jie Fang Road in Wuhan, the 880 square metre store at Zhong Shan Road in Xiamen and the 436 square metre store at East Main Street in Xi'an.

Supply chain management

An integrated supply chain management system is being implemented for all franchised and directly-managed retail outlets under the Group to provide centralized procurement, inventory and logistics services. As a result of effective supply chain management, the Group managed to respond to market changes in a more efficient and flexible manner during the period, as highlighted in the following:

- two large-scale sales fairs for distributors were organized during the period to shorten the turnover period for product development and order placements;
- the average inventory turnover was shortened to 97 days compared to 124 days for the corresponding period last year as a result of improved inventory management;
- the average accounts receivable turnover was maintained at a healthy level of 39 days, increased by 6 days compared to 33 days for the corresponding period last year; and
- the average trade payable turnover decreased by 6 days to 65 days from 71 days for the corresponding period last year.

Financial Conditions

Net asset value

As at 30 June 2005, the Group's total net asset value was RMB1,068,215,000 (31 December 2004: RMB1,027,225,000). Net asset value per share was RMB104.42 cents, as compared to RMB113.6 cents per share a year ago. The decrease in net asset value per share was mainly attributable to the additional issued shares outstanding during the six months ended 30 June 2005 against that in prior period as a result of the IPO of the Company's shares in June 2004.

Liquidity and capital resources

For the six months ended 30 June 2005, the Group's net cash outflow from operations amounted to RMB43,197,000, as compared to net cash inflow of RMB32,856,000 for the corresponding period in the previous year. The decrease in cashflow was mainly attributable to slightly longer turnover for sales amounts as more flexible but managed credit limits were granted to distributors in tandem with increased sales, while we continued to make payments to suppliers according to schedules stipulated in relevant contracts.

Net cash (cash and cash equivalents less bank borrowings) as at 30 June 2005 amounted to RMB140,136,000, representing a decrease of RMB142,432,000 compared to the net cash amount recorded on 31 December 2004. Such decrease comprised net cash outflow from operations amounting to RMB43,197,000 as stated above, dividend payments of RMB46,932,000, total net capital expenditure of RMB14,212,000 for the purchase of office and production facilities and refurbishment of fixed assets, an increase in short term investment of RMB41,419,000 in financial assets at fair value through profit or loss, interest expenses on bank borrowings amounting to RMB1,102,000, offset with interest income received amounting to RMB2,460,000 and net return on fixed deposits of RMB1,970,000.

As at 30 June 2005, the Group's cash and cash equivalents amounted to RMB149,136,000 (31 December 2004: RMB322,568,000). Total outstanding borrowings amounted to RMB9,000,000 (31 December 2004: RMB40,000,000). Equity holders' equity amounted to RMB1,050,536,000 (31 December 2004: RMB1,010,017,000). The Group was in a net cash position. The debt to equity holders' equity ratio, expressed as a percentage of total outstanding borrowings over equity holders' equity was 0.9% (31 December 2004: 4.0%).

As at 30 June 2005, the Group did not enter into any interest rate swaps to hedge against risks relating to interest rates.

Pledge of assets

As at 30 June 2005, fixed deposits amounting to RMB99,318,000 were pledged by the Group to secure bank borrowings in favor of its subsidiaries. As at 30 June 2005, notes receivable of the Group amounting to RMB9,000,000 were pledged to the bank as security of bank borrowings of RMB9,000,000.

Contingent liabilities

As at 30 June 2005, the Group had no material contingent liabilities.

Foreign exchange risk

The Group mainly operated in the PRC with most transactions settled in Renminbi and did not have significant exposure to foreign exchange risk during the six months ended 30 June 2005.

Corporate Restructuring

During the six months ended 30 June 2005, the Group conducted a corporate restructuring in respect of its wholly-owned subsidiary 北京李寧體育用品有限公司 (Beijing Li Ning Sporting Goods Co., Ltd. ("Beijing Li Ning")), which was mainly engaged in the sales of the LI-NING branded products. Prior to the restructuring, Beijing Li Ning was a domestic funded company established in the PRC with limited liability, owned as to 80% by 上海悦奧體育用品有限公司 (Shanghai Yue Ao Sporting Goods Co., Ltd. ("Shanghai Yue Ao")) and 20% by 佛山李寧體操學校服務有限公司 (Foshan Li Ning Gymnastics School Services Company Limited). After the restructuring, Beijing Li Ning was converted into a sino-foreign equity joint venture held as to approximately 75% by 李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Company Limited ("Shanghai Li Ning")), a wholly-owned subsidiary of the Company in the PRC and approximately 25% by Li Ning Sports (Hong Kong) Company Limited ("Hong Kong Li Ning"), a wholly-owned subsidiary of the Company in Hong Kong.

The purpose of the restructuring was to rationalize the shareholding structure of the Company to improve management and operational efficiency. The Group will continue to review and monitor Group structure, and to implement further restructuring as and when appropriate.

Joint Venture With AIGLE

On 30 June 2005, Li Ning Sports (Hong Kong) Company Limited ("Hong Kong Li Ning"), an indirect wholly owned subsidiary of the Company, entered into an agreement with AIGLE International S.A. ("AIGLE") to establish a 50/50 joint venture company in Hong Kong. Under the arrangement, the joint venture company will set up a wholly foreign-owned enterprise in the PRC, which will be granted the exclusive right by AIGLE to manufacture, market, distribute and sell garment and footwear products for outdoor leisure activities and extreme sports with the AIGLE trademarks in the PRC (excluding Hong Kong, Taiwan and Macau) for 50 years.

AIGLE is a world-renowned brand company that specializes in producing and distributing garment and footwear products for outdoor leisure activities. We believe the long-term strategic joint venture is conducive to the Group's objective of developing a multi-brand business, as well as enhancing our overall competitive strengths. By joining forces with AIGLE to develop the PRC market, the Company is set to benefit from the combination of AIGLE's worldwide reputation and extensive experience in designing garment and footwear products for outdoor leisure activities with the Group's vast sales and distribution network and leading position in the PRC sports market.

Disposal of Interests in KAPPA Brand Business

On 30 June 2005, Shanghai Yue Ao, a subsidiary of the Company, agreed to transfer its entire 80% equity interest in 北京動向體育發展有限公司 (Beijing Dong Xiang Sports Development Co., Ltd. ("Beijing Dong Xiang", a then subsidiary of the Company)) to 上海泰坦體育用品有限公司 Shanghai Tai Tan Sporting Goods Co., Ltd. ("Shanghai Tai Tan") for a consideration of RMB8,614,000 (the "Disposal"). Shanghai Tai Tan is a company owned as to 93% by Mr. Chen Yi Hong (an executive director of the Company) and his spouse and is therefore a connected person of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Concurrent with the Disposal, Shanghai Li Ning, a subsidiary of the Company, agreed to assign all its rights in the outstanding debts in the sum of RMB36,200,000 owed to it by Beijing Dong Xiang to Shanghai Tai Tan for a consideration of RMB36,200,000.

Beijing Dong Xiang is primarily engaged in the development, manufacturing, sales and distribution of all products related to, named or associated with the KAPPA brand. The KAPPA brand originates in Italy and is currently owned by the BasicNet Group. Pursuant to the license and distribution agreements and know-how license agreement between the BasicNet Group and Beijing Dong Xiang (the "Kappa License Agreements"), Beijing Dong Xiang has been granted the exclusive right to distribute KAPPA branded products in the PRC (including Macau but excluding Hong Kong and Taiwan) until 31 December 2007.

The Disposal was consistent with the Group's strategic repositioning to redirect its resources to focus primarily on the development of the Company's own brands or acquiring or establishing long term joint venture with international brands, such as the joint venture with AIGLE. As the KAPPA License Agreements represent only short term arrangements between the Group and the BasicNet Group that will expire on 31 December 2007, the Company will not be able to enjoy the added value of the KAPPA brand contributed by the Company in the long run through resources spent in the promotion of the Kappa brand when developing the business.

The Directors believe that the Disposal is beneficial to the business development of the Group and in the interest of the Company and its shareholders as a whole. The transaction was approved by independent shareholders of the Company at the extraordinary general meeting held on 11 August 2005.

Human Resources

As at 30 June 2005, the Group had about 3,699 employees (31 December 2004: 4,402 employees).

In addition to basic remuneration packages and discretionary bonuses for employees, share options may also be granted to eligible employees based on the Group's results and the performance of individual employees.

Outlook and Development Strategies

China's GDP grew 9.5% for the first six months of 2005. The retail sector continued to spearhead the nation's economic growth, with aggregate retail sales of consumer products consistently outgrowing GDP. The pattern of consumption is changing with increased disposable income and improved living standards, underpinned by higher expenditure on sports, healthcare and entertainment. Against this backdrop, the sporting goods industry of the PRC is well positioned for rapid growth.

Looking ahead, the 2008 Beijing Olympic Games are expected to generate a strong passion and motivation for sporting activities among the Chinese public, which the Group will endeavor to capitalise the opportunity of increasing demand for sporting goods. The Group believes that, as a premium sports brand in the PRC with solid business and financial infrastructure, it will benefit from these potential developments in the market.

The Group will continue to develop its core competitive strengths in product research and design and brand marketing. We will strive to make major progress in our core strengths to compete internationally by the end of 2008. For product development and design, plans have been established to increase our products' appeal to international market and enhance the professional standards of the LI-NING brand by improving its quality through innovative designs and technological improvements. The Group will also continue with its efforts to increase brand awareness by implementing comprehensive marketing strategies to enlarge customer loyalty and increasing preference for its products.

The Group will enhance its basic competencies to further expand its retail network of franchised retail outlets, directly-managed stores and concessions counters. Meanwhile, we will continue to improve our store image and display with a view to further elevating our brand profile and same store growth. We will also improve the management of our supply chain for better efficiency and effectiveness in our operation.

Apart from managing our own brands, the Group will also continue to seek opportunities for long-term cooperation with international brands, with a view to enhancing its competitive edge and intrinsic value.

By leveraging our competitive strengths, the Group's management is committed to launching premium sporting goods for customers, fostering job satisfaction for its employees and generating attractive returns for shareholders and investors.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance by continuing reviewing and enhancing corporate governance practices. During the period, the Board has reviewed the Company's governance practices in the light of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on Hong Kong Stock Exchange in force from 1 January 2005 and has taken action to comply with all the code provisions under the Code, including inter alia, the adoption of revised terms of reference for the Audit Committee and the Remuneration Committee as specified in the Code, the formation of a Nomination Committee and adoption of its written terms of reference as specified in the Code (which is being one of the recommended best practices under the Code). During the period, the Company has also engaged external professional adviser and initiated a project to review its financial, operational and compliance controls and risk management functions with a view to further enhance the effectiveness of the Group's internal control system. None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2005 interim financial information, in compliance with the applicable provisions of the Code.

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers issued by The Stock Exchange of Hong Kong Limited as its own code governing securities transactions of the Directors. During the six months ended 30 June 2005, all the Directors complied with their obligations under the said model code regarding their dealings in the shares of the Company.

The Audit Committee of the Company, consisting of three non-executive Directors (two of whom are independent non-executive Directors), 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 interim results for the six months ended 30 June 2005, with the management and the external auditors.

In addition, the Company's external auditors, PricewaterhouseCoopers, have performed an independent review of the interim financial information for the six months ended 30 June 2005 in accordance with the International Standards 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 nothing has come to their attention that causes them to believe that the interim financial information has not been properly prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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, 25 August 2005