



Anything is Possible



Li Ning Company Limited

(李寧有限公司)

(Incorporated in the Cayman Islands with limited liability)

Interim Report | **2005**

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. LI Ning (李寧) (*Chairman*)

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

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

Mr. CHEN Yi Hong (陳義紅)*

Non-Executive Directors

Mr. LIM Meng Ann (林明安)

Mr. Stuart SCHONBERGER

Mr. FONG Ching, Eddy (方正)

Independent Non-Executive Directors

Mr. KOO Fook Sun, Louis (顧福身)

Ms. WANG Ya Fei (王亞非)

Mr. CHAN Chung Bun, Bunny (陳振彬)

Executive Committee

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

Mr. LI Ning (李寧)

Mr. TAN Wee Seng (陳偉成)

Mr. CHEN Yi Hong (陳義紅)*

Audit Committee

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

Mr. Stuart SCHONBERGER

Ms. WANG Ya Fei (王亞非)

Remuneration Committee

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

Mr. LIM Meng Ann (林明安)

Mr. KOO Fook Sun, Louis (顧福身)

Nomination Committee

Mr. LIM Meng Ann (林明安)
(*Committee Chairman*)

Mr. KOO Fook Sun, Louis (顧福身)

Ms. WANG Ya Fei (王亞非)

Company Secretary

Mr. TAN Wee Seng (陳偉成) *ACMA*

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Registered Office

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

Principal Place of Business in Hong Kong

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* *Mr. CHEN Yi Hong will resign from all duties in the Company with effect from 1 September 2005.*

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Share Information

Stock Code: 2331
(Listed on the Main Board of
The Stock Exchange of Hong
Kong Limited)

Board lot: 2,000 shares

Websites

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

KEY FINANCIAL DATES

Announcement of interim results	25 August 2005
Book closing dates for interim dividend	20 September 2005 – 23 September 2005
Record date for interim dividend	23 September 2005
Payment date for interim dividend	on or about 30 September 2005



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 impact of IFRS 2 "Share-based Payment" in relation to employee share option schemes, basic earnings per share amounted to RMB8.54 cents (corresponding period last year: RMB7.45 cents)*



MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with the unaudited interim financial information of Li Ning Company Limited (the "Company") and its subsidiaries (the "Group") for the six months ended 30 June 2005, together with the accompanying notes included in this interim report.

BUSINESS OVERVIEW

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

- Our products comprise sports footwear, apparel and accessories for sports and leisure use.
- Our products 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.
- We have established an extensive distributorship and retail network with a nationwide infrastructure of retailed outlets in the PRC. Our merchandises are sold through distributors which operate franchised LI-NING and KAPPA retail outlets under our supervision. We also operate our directly-managed retail stores and concession counters.
- Our international sales of LI-NING brand are focused in Spain and Russia through our overseas distributors.
- We operate our supply chain management by subcontracting the production of a majority of our products to independent contract manufacturers in the PRC, with a small portion of our sports apparels being manufactured in-house. Such production mode has enabled us to focus principally on brand building.



FINANCIAL REVIEW

Highlights

The Group's unaudited consolidated results for the six months ended 30 June 2005 were very encouraging, as exemplified by the major performance indicators set out below:

	Six months ended 30 June		<i>Period-on- period change (%)</i>
	2005	2004	
Profit and loss account items (unaudited)			
<i>(Expressed in RMB'000 unless otherwise stated)</i>			
Turnover	1,104,307	788,667	40.0
Gross profit	530,630	361,545	46.8
Profit for the period	78,784	54,875	43.6
Profit attributable to equity holders	78,313	54,903	42.6
Earnings per share — basic <i>(RMB cents) (Note 1)</i>	7.65	7.28	5.1
Selected financial ratios (unaudited)			
Gross profit margin (%)	48.1	45.8	
Margin of profit attributable to equity holders (%)	7.1	7.0	
Effective tax rate (%)	34.1	36.9	
Debt to equity holders' equity ratio (%) <i>(Note 2)</i>	0.9	10.7	
Average inventory turnover <i>(days) (Note 3)</i>	97	124	
Average accounts receivable turnover <i>(days) (Note 4)</i>	39	33	
Average trade payables turnover <i>(days) (Note 5)</i>	65	71	

Notes:

1. The calculation of 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.
2. The debt to equity holders' equity ratio is expressed as a percentage of total outstanding borrowings over equity holders' equity.
3. The calculation of average inventory turnover (days) is based on the average of opening and closing balances of inventory divided by cost of sales and multiplied by the number of days during the relevant period.
4. The calculation of average accounts receivable turnover (days) is based on the average of opening and closing balances of accounts and notes receivable divided by turnover and multiplied by the number of days during the relevant period.
5. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables divided by total purchases and multiplied by the number of days during the relevant period.

Turnover

For the six months ended 30 June 2005, the Group's turnover increased over the corresponding period last year by 40.0% to RMB1,104,307,000, which was 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		Period-on-period change (%)
	RMB'000	% of total turnover	RMB'000	% of total turnover	
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 of apparel products increased by 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		Period-on-period change (%)
	RMB'000	% of total turnover	RMB'000	% of total turnover	
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 % of total turnover	2004 % 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

	<i>Note</i>	Six months ended 30 June	
		2005 % of total turnover	2004 % 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
Southwestern 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 primarily comprised 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 brand building.

Our administrative expenses of approximately RMB84,703,000 (2004: RMB56,112,000) for the six months ended 30 June 2005 primarily comprised staff costs, office rentals, depreciation of office premises and other general expenses. Administrative expenses as a percentage of turnover increased from 7.1% in the corresponding period last year to 7.7% this year, which was primarily due to the additional employee costs as a result of the implementation 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. The breakdown of other operating expenses is set out below:

Six months ended 30 June					
Other operating expenses	2005		2004		Period-on-period change (%)
	RMB'000	% of total	RMB'000	% of total	
Provision for doubtful debts	2,563	21.4	2,973	26.0	(13.8)
Provision for obsolete and slow-moving inventories	8,492	71.0	4,747	41.5	78.9
Others	904	7.6	3,720	32.5	(75.7)
Total	11,959	100.0	11,440	100.0	4.5

Other operating expenses primarily comprised 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 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 additional employee costs as a result of 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 impact 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 (the "Hong Kong Stock Exchange"). 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, 北京李寧體育用品有限公司 (Beijing Li Ning Sporting Goods Co., Ltd.) ("Beijing Li Ning"), 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 selected 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.

Number of franchised and directly-managed retail outlets

	As at 30 June 2005	As at 31 December 2004	Change (%)
LI-NING brand			
Franchised retail outlets	2,698	2,272	18.8
Directly-managed retail stores	115	117	(1.7)
Directly-managed concession counters	245	233	5.2
Total	3,058	2,622	16.6
KAPPA brand			
Franchised retail outlets	314	254	23.6
Directly-managed retail stores	2	3	(33.3)
Directly-managed concession counters	8	8	—
Total	324	265	22.3
Overall			
Franchised retail outlets	3,012	2,526	19.2
Directly-managed retail stores	117	120	(2.5)
Directly-managed concession counters	253	241	5.0
Total	3,382	2,887	17.1

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 PRC 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 (31 December 2004: RMB100.41 cents).

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 last 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 for 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 Beijing Li Ning, which is 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 上海悦奥體育用品有限公司 (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 the Group structure, and to implement further restructuring as and when appropriate.



JOINT VENTURE WITH AIGLE

On 30 June 2005, 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 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 Hong Kong Stock Exchange (the “Listing Rules”).

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 of Italy. 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 in the long run the benefits of growth in value of the KAPPA brand fostered by the Company and funded with its resources in developing KAPPA’s business.



The directors of the Company 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. Upon completion of the Disposal, Beijing Dong Xiang would cease to be a subsidiary of the Company.

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 capitalize 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 keep enhancing its core 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.



UNAUDITED INTERIM FINANCIAL INFORMATION

The board of directors of the Company (the “Board” or the “Directors”) is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30 June 2005, together with the comparative figures for the corresponding period last year, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2005

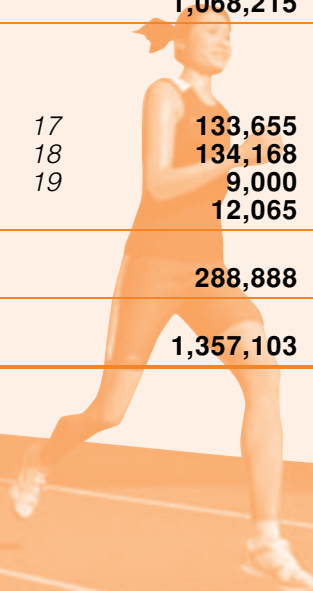
(Expressed in RMB'000 unless otherwise stated)

		Unaudited Six months ended 30 June	
	Note	2005	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	5	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	6	113,169	88,971
Finance costs, net	7	6,355	(1,957)
Profit before taxation		119,524	87,014
Taxation	8	(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	9	23,533	40,000
Earnings per share for equity holders of the Company (RMB cents)			
— Basic	10	7.65	7.28
— Diluted		7.60	N/A

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	11	87,962	89,399
Land use rights	12	3,953	4,057
Intangible assets	13	9,061	9,363
		100,976	102,819
Current assets			
Inventories	14	291,866	318,326
Accounts and notes receivable	15	261,052	217,574
Other receivables and prepayments	16	75,904	81,424
Financial assets at fair value through profit or loss	24	41,419	—
Pledged bank deposits	23	99,318	66,212
Fixed deposits held at banks	23	337,432	372,508
Cash at banks and in hand	23	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	20	108,563	108,563
Reserves	21	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	17	133,655	260,997
Other payables and accruals	18	134,168	138,102
Short-term borrowings	19	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



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2005

(Expressed in RMB'000 unless otherwise stated)

	Unaudited			
	Six months ended 30 June			
	Note	Attributable to equity holders of the Company	Minority interests	Total equity
Balance as at 1 January 2004,				
— as previously reported as equity		389,032	—	389,032
Balance as at 1 January 2004,				
— as previously separately reported as minority interests		—	15,869	15,869
Balance as at 1 January 2004, as restated		389,032	15,869	404,901
Profit/(loss) for the period		54,903	(28)	54,875
Dividends declared		(105,772)	—	(105,772)
Employee share option schemes for value of services provided	21	1,269	—	1,269
Net proceeds from issuance of shares of the Company		500,862	—	500,862
Balance as at 30 June 2004		840,294	15,841	856,135
Balance as at 1 January 2005,				
— as previously reported as equity		1,010,017	—	1,010,017
Balance as at 1 January 2005,				
— as previously separately reported as minority interests		—	17,208	17,208
Balance as at 1 January 2005, as restated		1,010,017	17,208	1,027,225
Profit for the period		78,313	471	78,784
Dividends declared	21	(46,932)	—	(46,932)
Employee share option schemes for value of services provided	21	9,138	—	9,138
Balance as at 30 June 2005		1,050,536	17,679	1,068,215



CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2005

(Expressed in RMB'000 unless otherwise stated)

	Unaudited	
	Six months ended 30 June	
	2005	2004
Net cash (used in)/generated from operating activities	(43,197)	32,856
Net cash used in investing activities	(18,095)	(10,644)
Net cash (used in)/generated from financing activities	(112,140)	448,827
(Decrease)/increase in cash and cash equivalents	(173,432)	471,039
Cash and cash equivalents as at 1 January	322,568	224,488
Cash and cash equivalents as at 30 June	149,136	695,527
Analysis of balance of cash and cash equivalents		
Cash at banks and in hand	149,136	695,527



NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in RMB'000 unless otherwise stated)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES

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

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



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

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

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

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

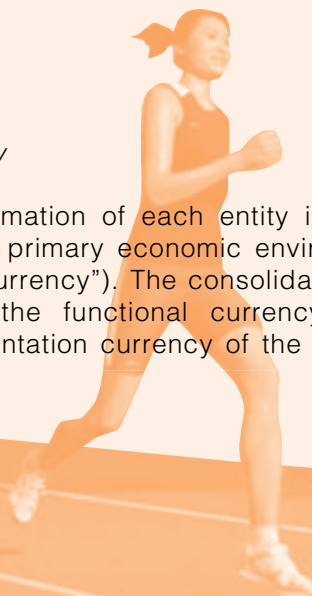
- IAS 1 has affected the presentation of minority interests and other disclosures.
- IAS 21 has no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- IAS 24 has affected the identification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

3. NEW ACCOUNTING POLICIES

(a) Foreign currency translation

(i) *Functional and presentation currency*

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



(ii) *Transactions and balances*

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

(b) Investments

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

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

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

(ii) *Loans and receivables*

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

(iii) *Held-to-maturity investments*

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

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

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

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

(c) Share-based payment

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

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

4. TURNOVER AND SEGMENT INFORMATION

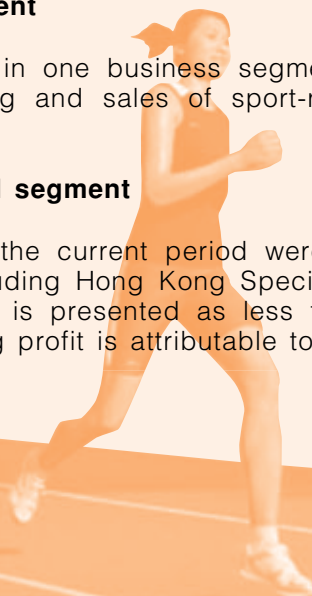
Turnover comprises the invoiced value for the sale of goods net of value added tax ("VAT"), rebates and discount.

Primary reporting format — business segment

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

Secondary reporting format — geographical segment

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



5. OTHER GAINS

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

6. OPERATING PROFIT

Operating profit is stated after charging the following:

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

7. FINANCE COSTS, NET

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

8. TAXATION

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

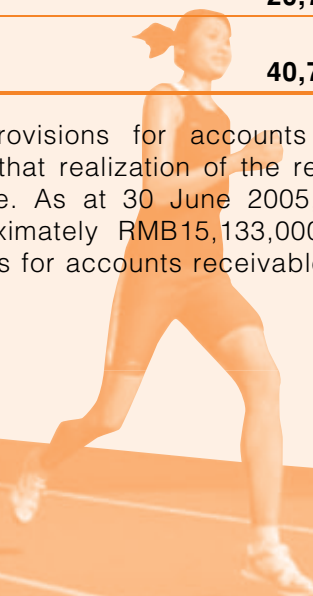
Notes:

- (a) Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit arising in Hong Kong for the six months ended 30 June 2005 (2004: 17.5%).
- (b) Provision for PRC enterprise income tax is calculated based on the statutory tax rate of 33% of the assessable income of each of the group companies, except that certain subsidiaries of the Company are taxed at preferential tax rates of 15% based on the relevant PRC tax rules and regulations.

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

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

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



9. DIVIDENDS

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

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

10. EARNINGS PER SHARE

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

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

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



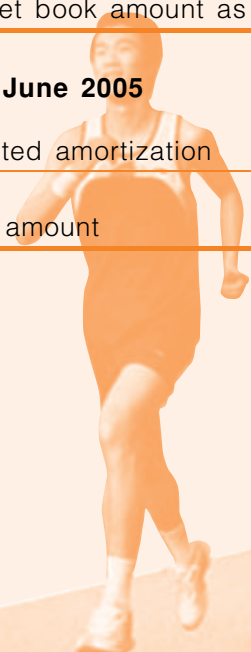
11. PROPERTY, PLANT AND EQUIPMENT

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



12. LAND USE RIGHTS

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



13. INTANGIBLE ASSETS

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

14. INVENTORIES

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

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

15. ACCOUNTS AND NOTES RECEIVABLE

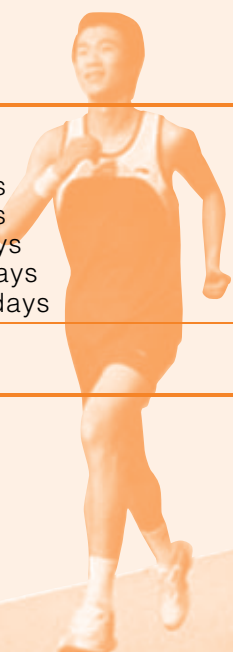
	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Gross accounts and notes receivable	273,635	227,594
Less: provision for impairment of receivables	(12,583)	(10,020)
	261,052	217,574

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

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

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

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



16. OTHER RECEIVABLES AND PREPAYMENTS

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

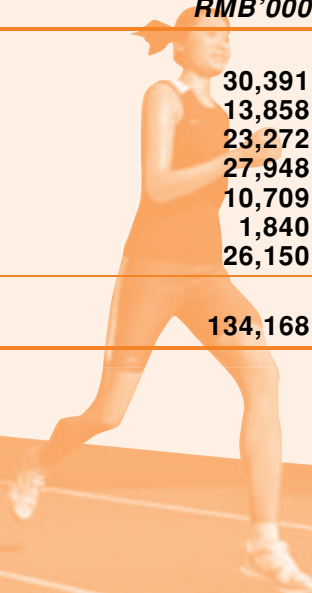
17. TRADE PAYABLES

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

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

18. OTHER PAYABLES AND ACCRUALS

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



19. SHORT-TERM BORROWINGS

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

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

The carrying amounts of the borrowings at the respective balance sheet dates approximated their fair values based on the prevailing borrowing rates available for loans with similar terms and maturities.

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

20. SHARE CAPITAL

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



21. RESERVES

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

(a) Statutory reserves

Under the relevant PRC laws and regulations, Company's subsidiaries in the PRC (the "PRC Companies") are required to appropriate certain percentage of their respective net profit to two statutory funds — the statutory reserve fund and the statutory staff welfare fund. Details of the two funds are as follows:

(i) Statutory reserve fund

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

(ii) *Statutory staff welfare fund*

Pursuant to applicable PRC laws and regulations, the PRC Companies are required to transfer 5% to 10% of the companies' net profit to the fund. This fund can only use to provide staff welfare facilities and other collective benefits to the companies' employees. This fund is non-distributable other than upon liquidation of the PRC Companies.

(b) Distributable reserves

Under the Company Law (revised) of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to its equity holders provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

22. EMPLOYEE SHARE PURCHASE SCHEME AND SHARE OPTION SCHEMES

(a) Employee Share Purchase Scheme

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

The objectives of the Employee Share Purchase Scheme (the "ESP Scheme") is to provide for the grant of rights to purchase the Company's shares beneficially owned by Mr. Li Ning through Alpha Talent to certain key individuals who have contributed to the economic achievement of the Group.

The ESP Scheme was adopted by Alpha Talent on 5 June 2004 and shall be valid and effective for a period of 10 years from that date. A committee established by the board of directors of Alpha Talent determines the employees of the Group who shall be selected to receive options, the exercise price, the terms and conditions of the options. Lapsed or cancelled options will be re-granted in accordance with the terms of the ESP Scheme until all shares held by Alpha Talent have been purchased pursuant to the ESP Scheme.

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



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

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

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

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



(b) Pre-IPO Share Option Scheme

The Company has adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme"). The purpose of the scheme is to give the directors and full-time employees of the Company and the Group an opportunity to have a personal stake in the Company and recognise their contribution to the Group. The Pre-IPO Share Option Scheme was adopted on 5 June 2004. HK\$1 is payable by the grantee who accepts the grant of an option.

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

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

	2005 Weighted average exercise price (per share) HK\$	2005 Outstanding options	2004 Weighted average exercise price (per share) HK\$	2004 Outstanding options
As at 1 January	1.8275	15,641,000	—	—
Granted during the period	—	—	1.8275	16,219,000
Lapsed during the period	1.8275	(408,000)	—	—
As at 30 June	1.8275	15,233,000	1,8275	16,219,000
Exercisable as at 30 June 2005	1.8275	5,073,000		
Lapsed during the period			1.8275	(578,000)
As at 31 December			1.8275	15,641,000
Exercisable as at 31 December 2004			—	—



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

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

(c) Share Option Scheme

Pursuant to a shareholder's written resolution passed on 5 June 2004, the Company adopted a share option scheme (the "Share Option Scheme"). The Share Option Scheme will remain in force for a period of 10 years commencing from 5 June 2004.

The purpose of the Share Option Scheme is to provide incentives to eligible participants to contribute to the Company and to enable the Company to recruit high-calibre employees and attract human resources that are valuable to the Group. Eligible participants are any individuals being employees, officers, agents, consultants or representatives of any member of the Group who, based on the board of directors' discretion, have made valuable contribution to the business of the Group based on their performance and/or years of service, or are regarded as valuable human resources of the Group based on their work experience, knowledge in the industry and other relevant factors.

HK\$1 is payable by the participant who accepts the grant of an option. The subscription price for the shares under the option to be granted will be determined by the Company's board of directors and will be at least the highest of: (a) the closing price of the shares of the Company as at stated in The Stock Exchange of Hong Kong Limited's daily quotations sheets on the date of the grant of the option; (b) the average closing price of the shares of the Company as stated in The Stock Exchange of Hong Kong Limited's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (c) the nominal value of the shares of the Company.

The maximum number of shares may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. The total number of shares of the Company issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue. Lapsed or cancelled options may be re-granted in accordance with the terms of the Share Option Scheme.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Company's board of directors, which must not be more than 10 years from the date of the grant.

Any share of the Company allotted and issued on the exercise of options will rank pari passu with the other shares of the Company in issue on the date of allotment.

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

(d) Fair value of share options

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

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

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



23. CASH AND BANK DEPOSITS

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

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

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

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

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

At present, Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currencies and remittance of Renminbi out of the PRC is subject to the rules and regulations of exchange control promulgated by the PRC government. Also, the exchange rate is fixed by the government of the PRC.



24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

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

(b) Establishment of new joint venture

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

26. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

	Unaudited	
	Six months ended 30 June	
	2005	2004
	RMB'000	<i>RMB'000</i>
Sales of goods to:		
— 北京動感九六體育用品有限責任公司 (Beijing Dong Gan Jiu Liu Sporting Goods Company Limited), a company controlled by the family members of a Company director, Chen Yi Hong	9,663	6,457
— 北京動感競技經貿有限公司 (Beijing Dong Gan Jing Ji Trading Company Limited), a company controlled by the family members of a Company director, Chen Yi Hong	345	593
Sponsorship fee paid to:		
— 北京一動體育發展有限公司 (Beijing Edo Sports Development Company Limited), a company controlled by 上海寧晟企業管理有限公司 (Shanghai Ning Sheng Corporate Management Co., Ltd.), a company controlled by the family members of Li Ning, the chairman of the Company	2,170	900

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

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

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

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



(c) Key management compensation

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

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

(d) Directors' interests in share option schemes

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

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



27. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB.

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

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

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its short-term borrowings, details of which have been disclosed in Note 19. As at 30 June 2005 and 31 December 2004, the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

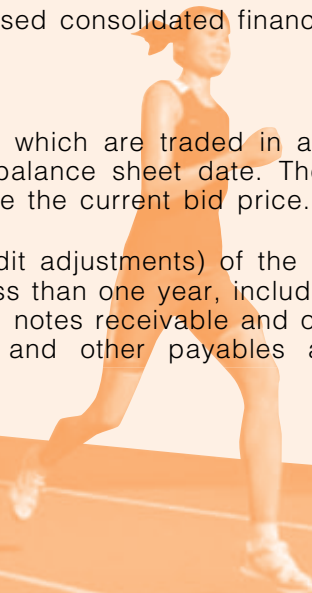
(iii) Credit risk

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

(b) Fair value estimation

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

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



approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

28. NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES

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

29. SUBSEQUENT EVENTS

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

30. APPROVAL OF THE FINANCIAL INFORMATION

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



OTHER INFORMATION

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.

CONNECTED TRANSACTIONS

Continuing connected transactions

For the six months ended 30 June 2005, the Group had the following transactions which constituted continuing connected transactions under the Listing Rules:

1. Sports organizing and promotion framework agreement (“Sports Organizing Agreement”) between Beijing Li Ning and 北京一動體育發展有限公司 (Beijing Edo Sports Development Co., Ltd.) (“Beijing Edo Sports”)

Beijing Edo Sports is a limited company established in the PRC, which is owned as to 80% by 上海寧晟企業管理有限公司 (Shanghai Ning Sheng Corporate Management Co., Ltd.) (“Shanghai Ning Sheng”). By reason of the interests of Mr. Li Ning (an executive director and chairman of the Company) and his family members in Shanghai Ning Sheng, Beijing Edo Sports is an associate of Mr. Li Ning and, hence, a connected person of the Company for the purposes of the Listing Rules.

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

Payments from Beijing Li Ning to Beijing Edo Sports for the six months ended 30 June 2005 amounted to an aggregate of RMB2,170,000, which was below the relevant annual cap approved by the Hong Kong Stock Exchange.



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

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

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

Transaction value for the distribution of licensed products between Beijing Dong Xiang and Dong Gan Jiu Liu for the six months ended 30 June 2005 amounted to an aggregate of RMB9,663,000, which was below the relevant annual cap approved by the Hong Kong Stock Exchange.

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

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

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

Transaction value for the distribution of products between Beijing Li Ning and Dong Gan Jing Ji for the six months ended 30 June 2005 amounted to an aggregate of RMB345,000, which was below the relevant annual cap approved by the Hong Kong Stock Exchange.

Disposal of Beijing Dong Xiang

On 30 June 2005, Shanghai Yue Ao, a subsidiary of the Company, agreed to transfer its entire 80% equity interest in Beijing Dong Xiang to Shanghai Tai Tan for a consideration of RMB8,614,000. 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 Listing Rules. Concurrent with such 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.

The transaction was approved by independent shareholders of the Company at the extraordinary general meeting held on 11 August 2005. Upon completion of such disposal, Beijing Dong Xiang would cease to be a subsidiary of the Company. Please refer to pages 16 and 17 of this interim report for more information of such disposal.

EMPLOYEE SHARE OPTION SCHEMES

1. Employee Share Purchase Scheme

Details of the ESP Scheme of Alpha Talent, a company owned by Mr. Li Ning, a substantial shareholder and chairman of the Company, are set out in Note 22(a) to the unaudited interim financial information. During the six months ended 30 June 2005, no options were granted or exercised under the ESP Scheme. Details of movements of share options under the ESP Scheme during the period are as follows:

	Number of share options as at 1 January 2005	Number of share options lapsed during the period	Number of share options as at 30 June 2005	Exercise price HK\$	% of options	Vesting date	Exercise period
Executive Directors							
Mr. Zhang Zhi Yong	9,750,000	—	9,750,000	0.43	40	28 December 2004	28 December 2004 to 8 June 2010
					30	28 December 2005	28 December 2005 to 8 June 2010
					30	28 December 2006	28 December 2006 to 8 June 2010
Mr. Tan Wee Seng	2,700,000	—	2,700,000	0.86	50	28 December 2004	28 December 2004 to 8 June 2010
					50	28 December 2005	28 December 2005 to 8 June 2010
Mr. Chen Yi Hong	750,000	—	750,000	0.86	50	28 December 2004	28 December 2004 to 8 June 2010
					50	28 December 2005	28 December 2005 to 8 June 2010
Other employees of the Group							
In aggregate	11,430,000	—	11,430,000	0.86	50	28 December 2004	28 December 2004 to 8 June 2010
					50	28 December 2005	28 December 2005 to 8 June 2010
	24,630,000	—	24,630,000				



2. Pre-IPO Share Option Scheme

Details of the Pre-IPO Share Option Scheme of the Company are set out in Note 22(b) to the unaudited interim financial information. During the six months ended 30 June 2005, no options were exercised under the Pre-IPO Share Option Scheme. Details of movements of share options under the Pre-IPO Share Option Scheme during the period are as follows:

	Number of share options as at 1 January 2005	Number of share options lapsed during the period	Number of share options as at 30 June 2005	Exercise price HK\$	% of options	Vesting date	Exercise period
Executive Directors							
Mr. Zhang Zhi Yong	1,597,000	—	1,597,000	1.8275	33.3	28 June 2005	28 June 2005 to 5 June 2010
					33.3	28 June 2006	28 June 2006 to 5 June 2010
					33.4	28 June 2007	28 June 2007 to 5 June 2010
Mr. Tan Wee Seng	1,287,000	—	1,287,000	1.8275	33.3	28 June 2005	28 June 2005 to 5 June 2010
					33.3	28 June 2006	28 June 2006 to 5 June 2010
					33.4	28 June 2007	28 June 2007 to 5 June 2010
Other employees of the Group							
In aggregate	12,757,000	(408,000)	12,349,000	1.8275	33.3	28 June 2005	28 June 2005 to 5 June 2010
					33.3	28 June 2006	28 June 2006 to 5 June 2010
					33.4	28 June 2007	28 June 2007 to 5 June 2010
	15,641,000	(408,000)	15,233,000				

3. Share Option Scheme

Details of the Share Option Scheme of the Company are set out in Note 22(c) to the unaudited interim financial information. As at 30 June 2005, no option was granted by the Company under the Share Option Scheme.



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

As at 30 June 2005, the interests and short positions of the Directors in the shares (the "Shares"), underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, were as follows:

Mr. Li Ning

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

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

- (a) 220,174,000 Shares are held by Victory Mind Assets Limited which is owned as to 62.106% by Mr. Li Ning and 37.894% by Mr. Li Chun, the brother of Mr. Li Ning. Mr. Li Ning is taken to be interested in 220,174,000 Shares that Victory Mind Assets Limited is interested.
- (b) 150,000,000 Shares are held by Champion Link Capital Limited. The entire interest in Champion Link Capital Limited is held by Dragon City Management Limited in its capacity as trustee of the Three-River Unit Trust, which is a unit trust, the units of which are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko Trust. Both of the Palm Trust and the Gingko Trust are irrevocable discretionary trusts, the objects of which include the respective family members of Mr. Li Ning and his brother, Mr. Li Chun. Mr. Li Ning is the settlor of the Palm Trust and is taken to be interested in 150,000,000 Shares that Champion Link Capital Limited is interested.
- (c) 35,250,000 Shares are held by Alpha Talent Management Limited, which is established and solely owned by Mr. Li Ning for the purpose of holding the relevant Shares under the ESP Scheme of Alpha Talent Management Limited. Mr. Li Ning is taken to be interested in 35,250,000 Shares that Alpha Talent Management Limited is interested.

Mr. Li Ning is taken to have a short position in 25,230,000 Shares, among the total of 35,250,000 Shares, held by Alpha Talent Management Limited in the Company. As at 30 June 2005, Alpha Talent Management Limited had granted options to purchase 25,230,000 Shares pursuant to the ESP Scheme and no options had been exercised to subscribe for such shares under the ESP Scheme. Mr. Li Ning is the sole shareholder of Alpha Talent Management Limited, a controlled corporation of Mr. Li Ning, he is thus taken to have a short position in the 25,230,000 Shares.



Mr. Zhang Zhi Yong

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

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

Mr. Tan Wee Seng

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

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

Mr. Chen Yi Hong

	Number of options held	Type of interest	Approximate % in total issued share capital
Interest in the Shares			
<i>Long position</i>			
— Shares and options (Note 1)	17,676,000	Personal, family	1.73



Interest in associated corporation — 北京動向體育發展有限公司 Beijing Dong Xiang Sports Development Co., Ltd. (“Beijing Dong Xiang”)

	Number of shares held	Type of interest	Approximate % in total registered capital
<i>Long position</i>			
— Equity interest (Note 2)	—	Corporate	20

Notes:

1. Mr. Chen Yi Hong is interested in 14,476,000 Shares registered in his name and is additionally taken to be interested in the 2,450,000 Shares registered in the name of his wife, Ms. Liu Pei Ying. Mr. Chen Yi Hong is also taken to be interested as a grantee of options to purchase 750,000 Shares under the ESP Scheme.
2. The registered capital of Beijing Dong Xiang is held as to 20% by Shanghai Lei De Sports Development Co., Ltd., which a controlled corporation of Mr. Chen Yi Hong. As Beijing Dong Xiang is a limited liability company established in the PRC with its issued capital represented by equity interest, Mr. Chen Yi Hong's interest in Beijing Dong Xiang is represented by a percentage of the equity interest and not by shares.

On 11 August 2005, the independent shareholders of the Company approved the Group's disposal of its entire 80% equity interest in Beijing Dong Xiang to a company controlled by Mr. Chen Yi Hong. Upon completion of such disposal, Beijing Dong Xiang would cease to be a subsidiary of the Company. Please refer to pages 16 and 17 of this interim report for details of such disposal.

Save as disclosed above, so far as was known to any Director, as at 30 June 2005, none of the Directors or chief executives of the Company had any interest or short positions in any shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

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

As at 30 June 2005, the register of substantial shareholders maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital:

Name of shareholder	Number of Shares held	Capacity	Type of interest	Approximate % in total issued share capital
Li Chun (Note 1)	370,174,000 (Long position)	Interest of controlled corporation	Personal	36.18
Victory Mind Assets Limited (Note 1(a))	220,174,000 (Long position)	Beneficial owner	Corporate	21.52
Champion Link Capital Limited (Note 1(b))	150,000,000 (Long position)	Beneficial owner	Corporate	14.66

Name of shareholder	Number of Shares held	Capacity	Type of interest	Approximate % in total issued share capital
Dragon City Management Limited (Note 1(b))	150,000,000 (Long position)	Trustee	Corporate	14.66
Cititrust (Cayman) Limited (Note 1(b))	150,000,000 (Long position)	Trustee	Corporate	14.66
Tetrad Ventures Pte. Ltd. (Note 2)	149,737,500 (Long position)	Beneficial owner	Corporate	14.64
Government of Singapore Investment Corporation (Ventures) Pte. Ltd. (Note 2)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	14.64
GIC Special Investments Pte. Ltd. (Note 2)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	14.64
Government of Singapore Investment Corporation Pte. Ltd. (Note 2)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	14.64
Minister of Finance (Incorporated) (Note 2)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	14.64
JPMorgan Chase & Co	48,686,000 (Long position)	Investment manager	Corporate	4.76
	15,912,000 (Long position) (Note 3)	Custodian corporation/ Approved lending agent	Corporate	1.56
Fidelity International Limited	60,688,000 (Long position)	Investment manager	Corporate	5.93

Notes:

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

Save as disclosed above, as at 30 June 2005, the Company has not been notified of any interests and short positions held by any substantial shareholders and other persons in the shares and underlying shares of the Company which is required to be recorded in the register kept under Section 336 of the SFO.

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 to review and enhance 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 Listing Rules 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 unaudited 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 Hong Kong Stock Exchange as its own code governing securities transactions of the Directors. Having made specific enquiry of all 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".

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

Hong Kong, 25 August 2005

