



# Li Ning Company Limited ( 李寧有限公司 )

*(Incorporated in the Cayman Islands with limited liability)*



## Interim Report 2004





习惯跳得高  
CBA扣篮王-胡光

A picture used in our latest marketing campaign, featuring Chinese basketball big-time scorer Hu Guang.



一切皆有可能

心跳：13亿次/秒



Another latest pictorial advertisement highlighting the explosive power displayed by 2004 Olympic gold medallist Ms. Zhang Yi Ning.



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## COMPANY INFORMATION

### Li Ning Company Limited

Stock Code: 2331

#### Executive Directors

Mr. LI Ning (李寧)  
Mr. ZHANG Zhi Yong (張志勇)  
Mr. TAN Wee Seng (陳偉成)  
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)

#### Corporate Officers

Mr. LI Ning (李寧)  
Mr. ZHANG Zhi Yong (張志勇)  
Mr. TAN Wee Seng (陳偉成)

*Chairman of the Board*  
*Group Chief Executive Officer*  
*Group Chief Financial Officer*

#### Joint Company Secretaries

Mr. TAN Wee Seng (陳偉成)  
Mr. NG Wai Hung (吳偉雄)



## HIGHLIGHTS OF INTERIM RESULTS 2004

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

	Change	For the 6 months ended June 30	
		2004	2003
<b>Operating Results</b> (in RMB million)			
Turnover	+51.8%	<b>789</b>	519
Operating profit (EBIT)	+61.9%	<b>90</b>	56
Net profit	+49.5%	<b>56</b>	38
<b>Financial Position</b> (in RMB million)			
Cash generated from operations	+706.7%	<b>33</b>	4
Net cash*	+557.6%	<b>606</b>	92
<b>Per Share Data</b> (in RMB cent)			
Earnings per share – basic		<b>7.45</b>	5.01
Earnings per share – diluted		<b>7.45</b>	N/A
<b>Key Statistics</b>			
EBIT margin	+0.7%pts	<b>11.4%</b>	10.7%
Net profit margin	-0.1%pts	<b>7.1%</b>	7.2%
<b>Share Information</b> ('000)			
Number of shares in issue	236,062	<b>986,062</b>	750,000

\* Net cash = Cash and cash equivalents less bank borrowings



## MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with the financial statements of Li Ning Company Limited (the “Company”) and its subsidiaries (the “Group”) together with the accompanying notes, included elsewhere in this interim report.

### OVERVIEW

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

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





## FINANCIAL REVIEW

### Financial highlights

#### Unaudited

	Six months ended 30 June, 2004 RMB'000	2003 RMB'000	Year-on-year change (%)
<i>Profit and loss items</i>			
Turnover	<b>788,667</b>	519,442	51.8
Gross profit	<b>361,545</b>	237,859	52.0
Operating profit	<b>90,240</b>	55,729	61.9
Net profit	<b>56,172</b>	37,573	49.5
Basic earnings per share (RMB cent) (Note 1)	<b>7.45</b>	5.01	48.7
<i>Selected financial ratios</i>			
Gross profit margin (%)	<b>45.8</b>	45.8	
Operating profit margin (%)	<b>11.4</b>	10.7	
Net profit margin (%)	<b>7.1</b>	7.2	
Effective tax rate (%)	<b>36.4</b>	27.3	
Average inventory turnover (days) (Note 2)	<b>124</b>	161	
Average accounts receivable turnover (days) (Note 3)	<b>33</b>	35	
Average trade payables turnover (days) (Note 4)	<b>71</b>	73	

#### Notes:

1. The calculation of basic earnings per share of the Company is based on a net profit of RMB56,172,000 for the six months ended 30 June, 2004 (six months ended 30 June, 2003: RMB37,573,000) and on the weighted average number of 753,891,000 shares (2003: 750,000,000 shares) in issue in the period.
2. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balance divided by the cost of sales and multiplied by the number of days during the relevant period.
3. The calculation of accounts receivable turnover (days) is based on the average of opening and closing balance for accounts receivable divided by the turnover and multiplied by the number of days during the relevant period.
4. The calculation of trade payables turnover (days) is based on the average of opening and closing balance for trade payables divided by total purchases and multiplied by number of days during the relevant period.

## Turnover

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

### *Breakdown of turnover by product category*

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

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

### *Breakdown of turnover by brand*

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

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



*Percentage of turnover by sales channel*

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

*Percentage of turnover by geographical regions*

	Notes	Six months ended 30 June,	
		2004 % of total	2003 % of total
LI-NING brand			
PRC market			
Beijing and Shanghai		9.9	8.1
Central region	1	12.3	12.8
Eastern region	2	22.2	19.2
Southern region	3	11.3	12.5
Southwestern region	4	8.1	9.7
Northern region	5	13.5	14.2
Northeastern region	6	13.1	14.2
Northwestern region	7	2.9	3.3
International markets		2.4	3.7
KAPPA brand			
PRC market		4.3	2.3
<b>Total</b>		<b>100.0</b>	100.0



*Notes:*

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

*Cost of sales and gross profit*

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

*Distribution and administrative expenses*

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

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



### Other operating expenses

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

	Six months ended 30 June,		2003		Year-on-year change (%)
	2004 RMB'000	% of total	RMB'000	% of total	
Provision for bad debts	2,973	26.0	5,794	81.8	48.7
Provision for obsolete and slow moving inventories	4,747	41.5	(2,157)	(30.5)	(320)
Others	3,720	32.5	3,445	48.7	8.0
<b>Total</b>	<b>11,440</b>	<b>100.0</b>	<b>7,082</b>	<b>100.0</b>	<b>61.5</b>

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

### Finance costs and taxation

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

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

### Net profit

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



## FINANCIAL CONDITIONS

### Net asset value

As at 30 June, 2004, the Group's total net asset value was RMB856.1 million (31 December, 2003: RMB404.9 million). The net asset value per share was RMB113.6 cent per share (HK107.1 cent per share), versus RMB46.8 cent per share (HK44.1 cent per share) as at the same period last year. The increase in net asset value per share was mainly due to the increase in retained profits and the proceeds from the new issue of shares on 28 June, 2004.

### Liquidity and capital resources

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

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

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

### Contingent liabilities

As at 30 June, 2004, the Group had no material contingent liabilities.

### Foreign exchange risk

Substantially all of the Group's revenues and operating costs were denominated in RMB. Proceeds from the new issue of shares in June 2004 were received in Hong Kong dollars. As such, the Group did not encounter any significant difficulties arising from, and its operating cashflow or liquidity was not subject to, any exchange rate fluctuations. The Group did not enter into any foreign exchange hedging arrangements during the six months ended 30 June, 2004.



## BUSINESS REVIEW

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

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

### Distribution and retail network

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

- over 200 distributors operating 2,279 franchised retail outlets for the LI-NING and KAPPA brands all over the PRC; and
- a total of 334 retail outlets (in the form of retail stores and concession counters) in Beijing, Shanghai and in 11 provinces in the PRC.



Number of franchised and directly managed retail outlets:

(Number)	As at		Change (%)
	30 June, 2004	31 December, 2003	
<i>LI-NING brand</i>			
Franchised retail outlets	2,099	1,722	21.9
Directly-managed retail stores	105	87	20.7
Directly-managed concession counters	217	176	23.3
<b>Total</b>	<b>2,421</b>	<b>1,985</b>	<b>22.0</b>
<i>KAPPA brand</i>			
Franchised retail outlets	180	144	25.0
Directly-managed retail stores	4	3	33.3
Directly-managed concession counters	8	13	(38.5)
<b>Total</b>	<b>192</b>	<b>160</b>	<b>20.0</b>
<i>Overall</i>			
Franchised retail outlets	2,279	1,866	22.1
Directly-managed retail stores	109	90	21.1
Directly-managed concession counters	225	189	19.0
<b>Total</b>	<b>2,613</b>	<b>2,145</b>	<b>21.8</b>

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





### **Sponsorship, marketing and promotional activities**

During the period, the LI-NING brand sponsored the Chinese Olympic delegation for the 2004 Athens Summer Olympic Games. The LI-NING brand also sponsored various major Chinese national sports teams such as Table Tennis Team, Diving Team, Gymnastic Team and Shooting Team, as well as foreign sports teams such as the Spanish Men's and Women's Basketball Team.

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

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

### **Product development**

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

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

### **Supply chain management**

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

- we paced up our product development and order cycle by launching major sales events for our distributors in the PRC three times a year, instead of twice a year previously;
- we shortened our average inventory turnover to 124 days from 161 days as compared to the corresponding period last year by improving inventory control and clearance measures;
- we lowered our average receivable turnover to 33 days from 35 days in the corresponding period last year due to our more stringent control on debtors; and
- our average trade payables turnover of 71 days stood at similar level with the corresponding period last year of 73 days.

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



## HUMAN RESOURCES

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

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

## OTHER MATTERS

Other than the information disclosed herein, the information related to other matters set out in paragraph 32 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited relating to the Group has not changed materially from the information disclosed in the Company's prospectus dated 15 June, 2004.

## OUTLOOK

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

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



## UNAUDITED INTERIM FINANCIAL STATEMENTS

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

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

(Expressed in RMB'000)

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



## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE, 2004

(Expressed in RMB'000)

	Notes	Unaudited 30 June, 2004	Audited 31 December, 2003
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	84,340	81,484
Land use rights	9	4,160	4,264
Intangible assets	10	3,354	3,775
		<b>91,854</b>	89,523
<b>Current assets</b>			
Inventories	11	286,331	296,239
Accounts receivable	12	166,539	120,059
Other receivables and prepayments	13	75,689	37,469
Cash and cash equivalents		695,527	224,488
		<b>1,224,086</b>	678,255
<b>Total assets</b>		<b>1,315,940</b>	767,778
<b>EQUITY AND LIABILITIES</b>			
Issued capital	17	104,611	8
Reserves	18	735,683	389,024
Owners' equity		<b>840,294</b>	389,032
<b>Minority interests</b>		<b>15,841</b>	15,869
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	14	158,231	171,581
Other payables and accruals	15	156,697	91,608
Short-term borrowings	16	90,000	85,000
Taxation payable		14,877	14,688
Dividends payable		40,000	–
<b>Total liabilities</b>		<b>459,805</b>	362,877
<b>Total equity and liabilities</b>		<b>1,315,940</b>	767,778



## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE, 2004

(Expressed in RMB'000)

	Notes	Unaudited	
		Six months ended 30 June, 2004	2003
Total owners' equity, at beginning of the period		<b>389,032</b>	215,578
Profit for the period		<b>56,172</b>	37,573
Dividends declared	6, 18	<b>(105,772)</b>	–
Issuance of shares of a subsidiary	18	–	103,464
Net proceeds from issuance of shares of the Company	18	<b>500,862</b>	–
<b>Total owners' equity, at end of the period</b>		<b>840,294</b>	356,615



**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE, 2004**  
*(Expressed in RMB'000)*

	Unaudited	
	Six months ended 30 June,	
	2004	2003
Net cash generated from operating activities	32,856	4,073
Net cash used in investing activities	(10,644)	(6,011)
Net cash generated from financing activities	448,827	71,179
Increase in cash and cash equivalents	471,039	69,241
Cash and cash equivalents at 1 January	224,488	127,652
Cash and cash equivalents at 30 June	695,527	196,893
Analysis of balance of cash and cash equivalents		
Cash and bank balances	695,527	196,893



## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

### 1 Basis of preparation and accounting policies

The Company was incorporated on 26 February, 2004 in the Cayman Islands as an exempted company with limited liability under the Company Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of shares of the Company on The Stock Exchange of Hong Kong Limited on 28 June, 2004, the Company acquired the entire issued share capital of RealSports Pte Ltd. ("RealSports"), the then holding company of the other companies comprising the Group, on 5 June, 2004, and became the holding company of the Group. Details of the Reorganisation are set out in the section headed "Corporate Reorganisation" in Appendix VI of the Company's prospectus dated 15 June, 2004.

The unaudited condensed consolidated profit and loss accounts and unaudited condensed consolidated cash flow statement include the results of operations and cash flows of the companies now comprising the Group as if the current structure of the Group had been in existence from 1 January, 2003 or since their effective dates of incorporation. The accompanying unaudited condensed consolidated balance sheets have been prepared to present the financial position of the Group as at 30 June, 2004 and 31 December, 2003 as if the current group structure had been in existence since 1 January, 2003.

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

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

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those adopted for the preparation of the Financial Information included in Appendix I headed "Accountants' Report" of the Company's prospectus dated 15 June, 2004.

### 2 TURNOVER AND SEGMENT INFORMATION

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

#### Primary reporting format – business segment

The Group operated in one business segment which is the design, manufacturing and sales of sport-related footwear, apparel and accessories.

#### Secondary reporting format – geographical segment

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

### 3 OPERATING PROFIT

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

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

### 4 FINANCE COSTS, NET

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





## 5 TAXATION

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

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

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

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

Deferred tax assets of approximately RMB29,779,000 as at 30 June, 2004 (31 December, 2003: RMB28,549,000) in respect of provisions for accounts receivable and inventory and other expenses have not been recognised, as there is no reasonable certainty that the Group would obtain approvals from the relevant tax authorities.

## 6 DIVIDENDS

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

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

## 7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit attributable to shareholders for the six months period ended 30 June, 2004 of RMB56,172,000 (2003: RMB37,573,000) and the weighted average of 753,891,000 (2003: 750,000,000) shares issued during the period. The weighted average number of shares for 2003 was based on the assumption that the Reorganisation has been completed on 1 January, 2003.

The calculation of diluted earnings per share for the six months period ended 30 June, 2004 is based on the Group's net profit attributable to shareholders for the period of RMB56,172,000 and the weighted average of 754,393,000 shares. The weighted average number of shares used in the calculation comprises the 753,891,000 shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 502,000 shares assumed to have been issued at no consideration on the deemed exercise of options granted under the Company's share option scheme during the period.

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

## 8 PROPERTY, PLANT AND EQUIPMENT

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

## 9 LAND USE RIGHTS

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



## 10 INTANGIBLE ASSETS

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

## 11 INVENTORIES

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

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

## 12 ACCOUNTS RECEIVABLE

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

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

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

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

## 13 OTHER RECEIVABLES AND PREPAYMENTS

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



#### 14 TRADE PAYABLES

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

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

#### 15 OTHER PAYABLES AND ACCRUALS

	<b>Unaudited 30 June, 2004 RMB'000</b>	Audited 31 December, 2003 RMB'000
Accrued expenses	35,756	16,533
Advances from customers	16,701	20,284
Other payables	56,742	10,360
Wages payables	17,490	21,572
Welfare payables	24,988	22,339
Due to related parties (Note 21(b))	5,020	520
	<b>156,697</b>	91,608

#### 16 SHORT-TERM BORROWINGS

	<b>Unaudited 30 June, 2004 RMB'000</b>	Audited 31 December, 2003 RMB'000
Short-term bank loans	90,000	85,000

All the short-term borrowings are interest bearing. The exposure of the borrowings of the Group to interest rate change and the weighted average effective annual interest rate was 4.57% for the six months ended 30 June, 2004 (2003: 5.31%).

## 17 SHARE CAPITAL

	Number of shares	Approximate amount HK\$'000
<b>Authorised</b>		
Upon incorporation	3,800,000	380
Increase on 5 June, 2004	9,996,200,000	999,620
<b>As at 30 June, 2004</b>	<b>10,000,000,000</b>	<b>1,000,000</b>
<b>Issued and fully paid up</b>		
Issued nil paid upon incorporation, and subsequently credited as fully paid up pursuant to the Reorganisation	100	–
Issued and credited as fully paid up as consideration upon acquisition of the entire issued share capital of RealSports	749,999,900	75,000
New issue through placing and public offer	236,062,000	23,606
<b>As at 30 June, 2004</b>	<b>986,062,000</b>	<b>98,606</b>
<b>Equivalent to RMB'000</b>		<b>104,611</b>

The following movements in the Company's authorised and issued share capital took place during the period from 26 February, 2004 (date of incorporation) to 30 June, 2004:

- (a) as at the date of incorporation the Company's authorised share capital was HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each, of which 100 shares of HK\$0.10 each were issued nil paid;
- (b) pursuant to a shareholder's resolution passed on 5 June, 2004, the authorised share capital of the Company was increased to HK\$1,000,000,000 by the creation of additional 9,996,200,000 shares;
- (c) pursuant to a shareholder's resolution passed on 5 June, 2004, as part of the Reorganisation and as consideration for the acquisition of the entire issued share capital of RealSports, the Company issued 749,999,900 shares of HK\$0.10 each, credited as fully paid at par. The 100 nil paid shares as mentioned in (a) above were also credited as fully paid;
- (d) as at 28 June, 2004, the Company allotted and issued 236,062,000 shares of HK\$0.10 each at a price of HK\$2.15 per share upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

The share capital as at 31 December, 2003 as shown in the unaudited condensed consolidated balance sheet represented the share capital of RealSports, the former holding company of the Group, which was acquired by the Company pursuant to the Reorganisation.



## 18 RESERVES

	Share premium (a) (d) RMB'000	Capital reserves (b) RMB'000	Unaudited		Retained earnings RMB'000	Total RMB'000
			Statutory reserve fund (c) RMB'000	Statutory staff welfare fund (c) RMB'000		
At 1 January, 2004	-	165,194	42,376	17,334	164,120	389,024
Effect of reorganisation (note (b) (ii))	-	(79,560)	-	-	-	(79,560)
Share issued at premium on placing and public offer	513,398	-	-	-	-	513,398
Share issue expenses	(37,579)	-	-	-	-	(37,579)
Profit for the period	-	-	-	-	56,172	56,172
2003 dividends declared	-	-	-	-	(65,772)	(65,772)
Special distribution declared (note (b) (iii))	-	(40,000)	-	-	-	(40,000)
<b>At 30 June, 2004</b>	<b>475,819</b>	<b>45,634</b>	<b>42,376</b>	<b>17,334</b>	<b>154,520</b>	<b>735,683</b>

	Capital reserves (b) RMB'000	Statutory reserve fund (c) RMB'000	Unaudited		Retained earnings RMB'000	Total RMB'000
			Statutory reserve fund (c) RMB'000	Statutory staff welfare fund (c) RMB'000		
At 1 January, 2003 (note (b) (i))	61,732	37,479	14,885		101,476	215,572
Effect of reorganisation (note (b) (ii))	103,462	-	-	-	-	103,462
Profit for the period	-	-	-	-	37,573	37,573
Profit appropriations to statutory reserves	-	4,897	2,449		(7,346)	-
<b>At 30 June, 2003</b>	<b>165,194</b>	<b>42,376</b>	<b>17,334</b>		<b>131,703</b>	<b>356,607</b>

- (a) As at 28 June, 2004 the Company issued 236,062,000 shares of HK\$0.10 each at a price of HK\$2.15 per share through placing and public offer. The excess of the consideration over the nominal value of shares issued, less related listing expenses, amounting to approximately RMB475,819,000, was credited to the share premium account of the Company.

**18 RESERVES** (continued)**(b) Capital reserves**

- (i) Capital reserves of the Group as at 1 January, 2003 represented registered capital of Li Ning Sports (Shanghai) Co., Ltd. ("Shanghai Li Ning"), the former holding company of all PRC subsidiaries, as well as contribution by the former shareholders of Shanghai Li Ning.
- (ii) Effect of reorganisation for the six months ended 30 June, 2003 represented the share premium of RMB153,122,000 arising from the issuance of shares by RealSports, offset by RMB49,660,000 (US\$6,000,000) paid by RealSports to the former shareholders of Shanghai Li Ning as consideration for acquiring the entire registered capital of Shanghai Li Ning pursuant to a group reorganisation in 2003.

Effect of reorganisation for the six months ended 30 June, 2004 represented the difference between the nominal value of the shares of RealSports and the nominal value of the Company's shares issued in consideration for the acquisition of shares of RealSports during the Reorganisation.

- (iii) At the board meeting held on 10 May, 2004, the directors of RealSports declared a special distribution of RMB40,000,000 to the then shareholders of RealSports, which was deducted from the share premium account of RealSports.

At another board meeting held on 29 March, 2004, the directors of RealSports declared a dividend amounting to RMB65,772,000 in respect of the financial year ended 31 December, 2003.

**(c) Statutory reserves**

Under the relevant PRC laws and regulations, the 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 common 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 be used to provide staff welfare facilities and other collective benefits to the companies' employees. This fund is non-distributable other than in liquidation.

**(d) Distributable reserves**

Under the Company Law (revised) of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to shareholders provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. As at 30 June, 2004, the Company's aggregate amount of reserves available for distribution to shareholders of the Company was RMB475,819,000.





## 19 SHARE OPTIONS

### Employee Share Purchase Scheme

As part of the Reorganisation of the Group, Mr. Li Ning, a substantial shareholder and chairman of the Company transferred 35,250,000 of the Company's shares beneficially owned by him, to Alpha Talent Management Limited ("Alpha Talent").

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

The ESP Scheme was adopted by Alpha Talent on 5 June, 2004 and shall be valid and effective for a period of 10 years from that date. A committee established by the board of directors of Alpha Talent shall determine, among other things, the employees of the Group who shall be selected to receive options, the exercise price, the terms and conditions of the options.

As at 30 June, 2004, options to purchase for 25,230,000 shares of the Company held by Alpha Talent have been granted under the ESP Scheme to 3 executive directors and 28 employees of the Group. Details of the outstanding options are as follows:

	Number of shares subject to options granted	Date of grant	Exercise price HK\$	% of options	Vesting date	Exercise period
<b>Executive directors of the Company</b>						
Zhang Zhi Yong	9,750,000	8 June, 2004	0.43	40	28 December, 2004	28 December, 2004 to 8 June, 2010
				30	28 December, 2005	28 December, 2005 to 8 June, 2010
				30	28 December, 2006	28 December, 2006 to 8 June, 2010
Tan Wee Seng	2,700,000	8 June, 2004	0.86	50	28 December, 2004	28 December, 2004 to 8 June, 2010
				50	28 December, 2005	28 December, 2005 to 8 June, 2010
Chen Yi Hong	750,000	8 June, 2004	0.86	50	28 December, 2004	28 December, 2004 to 8 June, 2010
				50	28 December, 2005	28 December, 2005 to 8 June, 2010
<b>Other employees of the Group</b>						
In aggregate	12,030,000	8 June, 2004	0.86	50	28 December, 2004	28 December, 2004 to 8 June, 2010
				50	28 December, 2005	28 December, 2005 to 8 June, 2010
	<b>25,230,000</b>					

## 19 SHARE OPTIONS (continued)

### Pre-IPO Share Option Scheme

The Company has adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme"). The purpose of the scheme is to give the participants an opportunity to have a personal stake in the Company and recognise the contribution of, and provide an incentive to, the full-time employees of the Company and its subsidiaries including executive and non-executive Directors who, in the sole discretion of the Company's board of directors, has contributed or will contribute to the Company. The Pre-IPO Share Option Scheme was adopted on 5 June, 2004. HK\$1 is payable by the grantee who accepts the grant of an option. Details of the Pre-IPO Share Option Scheme are as follows:

	Number of shares subject to options granted	Date of grant	Exercise price HK\$	% of options	Vesting date	Exercise period
<b>Executive directors of the Company</b>						
Zhang Zhi Yong	1,597,000	5 June, 2004	1.8275	33.3	28 June, 2005	28 June, 2005 to 5 June, 2010
				33.3	28 June, 2006	28 June, 2006 to 5 June, 2010
				33.4	28 June, 2007	28 June, 2007 to 5 June, 2010
Tan Wee Seng	1,287,000	5 June, 2004	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
<b>Other employees of the Group</b>						
In aggregate	13,335,000	5 June, 2004	1.8275	33.3	28 June, 2005	28 June, 2005 to 5 June, 2010
				33.3	28 June, 2006	28 June, 2006 to 5 June, 2010
				33.4	28 June, 2007	28 June, 2007 to 5 June, 2010
	<u>16,219,000</u>					



**19 SHARE OPTIONS** *(continued)*

**Share Option Scheme**

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

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

HK\$1 is payable by the participant who accepts the grant of an option. The subscription price for the shares under the option to be granted will be determined by the Company's board of directors and will be at least the highest of: (a) the closing price of the shares of the Company as stated in The 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 of the Company which may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. The total number of shares of the Company issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue.

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

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

As at 30 June, 2004, no option was granted by the Company under the Share Option Scheme.

## 20 OPERATING LEASE COMMITMENTS

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

	<b>Unaudited 30 June, 2004 RMB'000</b>	Audited 31 December, 2003 RMB'000
No later than 1 year	<b>80,329</b>	34,727
Later than 1 year and not later than 5 years	<b>49,883</b>	62,758
	<b>130,212</b>	97,485

## 21 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

	<b>Unaudited Six months ended 30 June 2004 RMB'000</b>	2003 RMB'000
Sales of goods to:		
— 北京動感九六體育用品有限公司 (Beijing Dong Gan Jiu Liu Sporting Goods Company Limited), a company controlled by the family members of a Company director, Chen Yi Hong	<b>6,457</b>	4,796
— 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	<b>593</b>	—
— 北京都市兄弟經貿有限公司 (Beijing Metropolitan Brothers Trading Co., Ltd.), a company controlled by the family members of a Company director, Chen Yi Hong	—	447
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 former shareholder of the Group	<b>900</b>	250

In the opinion of the Company's directors, these transactions were entered into on terms as agreed with the related parties in the ordinary course of business.



## 21 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

### (b) Significant amounts due from/to related parties

	<b>Unaudited 30 June, 2004 RMB'000</b>	<b>Audited 31 December, 2003 RMB'000</b>
Other payables		
– 上海寧晟企業管理有限公司 (Shanghai Ning Sheng Corporate Management Co., Ltd.), a former shareholder of the Group	–	320
– Li Ning Sport Goods (HK) Co., Ltd., a company controlled by a shareholder	–	200
– 上海雷德體育發展有限公司 (Shanghai Lei De Sporting Goods Co., Ltd.), being a minority shareholder of a subsidiary, controlled by a Company director, Chen Yi Hong, and his family members	<b>5,020</b>	–
	<b>5,020</b>	<b>520</b>
Accounts receivable		
– Beijing Dong Gan Jiu Liu Sporting Goods Co., Ltd.	<b>2,344</b>	2,894

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

## 22 CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June, 2004 (31 December, 2003: nil).

## 23 FINANCIAL RISK MANAGEMENT

### (a) Financial risk factors

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

#### (i) Foreign exchange risk

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

#### (ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rate is mainly attributable to its short-term borrowings. As at 30 June, 2004 and 31 December, 2003, the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

**23 FINANCIAL RISK MANAGEMENT** (continued)**(a) Financial risk factors** (continued)*(iii) Credit risk*

The Group has no significant concentrations of credit risk. The carrying amount of accounts receivable included in the unaudited condensed consolidated balance sheets represents 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 statements.

**(b) Fair value estimation**

The carrying amounts of the Group's financial assets including cash and cash equivalents, accounts receivable and other receivables; and financial liabilities including trade payables, short-term borrowings and other payables, approximate their fair values due to their short maturities.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, if any, are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

**24 HONG KONG GAAP RECONCILIATION**

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

**25 NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES**

	<b>Unaudited 30 June, 2004 RMB'000</b>	Audited 31 December, 2003 RMB'000
Net current assets	<b>764,281</b>	315,378
Total assets less current liabilities	<b>856,135</b>	404,901

**26 SUBSEQUENT EVENT**

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

**27 APPROVAL OF THE FINANCIAL STATEMENTS**

The unaudited condensed consolidated financial statements of the Company for the six months ended 30 June, 2004 were approved by the board of directors of the Company on 10 September, 2004.



## OTHER INFORMATION

### Connected Transactions

#### *Non-exempt connected transactions*

- 1 *Sports organising and promotion framework agreement (“Sports Organising Agreement”) between 北京李寧體育用品有限公司 (Beijing Li Ning Sporting Goods Co., Ltd.) (“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”)*

As disclosed in the prospectus of the Company dated 15 June, 2004 (“Prospectus”), Beijing Li Ning and Beijing Edo Sports carried out joint promotion of sports events in accordance with the Sports Organising Agreement.

Payments from Beijing Li Ning to Beijing Edo Sports for the first half year of 2004 amounted to an aggregate of RMB0.9 million, which was below the cap limit approved by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as disclosed in the Prospectus.

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

As disclosed in the Prospectus, Dong Gan Jiu Liu, a connected person of the Company, carried out the franchised sale of products in accordance with the non-exclusive distributorship framework agreement for KAPPA branded products.

Transaction value for the distribution of licensed products between the Group and Dong Gan Jiu Liu for the first half year of 2004 amounted to an aggregate of RMB4.98 million, which was below the cap limit approved by the Stock Exchange as disclosed in the Prospectus.

- 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”)*

As disclosed in the Prospectus, Dong Gan Jing Ji, a connected person of the Company, carried out the franchised sale of products in accordance with the non-exclusive distributorship framework agreement for LI-NING branded products.

Transaction value for the distribution of products between the Group and Dong Gan Jing Ji for the first half year of 2004 amounted to an aggregate of RMB0.33 million, which was below the cap limit approved by the Stock Exchange as disclosed in the Prospectus.

### ***Subsequent Exempt Connected Transactions***

As disclosed in the Prospectus, a member of the Group as lessee has entered into a lease agreement (“Lease Agreement”) with, inter alia, 上海寧晟企業管理有限公司 (Shanghai Ning Sheng Corporate Management Co., Ltd.) (“Shanghai Ning Sheng”) (a connected person of the Company as disclosed in the Prospectus) as a joint lessor in respect of certain premises for a term of two years commencing from 1 January, 2003.

The Lease Agreement was terminated by the parties thereto on 1 July, 2004. On the same date, another member of the Group entered into a lease agreement (“New Lease”) with the same lessors in respect of the same premises.

The rent paid in the 2004 first half year period under the Lease Agreement and the annual rent payable to Shanghai Ning Sheng under the New Lease are both under HK\$1 million.

### ***Largest Customers and Suppliers***

The Group’s five largest customers and suppliers:

	<b>Six months ended 30 June,</b>	
	<b>2004</b>	2003
	<b>% of total turnover</b>	% of total turnover
Five largest customers	<b>13.9</b>	13.6
Largest customers	<b>3.8</b>	4.2
	<b>% of total purchases</b>	% of total purchases
Five largest suppliers	<b>25.0</b>	23.3
Largest suppliers	<b>5.6</b>	5.5

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





### Substantial Shareholders' Interests and Short Positions in the Shares, Underlying Shares of the Company

So far as was known to any director of the Company, the register of substantial shareholders maintained under section 336 of the Securities and Futures Ordinance ("SFO") shows that as at 30 June, 2004, 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	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	37.54
Victory Mind Assets Limited (Note 2)	220,174,000 (Long position)	Beneficial owner	Corporate	22.33
Champion Link Capital Limited (Note 3)	150,000,000 (Long position)	Beneficial owner	Corporate	15.21
Dragon City Management Limited (Note 3)	150,000,000 (Long position)	Trustee	Corporate	15.21
Cititrust (Cayman) Limited (Note 3)	150,000,000 (Long position)	Trustee	Corporate	15.21
GIC Special Investments Pte. Ltd. (Note 4)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	15.19
Government of Singapore Investment Corporation (Ventures) Pte. Ltd. (Note 4)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	15.19
Government of Singapore Investment Corporation Pte Ltd. (Note 4)	149,737,500 (Long position)	Interest of controlled corporation	Corporate	15.19
Minister of Finance (Incorporated) (Note 4)	149,737,500 (Long position)	Interest of controlled corporate	Corporate	15.19



Name	Number of shares held	Capacity	Type of interest	Approximate % in total issued share capital
Tetrad Ventures Pte Ltd (Note 4)	149,737,500 (Long position)	Beneficial owner	Corporate	15.19
JPMorgan Chase & Co. (Note 5)	66,434,000 (Long position)	Investment manager	Corporate	6.74
	23,686,000 (Long position)	Custodian Corporation/ Approved lending agent	Corporate	2.40
Double Essence Limited (Note 6)	51,060,000 (Long position)	Beneficial owner	Corporate	5.18
Li Ying (Note 6)	51,060,000 (Long position)	Interest of controlled corporation	Personal	5.18
Zhao Jian Guo (Note 6)	51,060,000 (Long position)	Interest of controlled corporation	Personal	5.18

*Notes:*

1. Mr. Li Chun is taken to be interested in an aggregate of 370,174,000 shares of the Company ("Shares") held by Victory Mind Assets Limited and Champion Link Capital Limited, respectively, as follows:
  - (a) 220,174,000 Shares are held by Victory Mind Assets Limited which is owned as to 37.894% by Mr. Li Chun, and 62.106% by Mr. Li Ning, the brother of Mr. Li Chun. Victory Mind Assets Limited is a controlled corporation of Mr. Li Chun;
  - (b) 150,000,000 Shares are held by Champion Link Capital Limited, which is wholly owned by Dragon City Management Limited in its capacity as trustee of the Three-River Unit Trust, which is a unit trust, the units of which are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko Trust. Both of the Palm Trust and the Gingko Trust are irrevocable discretionary trusts, the objects of which include the respective family members of Mr. Li Chun and his brother, Mr. Li Ning. Mr. Li Chun is the settlor of the Gingko Trust and is taken to be interested in the 150,000,000 Shares that Champion Link Capital Limited is interested.
2. Victory Mind Assets Limited is owned as to 62.106% by Mr. Li Ning and 37.894% by Mr. Li Chun, the brother of Mr. Li Ning.
3. Champion Link Capital Limited is wholly owned by Dragon City Management Limited in its capacity as trustee of 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.
4. 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).
5. 66,008,000 Shares are held by JF Asset Management Limited, a company owned as to 99.99% by J.P. Morgan Fleming Asset Management (Asia) Inc. 426,000 Shares are held by JF International Management Inc., a wholly-owned subsidiary of J.P. Morgan Fleming Asset Management (Asia) Inc. J.P. Morgan Fleming Asset Management (Asia) Inc. is a wholly-owned subsidiary of J.P. Morgan Fleming Asset Management Holdings Inc., which in turn is a wholly-owned subsidiary of JPMorgan Chase & Co. 23,686,000 Shares are held in the lending pool by JPMorgan Chase Bank, a wholly-owned subsidiary of JPMorgan Chase & Co.
6. Double Essence Limited is beneficially owned by Ms. Li Ying, the sister of Mr. Li Ning, and her husband, Mr. Zhao Jian Guo, on an equal basis. Double Essence Limited is interested in 51,060,000 Shares and Ms. Li Ying is taken to be interested in 51,060,000 Shares in which Double Essence Limited is interested. Mr. Zhao Jian Guo is also taken to be interested in 51,060,000 Shares in which Double Essence Limited is interested.
7. Mr. Li Ning is also a substantial shareholder of the Company. Please refer to the section "Directors' 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, 2004, the Company has not been notified of any interests and short positions in the Shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SF0.

### Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

So far as was known to any director of the Company, as at 30 June, 2004, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO, as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

#### Mr. Li Ning

	Number of shares/ options held	Type of interest	Approximate % in total issued share capital
<b>Interest in the Shares</b>			
<i>Long position</i>			
– Shares	405,424,000	Corporate	41.12
<i>Short position</i>			
– Shares	25,230,000	Corporate	2.6

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

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

Mr. Li Ning is 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, 2004, Alpha Talent had granted options to purchase 25,230,000 Shares pursuant to 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
<b>Interest in the Shares</b>			
<i>Long position</i>			
– Shares and options	15,047,000	Personal	1.53

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

### Mr. Tan Wee Seng

	Number of shares/ options held	Type of interest	Approximate % in total issued share capital
<b>Interest in the Shares</b>			
<i>Long position</i>			
– Option	3,987,000	Personal	0.40

*Note:* Mr. Tan Wee Seng is interested in a total 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 shares/ options held	Type of interest	Approximate % in total issued share capital
<b>Interest in the Shares</b>			
<i>Long position</i>			
– Shares and options (Note 1)	19,486,000	Personal interest, Family interest	1.98
<b>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”)</b>			
<i>Long position</i>			
– Equity interest (Note 2)	–	Corporate interest	20

#### Notes:

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



For details of share options, please refer to Note 19 to the unaudited interim financial statements.

Save as disclosed above, so far as was known to any director of the Company, as at 30 June, 2004, none of the directors or chief executives of the Company had any interest or short positions in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the 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 Stock Exchange.

#### **Purchase, Sale or Redemption of the Company's Shares**

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

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

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

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

#### **Code of Best Practice and Model Code**

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

The Company has adopted a code of conduct regarding directors' securities transaction on terms no less exacting than the required standard as set out in the Model Code. The Company confirms, having made specific enquiry of all its directors, that its directors have complied with the required standard as set out in the Model Code.



**Disclosure of Information on the Stock Exchange's Website**

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

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

Hong Kong, 10 September, 2004

