# Li Ning Company Limited
# （李寧有限公司）

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

**(Stock Code: 2331)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

### INTERIM RESULTS HIGHLIGHTS

- Revenue rose by 60.3% to RMB3,060.8 million
- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 65.5% to RMB495.3 million
- Profit attributable to equity holders grew by 68.3% to RMB333.7 million
- Margin of profit attributable to equity holders increased by 0.5 percentage points to 10.9%
- Basic earnings per share increased by 67.8% to RMB32.24 cents
- Declared an interim dividend of RMB9.63 cents per ordinary share, an increase of 67.2%
- Number of retail stores reached 6,393, a net increase of 717 stores (of which 5,853 were LI-NING brand stores, a net increase of 620 stores)

## INTERIM RESULTS

The board of directors (the "Board") of Li Ning Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008, together with comparative figures, as follows:

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

*As at 30 June 2008*

| | Note | **Unaudited 30 June 2008** *RMB'000* | Audited 31 December 2007 *RMB'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **378,202** | 340,036 |
| Land use rights | | **25,525** | 25,008 |
| Intangible assets | | **78,668** | 87,834 |
| Prepayments for acquisition of subsidiaries | | **243,999** | 66,588 |
| Deferred income tax assets | | **40,688** | 29,601 |
| Other non-current assets | | **78,531** | 57,985 |
| **Total non-current assets** | | **845,613** | 607,052 |
| **Current assets** | | | |
| Inventories | | **556,398** | 513,947 |
| Trade receivables | 4 | **896,357** | 684,727 |
| Other receivables and prepayments | | **176,151** | 114,071 |
| Fixed deposits held at banks | | **–** | 11,167 |
| Cash and cash equivalents | | **1,429,323** | 849,887 |
| **Total current assets** | | **3,058,229** | 2,173,799 |
| **Total assets** | | **3,903,842** | 2,780,851 |

| | Note | Unaudited 30 June 2008 RMB'000 | Audited 31 December 2007 RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Ordinary shares | | **110,168** | 110,023 |
| Share premium | | **366,786** | 352,830 |
| Shares held for Restricted Share Award Scheme | | **(76,641)** | (44,089) |
| Other reserves | | **225,010** | 211,889 |
| Retained earnings | | **1,272,273** | 1,113,948 |
| **Total equity** | | **1,897,596** | 1,744,601 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| License fees payable | | **49,222** | 57,604 |
| Deferred income tax liabilities | | **1,062** | 1,217 |
| **Total non-current liabilities** | | **50,284** | 58,821 |
| **Current liabilities** | | | |
| Trade payables | 5 | **788,623** | 490,417 |
| Other payables and accruals | | **521,144** | 340,577 |
| License fees payable — current portion | | **10,648** | 13,234 |
| Current income tax liabilities | | **59,707** | 33,201 |
| Borrowings | | **575,840** | 100,000 |
| **Total current liabilities** | | **1,955,962** | 977,429 |
| **Total liabilities** | | **2,006,246** | 1,036,250 |
| **Total equity and liabilities** | | **3,903,842** | 2,780,851 |
| **Net current assets** | | **1,102,267** | 1,196,370 |
| **Total assets less current liabilities** | | **1,947,880** | 1,803,422 |

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

*For the six months ended 30 June 2008*

| | | Unaudited | |
|---|---|---|---|
| | | Six months ended 30 June | |
| | | **2008** | 2007 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| Revenue | 3 | **3,060,768** | 1,909,431 |
| Cost of sales | 7 | **(1,578,574)** | (978,998) |
| **Gross profit** | | **1,482,194** | 930,433 |
| Distribution costs | 7 | **(898,410)** | (546,128) |
| Administrative expenses | 7 | **(191,257)** | (148,159) |
| Other income | 6 | **60,029** | 30,466 |
| **Operating profit** | | **452,556** | 266,612 |
| Finance income | 8 | **9,772** | 5,409 |
| Finance costs | 8 | **(15,147)** | (5,481) |
| **Profit before income tax** | | **447,181** | 266,540 |
| Income tax expense | 9 | **(113,449)** | (67,876) |
| **Profit for the period** | | **333,732** | 198,664 |
| **Attributable to:** | | | |
| — equity holders of the Company | | **333,732** | 198,273 |
| — minority interests | | **–** | 391 |
| | | **333,732** | 198,664 |
| **Earnings per share for profit attributable to equity holders of the Company** *(RMB cents)* | | | |
| — basic | 10 | **32.24** | 19.21 |
| — diluted | 10 | **31.75** | 18.91 |
| **Dividend declared** | 11 | **100,071** | 59,519 |

# SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1. General information

Li Ning Company Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in brand development, design, manufacturing and sale and distribution of sport-related footwear, apparel and accessories in the People's Republic of China (the "PRC").

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. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information was approved for issue on 27 August 2008 by the board of directors of the Company.

## 2. Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with International Financial Reporting Standards.

## 3. Revenue and segment information

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

***Primary reporting format — business segment***

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

***Secondary reporting format — geographical segment***

The Group's assets, liabilities, capital expenditure and operations during the six months ended 30 June 2008 and 2007 were primarily located in the PRC. No geographical segment analysis is presented as less than 5% of the Group's revenue and contribution to operating profit is attributable to markets outside the PRC.

## 4. Trade receivables

| | **Unaudited 30 June 2008** *RMB'000* | Audited 31 December 2007 *RMB'000* |
|---|---|---|
| Accounts receivable | **800,854** | 639,604 |
| Notes receivable | **102,197** | 49,932 |
| | **903,051** | 689,536 |
| Less: provision for impairment of receivables | **(6,694)** | (4,809) |
| | **896,357** | 684,727 |

Customers are normally granted credit terms within 90 days. As at 30 June 2008, trade receivables that were neither past due nor impaired amounted to RMB828,257,000 (31 December 2007: RMB601,966,000). Trade receivables that were past due but not impaired amounted to RMB68,100,000 (31 December 2007: RMB82,761,000), which relate to a number of independent customers for whom there is no recent history of default and with age from 91 to 180 days as at 30 June 2008.

Ageing analysis of trade receivables at the respective balance sheet dates is as follows:

| | **Unaudited 30 June 2008** *RMB'000* | Audited 31 December 2007 *RMB'000* |
|---|---|---|
| 0 – 30 days | **455,719** | 378,180 |
| 31 – 60 days | **225,174** | 115,471 |
| 61 – 90 days | **147,364** | 108,315 |
| 91 – 180 days | **68,100** | 82,761 |
| 181 – 365 days | **3,830** | 2,365 |
| Over 365 days | **2,864** | 2,444 |
| | **903,051** | 689,536 |

As at 30 June 2008, trade receivables of RMB6,694,000 (31 December 2007: RMB4,809,000) were impaired for which full provision of impairment has been made. The impairment was firstly assessed individually for significant or long ageing balances, and the remaining balances were grouped for collective assessment according to their ageing and historical default rates as these customers were of similar credit risk.

Movements in provision for impairment of trade receivables are analysed as follows:

| | Unaudited | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **4,809** | 8,720 |
| Provision for impairment of receivables | **2,333** | 559 |
| Receivables written off during the period as uncollectible | **(448)** | (6,516) |
| At 30 June | **6,694** | 2,763 |

The creation and release of provision for impaired receivables have been included in administrative expenses in the income statement (Note 7). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

## 5. 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** | Audited |
|---|---|---|
| | **30 June** | 31 December |
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| 0 – 30 days | **604,903** | 424,189 |
| 31 – 60 days | **154,860** | 52,489 |
| 61 – 90 days | **16,767** | 6,624 |
| 91 – 180 days | **11,091** | 5,362 |
| 181 – 365 days | **519** | 1,209 |
| Over 365 days | **483** | 544 |
| | **788,623** | 490,417 |

## 6. Other income

| | Unaudited | |
|---|---|---|
| | Six months ended 30 June | |
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Government grants *(Note a)* | **60,029** | 30,303 |
| Others | **–** | 163 |
| | **60,029** | 30,466 |

*Note:*

(a) The Group received subsidies from various local governments in the PRC amounting to RMB60,029,000 for the six months ended 30 June 2008 (30 June 2007: RMB30,303,000). Approximately RMB8,955,000 (30 June 2007: nil) of these government grants represented a tax refund received by the Group in respect of the Group's re-investment of profits generated by a PRC subsidiary.

## 7. Expenses by nature

| | **Unaudited** | |
|---|---|---|
| | **Six months ended 30 June** | |
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories recognised as expenses included in cost of sales | **1,482,962** | 917,881 |
| Depreciation on property, plant and equipment | **31,707** | 23,567 |
| Amortisation of land use rights and intangible assets | **11,007** | 9,013 |
| Advertising and marketing expenses | **571,037** | 325,604 |
| Director and employee benefit expenses | **202,834** | 148,406 |
| Operating lease rentals in respect of land and buildings | **107,179** | 60,561 |
| Research and product development expenses | **91,027** | 50,537 |
| Transportation and logistics expenses | **45,819** | 31,669 |
| Provision for impairment charge of trade receivables | **2,333** | 559 |
| Write-down of inventories to net realisable value | **16,703** | 20,900 |
| Auditor's remuneration | **2,110** | 1,000 |
| Management consulting expenses | **27,228** | 16,559 |
| Travelling and entertainment expenses | **38,656** | 29,961 |
| Other expenses | **37,639** | 37,068 |
| Total of cost of sales, distribution costs and administrative expenses | **2,668,241** | 1,673,285 |

## 8. Finance income and costs

| | **Unaudited** | |
|---|---|---|
| | **Six months ended 30 June** | |
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Interest income on bank balances and deposits | **5,198** | 5,409 |
| Net foreign currency exchange gain | **4,574** | – |
| Finance income | **9,772** | 5,409 |
| Amortisation of discount — license fees payable | **(2,336)** | (2,307) |
| Interest expense on bank borrowings | **(12,811)** | – |
| Net foreign currency exchange loss | **–** | (3,174) |
| Finance costs | **(15,147)** | (5,481) |

## 9. Income taxes

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | | |
| — Hong Kong profits tax | **639** | 417 |
| — The PRC corporate income tax | **124,052** | 71,979 |
| | **124,691** | 72,396 |
| Deferred income tax | **(11,242)** | (4,520) |
| | **113,449** | 67,876 |

*Notes:*

(a) The Company was incorporated in the Cayman Islands. Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company's subsidiary, RealSports Pte Ltd., was established under the International Business Companies Acts of the British Virgin Islands, and is exempted from British Virgin Islands income taxes.

(b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2008 (30 June 2007: 17.5%).

(c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (30 June 2007: 33%) on the assessable income of each of the group companies.

## 10. Earnings per share

***Basic***

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme during the period.

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Profit attributable to equity holders of the Company | **333,732** | 198,273 |
| Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)* | **1,035,285** | 1,032,012 |
| Basic earnings per share *(RMB cents)* | **32.24** | 19.21 |

***Diluted***

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares to be issued under its share option schemes and shares held for Restricted Share Award Scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding share options and the unvested awarded shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and the payout of the awarded shares, with the difference being adjusted in arriving at the weighted average number of shares for diluted earnings per shares, of which details are as follows:

| | **Unaudited** | |
|---|---|---|
| | **Six months ended 30 June** | |
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Profit attributable to equity holders of the Company, used to determine diluted earnings per share | **333,732** | 198,273 |
| Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)* | **1,035,285** | 1,032,012 |
| Adjustment for share options and awarded shares *(in thousands)* | **15,948** | 16,636 |
| Weighted average number of ordinary shares for diluted earnings per share *(in thousands)* | **1,051,233** | 1,048,648 |
| Diluted earnings per share *(RMB cents)* | **31.75** | 18.91 |

## 11. Dividends

The final and special dividends for the year ended 31 December 2007 amounting to RMB175,407,000 (31 December 2006: RMB78,922,000) were paid in May 2008.

In addition, an interim dividend of RMB9.63 cents per ordinary share for the six months ended 30 June 2008 (30 June 2007: RMB5.76 cents) was declared by the board of directors on 27 August 2008. It is payable on or around 26 September 2008 to shareholders whose names appear on the Company's register of members on 19 September 2008. This interim dividend, amounting to RMB100,071,000 (30 June 2007: RMB59,519,000), has not been recognised as a liability in this interim financial information. It will be recognised as an appropriation of distributable reserves in the financial statements of the Group and the Company for the year ending 31 December 2008.

## 12. Events occurring after the balance sheet date

(a) On 4 July 2008, 205,400 and 2,383,800 restricted shares were granted to directors and certain employees of the Group pursuant to the Restricted Share Award Scheme, respectively.

(b) On 4 July 2008, options to purchase 577,400 and 2,983,700 shares of the Company at an exercise price of HK$17.22 per share were granted to directors of the Group and other participants under Post-IPO Share Option Scheme, respectively.

(c) Acquisition of Shanghai Double Happiness Co., Ltd. ("Double Happiness")

On 21 July 2008, the Group completed its acquisition of a 57.5% equity interest in Double Happiness, for a cash consideration of RMB305,325,000 (excluding direct transaction costs). Double Happiness, a company incorporated in the PRC, is principally engaged in the manufacture, research and development, marketing and sale of table tennis, badminton and other sports equipment.

Up to the date of approval of this interim financial information, the Group is still in the progress of identifying and determining the direct transaction costs, as well as fair value to be assigned to the identifiable assets, liabilities and contingent liabilities assumed for the purpose of allocation of purchase price and calculation of goodwill. Such information will be disclosed in the Group's annual financial statements for the year ending 31 December 2008.

(d) On 31 July 2008, Li Ning (China) Sports Goods Co., Ltd. ("Li Ning Sports"), a subsidiary of the Company, entered into the license agreement and the marketing contribution agreement with Lotto Sport H.K. Limited, a company incorporated in Hong Kong which is ultimately beneficially owned by Lotto Sport Italia S.p.A. ("LSI"), a corporation established under the laws of Italy, and the asset purchase agreement with Lotto (Nanjing) Garment Co. Ltd., a wholly foreign owned enterprise established under the laws of the PRC and also ultimately beneficially owned by LSI, and Lotto (Shanghai) Co. Ltd., a company established under the laws of the PRC and also ultimately beneficially owned by LSI. The license will be recorded as intangible asset in the subsequent financial statements of the Group.

## INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of RMB9.63 cents per ordinary share for the six months ended 30 June 2008 (2007: RMB5.76 cents), representing an increase of 67.2% over the corresponding period last year. The dividend will be paid in Hong Kong Dollars based on the rate of HK$1.00 = RMB0.8763, being the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China as at the date of this announcement. The dividend will be paid on or around 26 September 2008 to shareholders whose names appear on the register of members of the Company on 19 September 2008.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 16 September 2008 to Friday, 19 September 2008 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer forms 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 Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 12 September 2008.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's business objectives for the year 2008 are to continue to strengthen the consistent and rapid growth of its core business under the LI-NING brand, while building a multi-brand operating structure around this core business, in a bid to achieve steady growth of profit and continuous creation of value.

The macroeconomic environment has proven to be complex in 2008. China has enjoyed continued increase in per capita income and the sporting goods industry has been the beneficiary of a strong boost from the Beijing Olympic Games. Nonetheless, consumer confidence was impacted by several factors, including a rising Consumer Price Index and the catastrophic natural disasters that occurred during the period. In dealing with this challenging and rapidly changing climate, the Group focused on strengthening its capabilities and enhancing its core competencies, while remaining vigilant of emerging opportunities and the increasing awareness of sports and health generated by the Beijing Olympic Games, to ensure sustainable and long term growth of the Group.

### Financial Review

Key results and financial indicators of the Group for the six months ended 30 June 2008 are as follows:

| | **Unaudited Six months ended 30 June** | | **Change** |
|---|---|---|---|
| | **2008** | 2007 | ***(%)*** |
| **Items of income statement** | | | |
| *(All amounts in RMB thousands unless otherwise stated)* | | | |
| Revenue | **3,060,768** | 1,909,431 | 60.3 |
| Gross profit | **1,482,194** | 930,433 | 59.3 |
| Operating profit | **452,556** | 266,612 | 69.7 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | **495,270** | 299,192 | 65.5 |
| Profit attributable to equity holders | **333,732** | 198,273 | 68.3 |
| Basic earnings per share *(RMB cents) (Note 1)* | **32.24** | 19.21 | 67.8 |
| **Key financial ratios** | | | |
| ***Profitability ratios*** | | | |
| Gross profit margin *(%)* | **48.4** | 48.7 | |
| Operating profit margin *(%)* | **14.8** | 14.0 | |
| Effective tax rate *(%)* | **25.4** | 25.5 | |
| Margin of profit attributable to equity holders *(%)* | **10.9** | 10.4 | |
| Return on equity holders' equity — half year *(%)* | **18.3** | 13.5 | |
| ***Asset efficiency ratios*** | | | |
| Average inventory turnover *(days) (Note 2)* | **61** | 71 | |
| Average trade receivables turnover *(days) (Note 3)* | **47** | 55 | |
| Average trade payables turnover *(days) (Note 4)* | **71** | 69 | |

| | Unaudited 30 June 2008 | Audited 31 December 2007 |
|---|---|---|
| ***Asset ratios*** | | |
| Debt-to-equity ratio *(%)(Note 5)* | **105.7** | 59.4 |
| Net asset value per share *(RMB cents)* | **183.28** | 168.53 |

*Notes:*

1. The calculation of basic earnings per share is based on the profit attributable to equity holders divided by the weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme during the relevant period.

2. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances divided by the cost of sales and multiplied by the number of days in the relevant period.

3. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables divided by revenue and multiplied by the number of days in the relevant period.

4. 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 in the relevant period.

5. The calculation of debt-to-equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the period.

*Revenue*

For the six months ended 30 June 2008, the Group's revenue continued to grow rapidly, reaching RMB3,060,768,000 and representing a growth of 60.3% as compared to the corresponding period last year.

*Breakdown of revenue by brand and product category*

| | Six months ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2008** | | 2007 | | **Revenue** |
| | | *% of total* | | *% of total* | **growth rate** |
| | ***RMB'000*** | ***revenue*** | *RMB'000* | *revenue* | *(%)* |
| **LI-NING brand** | | | | | |
| Footwear | **1,385,329** | **45.3** | 761,569 | 39.9 | 81.9 |
| Apparel | **1,448,690** | **47.3** | 993,643 | 52.0 | 45.8 |
| Accessories | **168,402** | **5.5** | 119,958 | 6.3 | 40.4 |
| Total | **3,002,421** | **98.1** | 1,875,170 | 98.2 | 60.1 |
| **Other brands*** | | | | | |
| Footwear | **18,973** | **0.6** | 11,967 | 0.6 | 58.5 |
| Apparel | **37,358** | **1.2** | 20,621 | 1.1 | 81.2 |
| Accessories | **2,016** | **0.1** | 1,673 | 0.1 | 20.5 |
| Total | **58,347** | **1.9** | 34,261 | 1.8 | 70.3 |
| **Overall** | | | | | |
| Footwear | **1,404,302** | **45.9** | 773,536 | 40.5 | 81.5 |
| Apparel | **1,486,048** | **48.5** | 1,014,264 | 53.1 | 46.5 |
| Accessories | **170,418** | **5.6** | 121,631 | 6.4 | 40.1 |
| **Total** | **3,060,768** | **100.0** | 1,909,431 | 100.0 | 60.3 |

* *Including Z-DO brand and AIGLE brand*

As the Group's core brand, LI-NING branded products generated RMB3,002,421,000 in revenue, representing an increase of 60.1% as compared to the same period last year, and contributing 98.1% of total revenue. LI-NING branded footwear products recorded significant growth of 81.9% over the same period last year, while apparel and accessories products grew 45.8% and 40.4%, respectively. The sharp increase in revenue was primarily attributed to (i) strong and effective integrated sales and marketing strategies; (ii) concerted efforts to increase same-store sales growth across all market segments; (iii) continuous sales channel expansion, particularly in second- and third-tier cities in China with the biggest growth potential; (iv) improved product design and development that cater to different market segments and consumer preferences; and (v) enhanced efficiency of the supply chain, encompassing different aspects from the integration of product planning and design to distribution logistics. All of these initiatives, coupled with the strong demand generated by the Beijing Olympic Games, helped to boost sales across all product categories.

The Group's Z-DO brand and AIGLE brand generated revenue totaling RMB58,347,000, representing 1.9% of the total revenue.

*Breakdown of revenue by sales channel*

| | **Six months ended 30 June** | |
|---|---|---|
| | **2008** | 2007 |
| | ***% of total revenue*** | *% of total revenue* |
| **LI-NING brand** | | |
| PRC market | | |
| Sales to franchised distributors | **84.5** | 79.0 |
| Sales by directly-managed retail stores and concession counters | **12.5** | 18.1 |
| International markets | **1.1** | 1.1 |
| **Other brands*** | | |
| PRC market | **1.9** | 1.8 |
| **Total** | **100.0** | 100.0 |

* *Including Z-DO brand and AIGLE brand*

The Group adopts a diversified retail model with its products mainly sold through franchised distributors. LI-NING and AIGLE branded products are also distributed through directly-managed retail stores and concession counters.

*Breakdown of revenue by geographical location*

| | | Six months ended 30 June | | | | |
|---|---|---|---|---|---|---|
| | | **2008** | | 2007 | | **Revenue** |
| | | | ***% of total*** | | *% of total* | **growth rate** |
| | *Note* | ***RMB'000*** | ***revenue*** | *RMB'000* | *revenue* | *(%)* |
| **LI-NING brand** | | | | | | |
| PRC market | | | | | | |
| Eastern region | 1 | **1,191,725** | **38.9** | 745,790 | 39.1 | 59.8 |
| Northern region | 2 | **1,246,381** | **40.7** | 708,828 | 37.1 | 75.8 |
| Southern region | 3 | **531,464** | **17.4** | 399,724 | 20.9 | 33.0 |
| International markets | | **32,851** | **1.1** | 20,828 | 1.1 | 57.7 |
| **Other brands*** | | | | | | |
| PRC market | | **58,347** | **1.9** | 34,261 | 1.8 | 70.3 |
| **Total** | | **3,060,768** | **100.0** | 1,909,431 | 100.0 | 60.3 |

* *Including Z-DO brand and AIGLE brand*

*Notes:*

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Anhui, Hubei, Hunan, Jiangxi and Shandong.

2. Northern region includes Beijing, Shaanxi, Xinjiang, Gansu, Qinghai, Ningxia, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.

3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.

Based on market research, the Group considers that second- and third-tier cities in China show the biggest promise for growth. During the period under review, the Group achieved significant improvement in sales channel expansion and same-store growth in these cities, resulting in an increased contribution from these markets to the Group's overall revenue.

### *Cost of Sales and Gross Profit*

For the six months ended 30 June 2008, the cost of sales of the Group amounted to RMB1,578,574,000 (2007: RMB978,998,000). Overall gross profit margin of the Group was 48.4% (2007: 48.7%). During the period, against the backdrop of a surging price index and intensified competition, the Group maintained its gross profit margin by exercising disciplined cost control and implementing an appropriate pricing strategy to reflect the increasing competitiveness of its brands.

### *Distribution Costs and Administrative Expenses*

For the six months ended 30 June 2008, distribution costs of the Group amounted to RMB898,410,000 (2007: RMB546,128,000), representing 29.4% of the Group's total revenue and an increase of 0.8 percentage points as compared to 28.6% for the corresponding period last year. During the period, the Group intensified its efforts on brand promotion and sales channel expansion, resulting in a higher increase in expenses relating to advertising, sponsorship and shop renovation, etc.. There was also a higher increase in shop rental expenses due to the opening of new flagship stores. In addition, transportation and logistics costs continued to increase in line with business growth and the rising market prices.

Administrative expenses of the Group for the six months ended 30 June 2008 amounted to RMB191,257,000 (2007: RMB148,159,000). These mainly comprised director and staff costs, management consulting expenses, basic research and development expenses, office rentals, provision for impairment of assets, depreciation and amortisation charges, and other sundry expenses. The Group increased its investment in human resources and management consultancy services in order to cater for ongoing business expansion. Overall administrative expenses accounted for 6.2% of the Group's total revenue, representing a decrease of 1.6 percentage points from 7.8% in the same period last year. This was mainly a result of the Group's greater economies of scale and an effective management of expenses while provision for impairment of assets, depreciation and amortisation charges and other sundry expenses remained flat.

### *Operating Profit*

For the six months ended 30 June 2008, operating profit of the Group was RMB452,556,000 (2007: RMB266,612,000), representing an increase of 69.7% over the same period last year. The Group's operating profit margin for the period was approximately 14.8%, representing an increase of 0.8 percentage points as compared to 14.0% for the corresponding period last year. This was attributed mainly to a stable gross profit margin and effective integrated management of expenses.

### *Income Tax Expense*

For the six months ended 30 June 2008, income tax expense of the Group amounted to RMB113,449,000 (2007: RMB67,876,000), with an effective tax rate of 25.4% (2007: 25.5%).

### *Provision for Inventories*

The Group's policy in respect of provision for inventories for the first half of 2008 remained the same as that in 2007. Inventories of the Group are stated at the lower of cost and net realisable value. In the event that net realisable value falls below cost, the difference is taken as provision for inventories.

Accumulated provision for inventories as at 30 June 2008 amounted to RMB68,190,000 (31 December 2007: RMB51,487,000).

***Provision for Doubtful Debts***

The Group's policy in respect of provision for doubtful debts in the first half of 2008 remained the same as that in 2007.

Accumulated provision for doubtful debts as at 30 June 2008 amounted to RMB6,694,000 (31 December 2007: RMB4,809,000).

***Liquidity and Financial Resources***

For the six months ended 30 June 2008, the Group's net cash inflow from operating activities amounted to RMB574,986,000 (2007: RMB149,389,000). As at 30 June 2008, cash and cash equivalents (i.e., bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months) amounted to RMB1,429,323,000, representing a net increase of RMB579,436,000 as compared to the position as at 31 December 2007. The increase was attributed to the following:

| **Items** | **Six months ended 30 June 2008** *RMB'000* |
|---|---|
| Net cash inflow generated from operating activities | **574,986** |
| Net capital expenditure | **(92,451)** |
| Prepayment for the acquisition of Double Happiness | **(177,411)** |
| Dividends paid | **(175,407)** |
| Proceeds from bank borrowings | **475,840** |
| Other net cash outflow | **(26,121)** |
| Net increase in cash and cash equivalents | **579,436** |

The Group has always pursued a prudent treasury management policy and is in a strong liquidity position with sufficient standby banking facilities to cope with daily operations and future foreseen demands for capital. As at 30 June 2008, the Group's available banking facilities amounted to RMB100,000,000 and the amount of outstanding bank borrowings was RMB575,840,000. The ratio of outstanding bank borrowings to equity holders' equity was 30.3% (31 December 2007: 5.7%).

As at 30 June 2008, the Group has not entered into any interest rate swap arrangements to hedge against interest rate risks.

***Foreign Exchange Risk***

The operation of the Group is primarily carried out in China with most transactions settled in Renminbi. A small proportion of the Group's cash and bank deposits are denominated in Hong Kong Dollars or United States Dollars. The Company pays dividends in Hong Kong Dollars when dividends are declared. In addition, the Company pays certain license fees and sponsorship fees in United States Dollars and Euros, and part of bank borrowings in Hong Kong Dollars. Any significant exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

***Pledge of Assets***

As at 30 June 2008, no asset of the Group was pledged to secure bank borrowings or for any other purpose.

***Contingent Liabilities***

As at 30 June 2008, the Group had no material contingent liabilities.

**Business Review**

During the first half of 2008, the Group continued to introduce strategic initiatives relating to integrated sales and marketing, brand promotion, product research and development, sales channel expansion and supply chain management. These efforts were aimed at supporting the rapid growth of the Group's core business, the LI-NING brand, while developing a multi-brand structure in order to develop new business streams.

***Marketing and Brand Promotion***

During the period under review, the Group seized the opportunities brought by the Beijing Olympic Games and implemented integrated marketing strategies based on the Olympics theme. Not only has this given an extra boost to the Group's sales, it also has far-reaching effects on the Group's long-term brand-building efforts:

- Leveraging on the popularity of China's four national gold medal-winning teams that it sponsors, namely the Gymnastics, Diving, Table Tennis and Shooting teams, the Group launched a series of marketing and promotion events. Particularly notable were the print advertisements and the outdoor advertising campaign which featured renowned Chinese gymnasts, diving athletes and table tennis athletes;

- On international sponsorship, the Spanish National Basketball Team, Argentina's Men's and Women's Basketball Teams and the Tanzanian National Track and Field Team sponsored by the Group were all strong teams in their respective events during the Beijing Olympic Games. The Swedish Olympic Delegation and the Spanish Olympic Delegation, whose sportswear is sponsored by the Group, provide the LI-NING brand exposure with added international flavour. In early 2008, the Group announced sponsorship for the United States National Table Tennis Team, members of which will wear LI-NING branded apparel in major competitions, including the Beijing Olympic Games;

- The Group has a long history of cooperation with the CCTV and has further collaborated with the CCTV National Sports Channel during the period. All Beijing Olympic Games reporters for the network appeared in LI-NING branded products. This will greatly increase the awareness of the LI-NING brand among the global audience and leave a lasting impression in their minds;

- The meticulously planned programme, "Hero's Assembly — LI-NING China Tour 2008" (英雄會英雄 — 李寧08中國之旅) was launched in Beijing in March 2008. With the aim of enabling sports enthusiasts to experience the Olympic spirit, two large "LI-NING Hero Vans" (李寧英雄大篷車) are to travel across the country this year. The tour includes nearly 100 medium-sized cities in China, covering a total distance of over 40,000 km. The programme is designed to bring to sports enthusiasts the joy of sports, the Olympic ideals and the blessings of Olympic champions, while spreading the Group's brand message together with the spirit of sports;

- In March 2008, LI-NING Sports Park (李寧體育園), the largest public sports park in China, was opened to the public for free in Beijing. The park is designed to encourage more people to participate in sports activities, and to convey the Group's commitment to sports;

- In April 2008, the Company launched its Olympic promotion programme targeting major shopping centres in China. The programme comprises three main campaigns, namely, "Heros Geared to Win" (英雄裝備) (the event for unveiling the Olympic sportswear sponsored by the LI-NING brand) launched in the run-up to the Beijing Olympic Games, "Heros on Parade" (英雄助威) (the event to cheer for the Beijing Olympic Games) held during the Games, and "Heros in Tribute" (英雄回顧) (a review of the highlights of the Beijing Olympic Games) scheduled for a period after the conclusion of the Games. The programme will be held in 30 major shopping centres covering 25 cities across the nation on a route that stretches more than 10,000 km. It is designed to strengthen the Group's association with major shopping centres in the country and further promote the brand.

In addition, the Group continued to invest substantial resources to strengthen its integrated marketing strategies, with a view to highlighting brand differentiation and enhancing the image of the LI-NING brand:

- In tennis, the Group continued its official partnership with the Association of Tennis Professionals (ATP) in China and sponsored ATP Player Council President Ivan Ljubicic's apparel, footwear and other accessories. During an interview with the "Tennis World" magazine of the United States, Ljubicic expressed his strong endorsement for the first series of professional sports shoes the Group tailor-made for him;

- In basketball, the Group continued its partnership with renowned NBA star Shaquille O'Neal for the co-branded "LI-NING-SHAQ" basketball products. During the period, it also hosted various activities involving O'Neal, attracting widespread media coverage and attention;

- The Group also supported local community sports through the sponsorship and organisation of various events aimed at sports enthusiasts and young people. These included the China University Basketball Association (CUBA), one of the top three basketball associations in the PRC, and the

Chinese University Football League (CUFL). The Group believes that these marketing and promotion activities, targeting our primary group of existing and potential consumers of sports products, will have a far-reaching positive impact on brand-building and the Group's long-term development;

- In women's fitness, in July 2008 the Group announced its partnership with Beijing's Nirvana Yoga, which shows the biggest growth potential in the fitness market in China. This collaboration made LI-NING the first recognised sports brand to promote yoga as a healthy lifestyle on a large scale in China. In future, LI-NING brand will continue to associate itself with the successful integration of sports and fashion.

***Product Research and Development***

As China's leading sports brand, the Group has always strived to be in the forefront of product research and development. While consistently developing new products, the Group places strong emphasis on the breadth and depth of product design and research and development.

During the period, the Group continued to collaborate with internationally recognised brands that are the pace setters of professional technical standards. This enabled the Group to offer consumers unique and high quality products that meet international standards. In March 2008, the Group announced its cooperation with Michelin for the development of sports footwear products. This involves applying Michelin's tire techniques onto the soles of LI-NING branded sports shoes, offering consumers with sports shoes of better traction and durability.

The Group also continued to work with reputable educational institutions and professional bodies in conducting research and development. It now has design, research and development centres in mainland China, Hong Kong and Portland, Oregon in the United States, each staffed by professional design and research and development teams.

The Group continued to apply its core patented technology, the "LI-NING BOW" anti-shock technology, to its footwear products. This anti-shock capability meets the high standards of similar products in the market and the overall functionalities are on par with other international brands. The art of combining this advanced technology with oriental elements into a fashionable design continues to be well received by the market. The fifth generation of super lightweight and ventilated running shoes also has fashionable oriental design featuring a traditional Chinese sparrow structure, matched with super-light protective materials and ventilation technology. The series received an overwhelming response immediately after its launch.

In the apparel technology sector, the Group developed the AT DRY SMART technology which is now applied to cotton products. This technology has an intelligent moisture-absorbing and quick-dry capability which dries out sweat quickly to reduce the feeling of heat and stickiness and keep the body dry and comfortable. With super lightweight and bi-directional ventilation, products of the AT DRY SMART series were worn by the Group's sponsored Olympic contestants and helped them to achieve outstanding performances during the Beijing Olympic Games.

*Sales Channel Expansion and Management*

The number of retail stores of the Group has continued to grow at a steady pace. The total number of retail outlets as at 30 June 2008 was 6,393, representing a net increase of 717 stores for the period under review. As at 30 June 2008, the distribution and retail network of the Group's various brands in the PRC comprised:

- Approximately 243 distributors operating a total of 6,056 franchised retail outlets under the LI-NING brand, the Z-DO brand and the AIGLE brand across the PRC; and

- A total of 337 directly-managed retail stores and concession counters under the LI-NING brand and the AIGLE brand in Beijing, Shanghai and 14 provinces in the PRC.

*Number of franchised and directly-managed retail stores*

| | **30 June 2008** | 31 December 2007 | Change (%) | 30 June 2007 |
|---|---|---|---|---|
| Franchised retail outlets | **6,056** | 5,301 | 14.2 | 4,188 |
| Directly-managed retail stores and concession counters | **337** | 375 | –10.1 | 394 |
| **Total** | **6,393** | 5,676 | 12.6 | 4,582 |

During the first half of 2008, the Group continued to implement the following measures to expand and manage sales channels for the LI-NING brand:

- Continued to expand its sales channel coverage. Development of the sales channel in second- and third-tier cities was satisfactory, accounting for 57.3% of the new stores during the period under review;

- Strengthened retail capabilities and enhanced overall service quality to improve store efficiency. During the period, the efficiency and growth rates of retail stores in all market tiers were very encouraging, particularly in second- and third-tier cities;

- Actively identified appropriate locations for establishment of flagship stores, especially in host cities for the Beijing Olympic Games. This effectively increased the market influence of the LI-NING brand and boosted sales. In January 2008, the largest LI-NING flagship store commenced its operations on Nanjing Road in Shanghai's busiest shopping area. The store occupies five storeys with a total floor area of 3,500 sq.m. and is designed around the theme of "sports, technology and dynamism"; and

- Continuously carried out store upgrades and launched fifth-generation stores. The store's design creates a stylish and diversified ambiance, while highlighting professional sports and oriental elements, to bring out the brand personality, the core beliefs and the spirit of the LI-NING brand, and to provide consumers with better sports and shopping experience.

LI-NING branded products are sold through an extensive and scalable distribution and retail network, covering all of the PRC's provinces and municipalities. Due to the geographical diversity and even distribution of the retail outlets, the Group's business was only marginally affected by the devastating snowstorms in certain areas of China and the Sichuan earthquake which took place during the period under review.

As at 30 June 2008, the number of LI-NING brand retail stores was 5,853, representing a net increase of 620 stores during the period under review. The number of LI-NING branded retail stores by geographical location are as follows:

| | **30 June 2008** | 31 December 2007 | ***Change (%)*** | 30 June 2007 |
|---|---|---|---|---|
| **LI-NING brand outlets** | | | | |
| Eastern region *(Note 1)* | **2,425** | 2,185 | 11.0 | 1,838 |
| Northern region *(Note 2)* | **2,011** | 1,796 | 12.0 | 1,454 |
| Southern region *(Note 3)* | **1,417** | 1,252 | 13.2 | 1,066 |
| **Total** | **5,853** | 5,233 | 11.8 | 4,358 |

*Notes:*

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Anhui, Hubei, Hunan, Jiangxi and Shandong.

2. Northern region includes Beijing, Shaanxi, Xinjiang, Gansu, Qinghai, Ningxia, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.

3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.

***Supply Chain Management***

The Group is devoted to reengineering the traditional mode of supply chain management by adopting a demand-driven approach. As set out below, the Group continued to implement a flexible and effective supply chain management strategy that enabled swift and timely response to rapid shifts in the market for the first half of 2008:

- Two large-scale sales fairs of LI-NING brand and a total of three sales fairs of other brands were organised for distributors;

- The continuously-refined supply chain and more effective inventory management have demonstrated its success against the backdrop of the high growth rate of sales. The average inventory turnover cycle was shortened to 61 days from 71 days in the corresponding period last year; and

- Implemented good credit control and improved management of receivables, which resulted in shortening of the average trade receivables turnover cycle to 47 days from 55 days in the corresponding period last year.

Currently, increases in the cost of labour and raw materials, mainly crude oil, pose challenges to production cost control. During the period, the Group was able to maintain its gross profit margin by implementing reasonable pricing strategies and adopting forward-looking cost management measures, which successfully mitigated pressure from rising labour, raw material and other related costs through improvements in various aspects, including internal operating efficiency, economies of scale and advanced supply chain planning. Major measures implemented include: (i) improved product planning, reduced stock keeping units and consolidated usage of raw materials; (ii) streamlined the logistics model to shorten transit time for deliveries; and (iii) set up a centralised procurement centre to lower procurement costs. The Group's optimised purchasing process implemented in 2007 has also shown significant benefits during the period under review. In the future, the Group will continue to strengthen its cost management, ensure cost competitiveness and maintain its gross profit margin at reasonable levels.

***Multi-brand Business Development***

While strengthening the core LI-NING brand to achieve sustainable growth, the Group made further inroads into developing its multi-brand business. Apart from the co-brands with ATP and SHAQ, the Group also manages the Z-DO brand and the AIGLE brand.

*Z-DO Brand*

In April 2007, the Group officially launched a new series of products under the Z-DO brand, a subsidiary brand of LI-NING. This brand utilises hypermarkets as its sales channel. As at 30 June 2008, the Z-DO brand was present in 114 cities, with 70 distributors and 506 stores.

The development of the Z-DO brand not only sets a new sales model and establishes new sales networks, but also efficiently leverages the Group's supply chain resources to achieve better economies of scale. In complementing the LI-NING brand, the future development of the Z-DO brand will focus on developing a product portfolio that is better adapted for hypermarket channels and implementing an efficient operation model to enhance supply of products to hypermarket channels.

*AIGLE Brand*

The AIGLE brand specialises in outdoor sports and casual apparel and footwear products. As at 30 June 2008, a total of 34 AIGLE brand stores had been opened in the PRC. AIGLE's future business development will focus on enhancing the awareness of the AIGLE brand, adjusting the product portfolio, pricing and localisation of the supply chain in order to promote store efficiency and sales.

*Acquisition of Double Happiness*

On 21 July 2008, the Group completed the applicable transfer and registration procedures in relation to its acquisition of a 57.5% equity interest in 上海紅雙喜股份有限公司 (Shanghai Double Happiness Co., Ltd.) ("Double Happiness"). Double Happiness has become a non-wholly owned subsidiary of the Group.

Double Happiness is principally engaged in the manufacture, research and development, marketing and sale of table tennis, badminton and other sports equipment. Its brands include the "Double Happiness" (紅雙喜) brand which is known internationally for its high quality table tennis products. Double Happiness supplies equipment for international table tennis events and athletes. It is the supplier of these events in the Beijing Olympic Games. The acquisition enables the Group to strengthen its position in the flourishing table tennis market in the PRC. It will also further promote the professional image of the LI-NING brand and support the Group's multi-brand strategy. In the future, the LI-NING brand and the Double Happiness brand will benefit from synergies of brand promotion, marketing, event sponsorship and expansion of sales channels, and will add a new dimension to the Group's future growth prospects.

*Licensing Cooperation with Lotto*

On 31 July 2008, 李寧(中國)體育用品有限公司 (Li Ning (China) Sports Goods Co., Ltd.) ("Li Ning Sports"), a wholly-owned subsidiary of the Group, entered into a license agreement ("License Agreement") with Lotto Sport H.K. Limited ("Lotto Sport", which is ultimately beneficially owned by Lotto Sport Italia S.p.A.). Pursuant to the License Agreement, Lotto Sport has granted Li Ning Sports an exclusive license of approximately 20 years to use the Lotto trademarks as set out in the License Agreement in China in connection with the development, manufacture, marketing, advertising, promotion, distribution and sale of the licensed Lotto products. Li Ning Sports has also entered into a marketing contribution agreement and an asset purchase agreement in conjunction with the License Agreement. Details of these agreements are set out in the Company's circular dated 19 August 2008.

The trademark "Lotto" is a well-known Italian sports brand with famous Italian design elements and world class sports marketing resources focused on soccer and tennis. In line with the Group's multi-brand strategy, the Board considers that this long-term licensing co-operation will strengthen the Group's product offering and market position in the fast growing sports fashion sector in China. The Board also believes that the License Agreement will benefit the Group by lowering its operating costs and strengthening its bargaining power in the distribution channels for sporting goods.

**Human Resources**

As at 30 June 2008, the Group had approximately 2,972 employees (31 December 2007: 2,904). The number of employees remained stable.

Our talent pool is the most important asset of the Group and the core strength which empowers sustainable development. The Group offers a good working environment, a wide range of training and personal development programmes as well as attractive remuneration packages to its employees in order to create long term incentives and to attract talented individuals. It endeavours to motivate staff with performance-based remuneration. In addition to a basic salary, employees with outstanding performance will be rewarded by way of cash, restricted shares, share options, individual awards, or a combination of these to further align the interests of the employees to that of the Company.

**Outlook**

Going forward, the Group will continue to invest in brand building, focus on expanding the sales network and improving store efficiency to achieve rapid and sustainable growth of the core business under the LI-NING brand. At the same time, the Group will continue to pursue its multi-brand strategy in order to develop new business streams. This will enable the Group to increase its competitiveness and to add new components to propel future growth.

As a result of the Beijing Olympic Games, the increasing purchasing power of the Chinese consumer and the increasing demand for sports and leisure activities, the sporting goods industry in the PRC has become one of the fastest growing markets globally and its prospects are indeed bright. Meanwhile, enterprises with competitive advantages in the industry are accelerating their own efforts in an attempt to gain market share and to address intensifying competition. This underpins the increased challenges and opportunities in the industry. The Group will continue to leverage its core competencies and its position as the PRC's leading sports brand with an outstanding and professional management team to meet all challenges ahead. It will focus on increasing the competitiveness of its brands while fostering new business prospects and innovation to encourage further development and to generate greater value for shareholders and investors.

At the same time, the Group's management is fully aware of the impact escalating costs will have on the economies of China and around the world. While uncertainties surrounding the macroeconomic environment are on the rise, the Group is proactively preparing itself for any situation and has adopted a prudent strategy to ensure stability and sustainable business development.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company had not redeemed any of its listed shares during the six months ended 30 June 2008. Except for the Restricted Share Award Scheme Trust, neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the period.

## CORPORATE GOVERNANCE

The Company is committed to the upholding of a high level of corporate governance by continual review and enhancement of its corporate governance practices. During the period under review, the Company has complied with all the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report for the year ended 31 December 2007.

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 reviewed auditing, internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2008.

In addition, the Company's external auditor, PricewaterhouseCoopers, has performed an independent review of the Group's interim financial information for the six months ended 30 June 2008 in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Based on their review, PricewaterhouseCoopers confirmed in writing that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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

Hong Kong, 27 August 2008

*As at the date of this announcement, the executive directors of the Company are Mr. Li Ning, Mr. Zhang Zhi Yong and Mr. Tan Wee Seng. The non-executive directors are Mr. Lim Meng Ann, Mr. Stuart Schonberger, Mr. Chu Wah Hui and Mr. James Chun-Hsien Wei. The independent non-executive directors are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei, Jane and Mr. Chan Chung Bun, Bunny.*

*This results announcement is published on the Company's websites at www.lining.com and www.irasia.com/listco/hk/lining and The Stock Exchange of Hong Kong Limited's website at www.hkex.com.hk. The 2008 Interim Report will be available on the aforesaid websites and dispatched to shareholders on or about 10 September 2008.*